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DOX - Q4 2019 Amdocs Ltd Earnings Call

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OVERVIEW:

Co. reported 4Q19 revenues of $1.03b and diluted GAAP EPS of $0.90. Expects FY20 total reported revenue growth to be roughly 1.5-5.5% and total revenue growth on constant-currency basis to be roughly 2-6%. Expects 1Q20 revenues to be $1.015-1.055b and diluted non-GAAP EPS to be $1.02-1.08.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q4 2019 Amdocs Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your speaker today, Mr. Matt Smith, Head of Investor Relations. Thank you. Please go ahead, sir. .

Matthew E. Smith - *Amdocs Limited - Secretary & Head of IR*

Thank you. Before we begin, I would like to point out that during this call, we will discuss certain financial information that is not prepared in accordance with GAAP. The company's management uses this financial information in its internal analysis in order to exclude the effect of acquisitions and other significant items that may have a disproportionate effect in a particular period.

Accordingly, management believes that isolating the effects of such events enables management and investors to consistently analyze the critical components and results of operations of the company's business and to have a meaningful comparison to prior periods. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release, which will also be furnished with the SEC on Form 6-K.

Also, this call includes information that constitutes forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations will not be material. Such statements involve risks and uncertainties that may cause future results to differ from those anticipated. These risks include, but are not limited to, the effects of general economic conditions and such other risks as discussed in our earnings release today and at greater length in the company's filings with the Securities and Exchange Commission, including our annual report on Form 20-F for the fiscal year ended September 30, 2018, filed on December 10, '18; our Form 6-K furnished for the first quarter of fiscal '19 filed on February 19, 2019; the second quarter of fiscal 2019 on May 28, 2019; and the third quarter of fiscal '19 on August 19, 2019.

Amdocs may elect to what -- to update these forward-looking statements at some point in the future. However, the company specifically disclaims any obligation to do so.

Participating on the call with me today are Shuky Sheffer, President and Chief Executive Officer of Amdocs Management Limited; and Tamar Rapaport-Dagim, Joint Chief Financial and Operating Officer. And with that, I'll turn it over to Shuky.

Joshua Sheffer *- Amdocs Limited - President, CEO & Director*

Thank you, Matt, and good afternoon to everyone joining us today. I'm pleased to report strong operating results for our fourth fiscal quarter, the highlights of which included: an exciting new agreement with AT&T; significant managed services extension at U.S. Cellular, T-Mobile's Metro prepaid in Telkom South Africa; and some new strategic wins in Amdocs Media. Altogether, we maintained our high win rate, extended our market-leading position and exited Q4 with records 12 months backlog that was up roughly 4% from the year-ago quarter. Regarding fiscal '19, we successfully met our financial targets for the year, which was my first as CEO.

To briefly recap of our annual performance, we delivered record revenue, which was up 4% in constant currency and in line with the midpoint of our guidance. This performance includes revenue decline of 12% at AT&T that was higher than what we originally expected at the beginning of fiscal '19. However, we will more than offset this headwind with strong growth in the broader North America, Europe and Rest of the World.

A key growth area was managed services, which had its best-ever year. This was driven by the continued ramp-up of managed transformation activities with new customers like PLDT, Veon and Sky Italia, and was supported by the multiyear extension of several preexisting agreements that highlighted the trusted partner relationship and value proposition we continue to bring to our long-standing managed services customers.

Fiscal 2019 was also notable for our stable profitability and healthy cash collection, as we focus on reaching key invoicing milestone of many transformation projects we believe are essential for our market position in the long-term growth. As such, we exceeded our full year target for normalized free cash flow of $600 million, a majority of which we'll return to shareholders through our quarterly share repurchase and dividend program. Moreover, we delivered a non-GAAP earnings per share growth of 6.9%, which is in line with the high end of the original guidance range of 3% to 7% that we published last November.

Now let me provide some color regarding our regional business activities in Q4 and the market dynamic we expect to see in the year ahead.

Beginning with North America. We closed our fiscal 2019 with a stable fourth quarter performance. Consistent with our guidance, revenue from AT&T stabilize around the levels of Q2 of our fiscal second half. Additionally, we extended our long-standing in managed services agreement with U.S. Cellular for 5 years and began the integration of TTS Wireless, which contributed several million dollars of revenue this quarter.

Regarding the outlook in North America, service providers are making strategic investments in areas such as digital transformation, wireless and Pay TV convergence and cloud-based 5G networks.

As we said, few quarters ago, 5G will enable many new business and consumer use cases over the next few years, the support and monetization of which will create demand for sophisticated solutions that Amdocs is well positioned to provide. Along this line, we are today excited to announce that we are extending our collaboration with AT&T to modernize and update AT&T's digital business support system.

Let me take -- make a few points here. First, our activities will be structured under the multiyear agreement. This, we believe, improves our long-term revenue visibility. Second, the alliance will be expanded to include activities in strategic areas such as data analytics and security, in addition to existing experience and digital enablement programs. Third, the new agreement provides a solid foundation, on which Amdocs can bring additional long-term value to AT&T, as we seek to support its various growth strategies for the next several years.

Overall, we believe this agreement is a testament to our deep relationships spanning many decades with AT&T, and we look forward to further strengthening our partnership, as the communication and media industry continues to innovate at an unprecedented pace.

Regarding the broader North America. Customer activity level remained generally healthy, although we are seeing some indication of [software] related to the delayed merger of T-Mobile and Sprint. As we said before, consolidation activity like this often presents long-term opportunity for Amdocs, so we remain focused on demonstrating the future value we can bring to the combined T-Mobile-Sprint , assuming the deal proceeds.

In the meantime, our relationship remained strong, as shown by T-Mobile's recent selection of Amdocs MarketONE, our new subscription monetization solution for all [boarding] partners more efficiently, and by the multiyear expansion of our managed services agreement in support of T-Mobile's Metro prepaid business.

To summarize the outlook in North America, the market dynamics should support modest growth from Amdocs in fiscal 2020, assuming year-over-year revenue stability at AT&T, general healthy level of activity in the broader business and the full year contribution from TTS Wireless.

Moving to Europe. We produced a strong quarter to close our best year in more than a decade. Among the Q4 highlights, we completed a significant milestone in the business-driven digital transformation program we are delivering to 3 [IOMs]

Additionally, our NFV solution was selected by VodafoneZiggo to enable Dutch enterprises in their move to service cloud networks. While in Denmark and Norway, Telia extended their managed services agreement with Amdocs through its digital business systems.

I'm pleased to say that our premium sales momentum has also continued in Q1, with the award of a strategic transformation project at Vodafone Germany, one of the largest of its kind in the world. This deal will support Vodafone's integrated communication strategy, following its recent acquisition of Liberty Global's German Pay TV assets and serves as a prime example of how global communication companies are transforming their business to deliver the digital customer experience, increase IT velocity and reduce costs. With a world like this, our payments business is positioned for another year of solid growth in fiscal 2020. But we are, of course, closely monitor macroeconomic developments in the region.

Turning to the Rest of the World, we delivered a solid Q4 and finished a record deal, which revenue surpassed $900 million for the first time. During Q4, Telkom South Africa selected Amdocs to modernize and manage its business support operation under a multiyear service agreement. And Telefónica Vivo, the largest mobile operator in Brazil, signed a multiyear agreement with Vubiquity for TV on-demand content licensing.

Regarding the outlook in Rest of the World, we believe we are well positioned to continue supporting the region's growing appetite for digital transformation and managed services, but we remind you that quarterly trends may fluctuate given the positive orientation of our activities in these regions.

To summarize my rigid comments, we believe fiscal 2019 was a strong year, in which we improved our market leadership with innovative solutions in strategic areas like digital transformation, managed services, Pay TV, media, 5G and next-generation open networks. We believe the innovation we bring to the market is a complement to our M&A activity, which we have also executed over the years to expand on customer base and diversify in new adjacencies closely related to our core domain.

A prime example is Amdocs Media, which includes the acquired assets like Juice Worldwide, a division of Vubiquity that was just awarded Netflix's preferred vendor of the year. I'm also pleased to say that the value proposition of Amdocs Media's model was recently [balloted] by a major content owner, for which we'll support the distribution of its vast content library under a multiyear managed services agreement.

Similarly, we continue to see momentum in digital subscription monetization, where we recently added several new Vindicia's logos that includes [Gatehouse] Media, [Data Mobile] and [Red Focus Mobile].

Looking ahead, we will meet the -- we remain committed to M&A as a vehicle to bring -- to which we execute our strategic growth initiatives, possibly uses of debt where appropriate. That said, we are disciplined in our approach, and then we'll only act when we find the right strategic targets at the right price and at the right time.

Now let me wrap up with some comments about the year ahead. We expect fiscal 2020 to mark the eighth consecutive year in which we have delivered expected total shareholder returns in the mid- to high single digits, including non-GAAP diluted earnings per share growth of 3% to 7% plus our dividend yield. The outlook assumes a total revenue growth within the range of roughly 2% to 6% on a constant currency basis and reflects our record 12 months backlog and the positive sales momentum we're already seeing in Q1. We expect to return roughly 100% of our normalized free cash flow to shareholders in fiscal 2020, subject to factors such as M&A, financial markets and prevailing industry conditions.

To support this, our board has authorized an additional share repurchase plan of $800 million with no expiration date, which we will execute at the company's discretion going forward.

Additionally, I am also pleased to announce proposed 15% increase in the quarterly cash dividend for the seventh consecutive year, subject to shareholder approval at the Annual General Meeting January 2020.

With that, let me turn the call to Tamar for her remarks.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Thank you, Shuky. Fourth fiscal quarter of $1.03 billion was at the midpoint of our guidance range on a constant-currency basis after adjusting for the negative impact of approximately $5 million of foreign currency movements relative to guidance.

Our fourth quarter guidance range has assumed a sequential positive impact from foreign currency fluctuations of approximately $2 million as compared to Q3. On a year-over-year basis, our fourth quarter revenue grew by 2.8% as reported and 3.6% after adjusting for foreign currency headwinds of approximately 80 basis points. Consistent with our guidance, Q4 revenue included a partial quarter revenue contribution of several million dollars from TTS Wireless, the acquisition of which we closed early August.

Our fourth fiscal non-GAAP operating margin was 17.3%, consistent with the higher end of our long-term target range of 16.5% to 17.5%. Below the operating line, non-GAAP net interest and other expense was $2.5 million in Q4. For forward-looking purposes, we continue to expect non-GAAP net interest and other expense in the range of a few million dollars quarterly due to foreign currency fluctuations.

Diluted non-GAAP EPS was $1.08 in Q4, above the midpoint of our guidance range of $1.04 to $1.10. As anticipated, our non-GAAP effective tax rate of 16.1% was above the midpoint of our annual target range of 13% to 17% in the fourth fiscal quarter. Diluted GAAP EPS was $0.90 for the fourth fiscal quarter, above our guidance range of $0.81 to $0.89.

Free cash flow was $179 million in Q4. This was comprised of cash flow from operations of approximately $214 million, less $34 million in net capital expenditures and other. Normalized free cash flow for the quarter was $190 million, which is an improvement relative to $89 million a year ago.

For the full year fiscal 2019, normalized free cash flow generation was $613 million, which was better than our expectation of about $600 million and equivalent to a conversion ratio of 103% relative to non-GAAP net income.

Please refer to the reconciliation table provided in our Q4 earnings release for an explanation of the difference between normalized and reported free cash flow in the quarter and for the full year.

DSO of 87 days decreased by 1 day year-over-year. We remind you that DSO may fluctuate from quarter-to-quarter.

The sequential gap between unbilled receivables and deferred revenue widened by $22 million as compared to the third fiscal quarter of 2019, reflecting an increase in total unbilled receivables of $21 million and a decrease in total deferred revenue, both short-term and long-term, of $1 million. Relative to a year ago, gap actually improved by $17 million, primarily due to the timing of contract-specific milestones relating to the transformation projects we are delivering for our customers. Moving forward, you should expect unbilled receivables and total deferred revenue to fluctuate from quarter-to-quarter, in line with normal business activities.

Moving on, our 12 months backlog was a record of $3.490 billion at the end of the fourth fiscal quarter, which is up $90 million sequentially from the end of the prior quarter and equivalent to a year-over-year growth of roughly 4%.

Our 12 months backlog was primarily driven by the signing of new deals during the quarter, including the agreement with AT&T and the consolidation of TTS Wireless, but does not include the transformation project award developed in Germany, which we signed in the first quarter of fiscal 2020. As a reminder, we believe our 12 months backlog continues to serve as a good leading indicator of our forward-looking revenue.

Our cash balance at the end of the fourth quarter was approximately $472 million and reflects the acquisition of TTS Wireless, which we closed for approximately $50 million cash.

During the fourth fiscal quarter, we repurchased $9 million of our ordinary shares under our current authorization. We had $239 million remaining under that authorization as of September 30, and our Board has, today, authorized another repurchase plan of $800 million with no stated expiration date.

Now turning to our outlook for the first fiscal quarter of 2020. We expect revenue to be within a range of $1.15 billion to $1.55 billion, including a full quarter contribution from TTS Wireless. Embedded within our Q1 revenue guidance, we anticipate a sequential negative impact from foreign currency fluctuations of approximately $1 million compared to Q4.

For the full fiscal year 2020, we expect total revenue growth within the range of roughly 1.5% to 5.5% as reported and roughly 2% to 6% on a constant-currency basis, after adjusting for an expected negative impact from foreign currency fluctuations of about 0.5% point relative to exchange rates prevailing at the end of our fourth quarter fiscal 2019. As Shuky indicated earlier, we expect all 3 of our operating regions to contribute to revenue growth in fiscal 2020.

To assist you in your modeling, we expect the ramp-up of recent projects will contribute to an acceleration in the rate of year-over-year revenue growth in the fiscal second half. Additionally, our revenue outlook includes just over 1 point growth with the recent acquisition of TTS Wireless.

We anticipate our non-GAAP operating margins to be consistent with the higher end of our unchanged target range of 16.5% to 17.5% over the full fiscal year 2020. Due to investments required to support ramp-up of new deals, non-GAAP operating margins in the first half of the fiscal year might be slightly lower than the second half but are still expected to remain at or above the guidance midpoint of 17%. We expect our non-GAAP effective tax rate to remain within the same target range of 13% to 17% for the full fiscal year 2020. We expect the first fiscal quarter diluted non-GAAP EPS to be within the range of $1.02 to $1.08. With respect to Q1, we expect our non-GAAP effective tax rate to be above the high end of our annual target range of 13% to 17%.

Our first fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 136 million shares and the likelihood of a negative impact from foreign exchange fluctuations in non-GAAP net interest and other expense. We excluded the impact of incremental future share repurchase activity during the first fiscal quarter, as the level of activity will depend on market conditions.

For the full fiscal year, we expect to deliver diluted non-GAAP EPS growth of 3% to 7%. Additionally, our full year EPS outlook incorporates our expected repurchase activity over the year and a neutral impact from the acquisition of TTS Wireless.

As to the impact of TTS Wireless on GAAP results, this will not be known until after Amdocs completes the purchase price allocation for the acquisition. We expect normalized free cash flow for fiscal year 2020 for approximately -- of approximately $480 million, which includes a slow start of the year followed by a significantly stronger second half.

Normalized free cash flow in the first fiscal half will reflect the initial impact of the new deal with AT&T as well as setup costs we expect to incur during the establishment phase of such a deal, required working capital investments related to the ramp-up of recent transformation awards and the timing of annual bonus payments in Q2, just as we see every year.

We expect normalized free cash flow will improve significantly in the second half of fiscal 2020, reflecting a conversion rate of 100% or better relative to non-GAAP net income. Included -- including anticipated capital expenditure of roughly $120 million associated with the multiyear development of our new campus in Israel and other items, we expect reported free cash flow of roughly $350 million in fiscal 2020.

Regarding our capital allocation plan, we expect to return roughly 100% of our normalized free cash flow of $480 million in fiscal 2020. This includes our quarterly share repurchase program, for which our Board has, today, authorized an additional $800 million with no stated expiration. In total, we now have more than $1 billion of authorized capacity for share repurchases, which we will execute on the company's discretion going forward.

As a reminder, we retain the flexibility to vary the level of share repurchase activity from quarter-to-quarter, depending on factors such as the outlook for M&A, financial markets and prevailing industry conditions.

Additionally, we expect the total return we deliver to shareholders will be enhanced beyond the earnings growth outlook via our dividend program, which if the new quarterly dividend rate of $0.328 per share is approved by shareholders at the Annual Meeting January, would yield about 2% on the current share price.

Therefore, we expect the sum of our diluted non-GAAP EPS growth plus the dividend yield to equate to a total shareholder return in the mid- to high single digits for the eighth consecutive year in fiscal 2020.

With that, we can turn it back to the operator, and we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tom Roderick with Stifel.

Thomas Michael Roderick - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

So let me just address the backlog here for a second. It's a $90 million sequential backlog, that's a level of increase we haven't seen in quite a long time and really not anything close for a long time. So when I look at some of these deals, it looks like there was certainly some pent-up demand. The AT&T deal, in particular, looks very, very interesting. Can you just talk about that new deal activity environment that you're seeing? Is there pent-up demand, particularly in the U.S.? And should we expect to see a little bit more of that as it impacts the backlog going forward? Or should we just view this, sort of, $90 million increase as a bit of a one-off?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

I think we should -- look, the $90 million is, indeed, an exceptional sequential increase that, as we said, we have not seen for many years. And I think it's a combination of primarily the AT&T deal that we talked about as well as the fact that in addition to that, we have the factors of TTS Wireless coming into the backlog as well as several other awards. You've seen the announcements that we've shared, and these are just examples. It's not the full list of deals. So I think the combination of all of that contributed to a significant increase.

Now looking forward, we already have, as of now, the knowledge of signing the Vodafone Germany transformation in Q1. And in addition to that, as we said, we feel we have a solid pipeline. So I don't think you should expect now this kind of magnitude of backlog increases from quarter-to-quarter. But we pretty much feel good about what we're seeing in terms of the pipeline and the ability to convert that into deals.

Thomas Michael Roderick - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Excellent. Okay. Congratulations on that.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Thank you.

Thomas Michael Roderick - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

So Tamar, can you then just sort of help us think through what appears to be a little bit of a disconnect between that really nice rise in the backlog? And then sort of looking at the normalized free cash flow number of $480 million or total of $350 million next year, if I'm looking at that right, can you help us understand why there's -- why that normalized number would sort of look to be down? What are some of the factors?

You specifically mentioned AT&T and the renegotiation or restructuring of that deal might lead to the first half being substantially lower than the second half. Can you just talk to that dynamic, in particular, how AT&T impacts it?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

So thanks, Tom, for the question. So just to clear, between reported free cash flow and the normalized free cash flow, the main difference is the $120 million of investment in the multiyear development plan we have on the new campus in Israel. So I'll refer the rest of my question (sic) [answer] to the [4-A] which is more reflective of the business itself.

So what we are seeing is that the new awards, AT&T included as well as some other awards that we are very happy about, does require investments in the upfront some setup activities that are required, things like building up new site, new training programs, re-badging employees in some cases, et cetera, as well as some function of how the structuring of the milestones for invoicing the customers look like.

So think about it as a somewhat of a small period or short period of investment that is clearly coming back in the second half of the year in the form of the cash flow acceleration that we're expecting to see returning in the second half of the fiscal year already to the 100% earnings to cash conversion. And obviously, we will catch up for these kind of investments later on in realized cycles.

Thomas Michael Roderick - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

And then Tamar, as we build our models, do you have a suggestion as to how much of the full year number we ought to back-end load into the second half? Is that sort of like a 60% number? Higher than that? Just ballparking it, what's a good way to think about the way that builds?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

I need to think about that, but I would say, probably, roughly speaking, I don't know, 2/3. But I have to run the model in my head again.

Operator

(Operator Instructions) Our next question comes from Jackson Ader with JPMorgan.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

Great. Question -- just a follow-up on the cash flow. Does this then imply that you have kind of 2 separate headwinds here? So you have -- on the one hand, you have an increase in the number of investment and also people are pushing out payment terms, did I hear that correct?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

I'm sorry, can you repeat the question? We didn't hear you well.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

Apologies. Yes, I was just saying -- I just want to clarify on the cash flow. We have, on the one hand, increased investments and then on the other hand, the renegotiation of the AT&T contract is also kind of a pushing out of invoicing milestones from maybe what you would have invoiced previously.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Yes, it's a fair description. It's a combination of both.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. That's fair. And then, so when we think about the $100 million or so, roughly, just like the year-over-year decline in normalized free cash flow, I mean, how do you guys think about the payback or the return on that increased investment from the reduction in cash?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

In general, when we look on deals with customers -- many of our customer deals are multiyear deals, whether it's a large transformation that can take beyond one fiscal year or definitely multi -- multiyear engagements that includes managed services. So from our point of view, of course, we look at the cost of capital of the company. And we make sure that after taking that into consideration, looking on their opportunity to create the margin of the relationship as well as the parameters of the specific deals, plus additional potential activities we see beyond that, that it makes sense for us to do that. So that would be always the case.

And whenever we go -- sometimes when we go into a new relationship that starts with a transformation project -- as we always explained in the past, the transformation project is usually the differentiator that we can penetrate the new customers with, but it's also lowering margins relative to the later recurring revenue managed services opportunities. And our track record shows that with many of the new logos that we achieved in the last couple of years, oftentimes through a win of transformation projects, we managed to expand this relationship to recurring revenue, to additional [lapped] sales as well as managed services. We talked about it quite a lot, I think, in the last quarter, using some examples of customers in APAC that we won in the last several years as new logos, expanding this relationship to managed services.

There are also good examples here in the states. For example, U.S. Cellular started with the transformation project, then shifted gears to be more of a managed services agreement, and now we're already in a more mature phase of the relationship moving into the next cycle of modernization. And we just released today an announcement of an expansion of the managed services engagement there.

So I'm just giving you color around what kind of expectations we have when we go into a customer relationship. Usually, the longevity of relationship we have with customers runs over decades. So again, I'm not -- when we're looking on ROI, we don't necessarily think about it in the context of decades. Don't get me wrong, we want to see the ROI faster, but definitely, the track record shows that any new relationship evolves later on to a long-term relationship.

Operator

And our next question comes from Shaul Eyal from Oppenheimer.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Tamar, Shuky, Congrats. So really, going back to Tom's commentary about the backlog, really a flurry of contract announcement renewals, AT&T, T-Mobile, U.S. Cellular, obviously, contributing to the healthy increase, the $90 million mentioned sequentially this quarter.

But when we think about it also from a deferred revenue perspective, and I know DOX is -- not be the best example, given the business model. But how should we reconcile that growing backlog number on the one hand, with the fact that short-term deferred revenue kind of still relatively low? And I know many of us here cover big enterprise software companies, different business model, but help us, Tamar, to address that point?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

So Shaul, in our business model, unlike pure software players, I don't think deferred revenue is a leading indicator. And I don't think you should look for that correlation because it's not a model where we sell many maintenance and license upfront, which creates those deferred revenue balance as you would expect in a software company.

I believe that in our case, actually, the 12-month backlog is a much better leading indicator. And in terms of the relationship of project ramp-up to both deferred revenue and unbilled revenue, It's a mix of how the revenue recognition is progressing relative to the interest in [market].

But unfortunately, in our case, usually the customers expect to see some deliverables before we can invoice. So that means that over a project life cycle, usually, there is a lag between the revenue recognized and when we can actually catch up with the invoicing, hence, the phenomena that we are seeing where we have such a great win rate with transformation project, which we believe is great news for the company.

And as I explained before, usually, the beginning of the relationship or the expansion of the relationship with the customers, that leads later on to more business. Yet in the shorter-term of the project life cycle, usually, we are moving with certain lag between revenue cognition and the points of invoicing.

Nevertheless, obviously, given the track record that we have of executing on this project, given the strong position of the customers that we serve, it's mainly just a lag in timing that is catching up pretty quickly.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Absolutely. Completely, completely understood. Right on. Absolutely. And Shuky, maybe slightly more from a macro perspective and going back to this flurry of renewals and the new announcement, should we look at Amdocs as some sort of a leading or a lagging indicator into some of the trends that are taking place within the telecom arena at large, and maybe specifically, as it relates to the U.S. telecom and in cable market?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

I'm not sure I understood the question.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

(inaudible) sorry, go ahead.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

No, I just -- let me try and to simplify that. Given the acceleration that we're seeing with the backlog on the one hand and pretty much with the strong business momentum and contract announcement, in your view, is Amdocs some sort of a leading or a lagging indicator from an economic perspective into what's happening on the broader telecom arena, and to an extent, what's happening specifically within the U.S. telecom and cable arena?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

I don't know if you can always connect the two, the macroeconomic situation and Amdocs' success. I can give you 1 example. If you look at today, in Europe, Europe, is a -- if you look at the -- our industry, in general, it's pretty much 0 growth. On the other hand, it's today, maybe, our biggest growth engine. And the reason about the trends in the market -- so in Europe, the trends in the market is convergence. All the big companies, obviously, Vodafone included -- and we talked about Vodafone Germany, which is pretty much significant part of Vodafone in general. And it's doing 1 of the most complex transformation, getting the Vodafone mobile, fixed line and old LGI and consolidate it to one consumer experience, so -- which is a very, very big transformation. So don't -- not always you can find the correlation between the macroeconomics of -- and the end of success.

As I said in my script, I think that what is nice and when we look ahead, we see pretty much growth across the board. So we see modest growth in North America. We see growth in a very accelerated growth in Europe. We see growth in the Rest of the World. So overall, I think we are pretty happy with the way the balance in the growth in activities that we do across the board.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Well done. Congrats.

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

Thank you.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Thank you.

Operator

And our next question comes from Tavy Rosner with Barclays.

Peter A. Zdebski - *Barclays Bank PLC, Research Division - Research Analyst*

This is Peter Zdebski on for Tavy. We were wondering if you could provide any color back on cash flow on any factoring that -- in 2019? And perhaps, specifically, how that might have compared to 2018? And then I have a follow-up.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

So as we said, already in the beginning of 2019, our expectations for strong cash flow for the year as well as that, indeed, what happened -- has actually happened despite the fact we use small amount of factoring for tactical reasons and even smaller than '18. So if at all, it was a headwind rather than a tailwind. But overall, it will be material.

Peter A. Zdebski - *Barclays Bank PLC, Research Division - Research Analyst*

That's very helpful. And then one follow-up, could you give any -- have you seen any incremental -- or can you give any incremental color on traction with NFV?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

So I think, as we mentioned before, we signed another NFV deal this quarter with VodafoneZiggo, which is important because this is the first deal that we do with Vodafone. And I hope it will present for us opportunity later on.

And we see -- so we see couple of deals every quarter. The traction of NFV is, as we said before, is slower. I think that the majority of customers move a lot of focus of 5G and building the right monetization solution, charging solution on 5G. In a way, 5G infrastructure, not just the ready, obviously, the core network, by definition, is going to accelerate the NFV-related activity. But we see good health activity, but as I said, the majority of the focus is shifted to 5G deployments and 5G in stages.

Peter A. Zdebski - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And congrats on the quarter.

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

Thank you.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Thank you.

Operator

And our next question comes from Will Power with Baird.

Charles Erlikh - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Guys, this is Charlie Erlikh on for Will. And sorry if this has been asked before. I joined a little bit late. But I just wanted to ask about the 2020 revenue guidance. Given some of the strong wins this quarter with AT&T and a lot of others and the really strong backlog as well, I guess I'm a little surprised that the 2020 revenue guidance isn't even higher than it is. Am I getting ahead of myself on these new deals and the backlog? Or are there other things to consider?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

So we touched on that point, that, in fact, what we're saying is that a lot of those new activities that we're talking about are going to ramp up more strongly for the second half of the year. So we do expect acceleration and that some of this strength in the backlog would put its direction into revenue recognition more in the second half of the year. So I think that's a simple answer between what we've talked about in terms of the wins as well as the backlog increase relative to the revenue expectations.

Charles Erlikh - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Okay. That makes sense. And then just a quick housekeeping question. Could you tell us what the cash interest paid was in the quarter?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Cash interest paid, I have to admit, I do not remember, but it's immaterial amount for sure.

Operator

(Operator Instructions) And I'm showing no further questions in the queue at this time. I'd like to turn the call back to Matt Smith for any closing remarks.

Matthew E. Smith - *Amdocs Limited - Secretary & Head of IR*

Thank you very much for joining our call this evening and for your interest in Amdocs. We look forward to hearing from you in the coming days. And if you do have any additional questions, please contact me here at the Investor Relations group. Thanks, and have a great evening.

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
