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DOX - Q1 2019 Amdocs Ltd Earnings Call

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OVERVIEW:

Co. reported 1Q19 revenue of $1.012b and diluted GAAP EPS of $0.72. Expects FY19 total reported revenue growth to be 0.5-4.5% vs. 1-5% previously and total constant currency revenue growth to be roughly 2-6%. Expects 2Q19 revenue to be $995-1,035m and non-GAAP diluted EPS to be $1.00-1.06.

CORPORATE PARTICIPANTS

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

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

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2019 Amdocs Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to introduce your host for today's call, Mr. Matt Smith, Head of Investor Relations. Mr. Smith, you may begin.

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

Thank you, operator. 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 effects 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 in our annual report on Form 20-F for the fiscal year ended September 30, 2018, filed on December 10, 2018.

Amdocs may elect 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, Chief Financial Officer and Chief Operating Officer.

And with that, I'll turn it over to Shuky.

Joshua Sheffer - *Amdocs Limited - President & CEO*

Thank you, Matt, and good afternoon, to everyone joining us today. I am pleased to report the solid start to the fiscal year with Q1 revenue above the midpoint of guidance despite foreign currency headwinds. Our profitability was at the higher end of the target range as we maintained a high win rate as we continue to execute on the strategic growth initiatives we shared with you at our Analyst Day in December.

Among the highlights, we expand our customer footprint in North American Pay TV market. We won 2 significant managed transformation project in Europe, and we secured the important Pay TV media and network function relation deal to the Rest of the World. Such positive momentum reflects our innovation and our unique business model, and continue to support the visibility provided by our record 12 months backlog. I will repeat this point later in my remarks, but now, let me proceed as usual with a recap of our quarterly activities by region.

Beginning with North America. We delivered year-over-year revenue growth as we progressed our strategy and continue to support the business imperative of many of our communication and media customers. This includes Pay TV, where we signed a multiyear deal to accelerate Altice USA digital and mobile offering as part of its full-service processes.

Regarding the other North America, we continue to experience healthy activity levels in the broader region. At AT&T, our relationship remains strong based on the critical expertise we provide in support of AT&T's digital, network, media and services requirement. However, it's a bit premature to assess the size and the timing of the future project at works, and AT&T discretion spending outlook may be subject to some shift relative to our initial expectation. As a reminder, potentially, [most of the] opportunities at WarnerMedia are not reflected in our fiscal 2019 outlook. By contrast, the broader North America outlook remains relatively strong, including in T-Mobile and Sprint, where our relationship run deep and where co-activity levels are currently healthy in both customers. We are working proactively to demonstrate the value we can bring to a combined T-Mobile and Sprint, although we remind you that consolidation activity like this can create temporary near-term uncertainty, the outcome of which can be difficult to predict.

To summarize North America, market activity levels are broadly healthy and the long-term fundamentals are positive, but we continue to expect that sequential trends maybe fluctuate in the foreseeable future before growth resumes in a steadier way.

Moving to Europe. We delivered another solid quarter after adjusting for the impact of foreign currency headwinds. Over the last several years, we've invested organically [in this] acquisition to build a customer and service infrastructure presence in key European markets, where our share has traditionally been much smaller than it has been in North America.

As Tamar and I have said SAID in our Analyst Day in December, we believe our investment are bearing fruit. For instance, we now have significant projects with 3 Italy's largest provider as compared to none just 3 years ago. And we have similar success stories in other parts of the region, such as Ireland, Netherlands and Spain.

Along these lines, we are today delighted to announce that PJSC VimpelCom, which operates under the Beeline brand in Russia, has selected Amdocs for a significant digital modernization project that includes a multiyear Managed Services agreement. Additionally, a Tier 1 service provider in Spain has chosen Amdocs for a digital managed transformation deal. Both these service providers were former customer of Comverse and part of the DSS assets we acquired in 2015. The new agreement significantly expands the scope and the scale of our regional relationship and our recognition of our leading AmdocsOne solution portfolio. Our reputation for execution and the efficiency of our Managed Services organization. Moreover, this supports our view that we have the right investment strategy and the right solution offering to support the positive multiyear growth outlook in Europe.

Turning to Rest of the World, first quarter revenue declined sequentially as a result of the normal fluctuation in customer project activity. The quarter include a new win in Pay TV media, where we signed a 5-year digital transformation deal with a leading content and consumer company in Southeast Asia. This move is significant in regard to both media momentum and our cloud capabilities. As part of this program, we are supplying our entire customer experience suite in the cloud, we bring this service provider better agility and efficiencies. We see all of our customer taking tailored processing to the cloud, and this significant step is a program that many of our customers can potentially replicate and benefit from.

Rest of the World is also presenting exciting growth opportunities in the network domain, where we are delighted that Globe Telecom in the Philippines has selected our Network Functions Virtualization solution to automate the operation and management of its network as a service offering for enterprise customer. This landmark transformation includes 5-year services agreement, and is a testament to the innovation and expert knowledge we bring to ONAP, the Open Network Automation Platform; our ability to operate agnostically in an open multi-vendor environment; and our real-word deployment expertise acquired from walking with early NFV movers such as AT&T, Dell, Comcast and Orange.

Additionally, we believe that a world like this speak to our growing reputation for expertise in network-related software and services. As recognized by Gartner, which last month, positioned Amdocs as the clear market leader of our ability to execute and completeness of vision in its 2018 Magic Quadrant for operation support system.

Regarding (inaudible), we continue to expect that market position in (inaudible) opportunity we support sustain growth in Rest of the World in fiscal 2019, mainly led by Asia and the surrounding Pacific, where activities still remains relatively strong compared to Latin America. Overall, we are pleased with our regional progress in the first fiscal quarter as we continue to win many of the world's most significant transformational projects. However, Amdocs is not just known for winning projects, but also delivering them successfully. This required a breadth of innovative solution and direct record of execution, where we believe can only be provided with the unique attributes of our business model.

Moreover, the project represents important footholds in the market, which translates to long-lasting customers. Relationship, recurring service revenues and base for a future growth, of course, are the strategic areas of focus. We laid these strategic areas for you with the analyst briefing in December, and they include: Digital transformation capabilities that we have; Managed Services; TV; media; and next-generation network, including automation, OSS, NFV and 5G capabilities.

To summarize, we entered our second fiscal quarter with a record 12-month backlog, and we are on track to deliver on our financial targets for the fiscal year 2019, including revenue growth within the range of roughly 2% to 6% in constant currency, and normalized free cash flow generating $600 million, which represent an improvement conversion rate in approximately 100% relative to our expected non-GAAP net income.

Before handing over to Tamar, I wanted to comment briefly on the report recently issued by a short-seller regarding Amdocs. We believe the report is misleading and realize that numerous statements that are inaccurate. Moreover, the report was prepared without any previous interaction with Amdocs and its management team. We do not intend to comment any further on the short-seller. The best response is to remain focused on our execution and performance, as we have every confidence in our strategic direction, our competitive position and our financial practices. We welcome constructive input from shareholders, and look forward to engaging with them as we continue to deliver on our strategy for growth and value creation.

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

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

Thank you, Shuky.

First fiscal quarter revenue of $1,012,000,000 was slightly above the midpoint of our guidance range and included a negative impact from foreign currency movements of approximately $4 million relative to the fourth quarter of fiscal 2018 and also relative to our Q1 guidance.

Our first fiscal quarter non-GAAP operating margin was 17.3%, an increase of approximately 10 basis points compared to the prior quarter, and consistent with the higher end of our long-term target range of 16.5% to 17.5%. We believe our consistent margin performance over time is a function of the many unique attributes of our business, including: our 12 months backlog visibility, which over the years averages about 80% of our forward 12 months revenue; our highly recurring revenue streams; our scalable and sophisticated global resource allocation model; and our constant drive to improve operating efficiency, while fine-tuning our discretionary investments.

Below the operating line, non-GAAP net interest and other income was $1.5 million in Q1. This was better than our guidance for an expense of few million dollars, primarily due to a capital gain, realizing cash on the sale of a technology company in which we held a small minority equity investment.

For forward-looking purposes, we continue to expect the non-GAAP net interest and other expense in the range of few million dollars quarterly due to foreign currency fluctuations.

Diluted non-GAAP EPS was $0.98 in Q1, in line with the midpoint of our guidance range of $0.95 to $1.01. Consistent with guidance, our non-GAAP effective tax rate of 21.9% was above the high end of our annual target range of 13% to 17% in Q1, albeit slightly more so than we have expected.

Diluted GAAP EPS was $0.72 for the first quarter, above the midpoint of our guidance range of $0.67 to $0.75.

Free cash flow was $72 million in Q1. This was comprised of cash flow from operations of approximately $110 million, less $37 million in net capital expenditures and others. Normalized free cash flow was $136 million in the first fiscal quarter, which is an improvement relative to $126 million a year ago. Normalized free cash flow excludes a one-time cash payment of $55 million related to the legal suit we settled and expensed for in the prior quarter, payments of nonrecurring charges of $7 million for business realignment actions taken in fiscal 2018, and approximately $2 million associated with the multiyear development of our new campus in Israel.

To make a quick comment, we expect new campus in Israel to be accretive to our earnings per share over the long term, consistent with our previous disclosures. This primarily reflects the financial benefits of owning versus leasing our new building and does not assume the future productivity improvements we expect will result from a more collaborative work environment for our thousands of employees in Israel. I am excited to report that we recently selected the Electra Group to build the core and shell portions of the campus for a cost of approximately $90 million, and we are on track to complete this $350 million project within the original timeframe of 4 to 5 years.

DSOs of 91 days increased 3, quarter-over-quarter, primarily due to higher billings in the quarter. We remind you that DSO may fluctuate from quarter-to-quarter. I'm pleased to highlight that total unbilled receivables declined by $21 million as compared to the fourth fiscal quarter of 2018, and (inaudible) revenue, both short- and long-term, increased by $5 million sequentially in Q1.

Our growth in our unbilled receivables over the past 3 years reflects the a record level of transformation projects we are now executing as compared with just a few years ago. This increase reflects the positive trend since these types of projects typically represent the start of a new customer relationship that we have won as a result of our market-leading solutions and our reputation for successful execution and delivery. As a reminder, transformation projects are measured in many tens of million of dollars and can take multiple quarters or even years to execute and deliver. The quarterly revenue recognition of this project is based on percentage of completion accounting, which is a requirement in accordance with generally accepted accounting principles.

At the same time, invoicing for the projects depends on achieving predetermined, contract-specific milestones are discrete points along the project life cycle. As a result, there are timing differences between revenue recognition and the invoicing of customers, which result in the creation of unbilled accounts receivable, which you see in the balance sheet. Project, therefore, tend to be working capital-intensive in nature, but over the full course of the deal, revenue and cash collections ultimately converge. I addressed these dynamics with a slide in my presentation at our Analyst Day in December 2016, a copy of which can be found on the Investor Relations section of our website.

To summarize, our high level of transformational project activity represent a positive leading indicator of our future growth and the recurring service revenue, which typically will follow. Looking ahead, we are confident in our ability to consistently meet project milestones as they come due, which in turn, we believe should drive improved rate of free cash flow conversion relative to our non-GAAP net income over the long term.

Moving on, our 12-month backlog was $3,370,000,000 at the end of the first fiscal quarter, up $10 million sequentially from the end of the prior quarter. We believe our 12-month backlog continues to serve as a good indicator of our solid book of business, and its year-over-year increase of over 3.4% supports our outlook for fiscal 2019.

Our cash balance at the end of the first fiscal quarter was approximately $459 million. During the first fiscal quarter, we repurchased $99 million of our ordinary shares. In total, we have, as of December 31, approximately $538 million of authorized capacity for share repurchases to be executed at the company's discretion going forward with no stated expiration date. 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.

Now turning to our outlook. We expect revenue to be within the range of $995 million to $1,035,000,000 for the second fiscal quarter of 2019. Embedded within this guidance, we anticipate the negligible sequential impact from foreign currency fluctuations as compared to Q1. Regarding the full fiscal year 2019, we remain on track to deliver total revenue growth in the range of roughly 2% to 6% in constant currency, the midpoint of which represents an improved rate of growth relative to the prior year fiscal '18.

On a reported basis, we now expect full year revenue growth in the range of 0.5% to 4.5% as compared with the range of 1% to 5% previously. The outlook includes an anticipated drag from foreign currency fluctuations of about 1.5% year-over-year as compared to an anticipated drag of about 1% previously.

As we said at our Analyst Day in December, the combination of our organic investments and our strategic acquisitions have driven growth in Amdocs' core operations over the last 5 years. We remain committed to M&A as a vehicle for achieving our strategic long-term objectives, and where material, we will continue to provide guidance as to the revenue contribution of a deal at the time we executed. Our M&A strategy hinges on blending the assets we acquired -- of the acquired companies in the broader Amdocs to further enhance our product offering and to create synergies. Successfully doing so, however, means that within a few quarters of closing, it is no longer practical to separate the original assets from that of our core activities.

Among many great examples is our relationship with PLDT, which we acquired through our acquisition of Comverse in 2015, but which is now an AmdocsOne customer as a result of the $300 million transformation deal we signed last year.

Moving on, we continue to expect our non-GAAP operating margins to remain within the range of 16.5% to 17.5% in fiscal 2019. We expect our quarterly non-GAAP operating margin to fluctuate at the higher end of this range in fiscal 2019. We expect the second fiscal quarter diluted non-GAAP EPS to be in the range of $1 to $1.06. We expect our non-GAAP effective tax rate to remain within our annual target range of 13% to 17% in the second fiscal quarter.

Additionally, our second fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly $140 million -- sorry, 140 million shares, and the likelihood of negative impact from foreign exchange fluctuations in non-GAAP net interest and other expense. We exclude the impact of incremental future share buyback activity during the second fiscal quarter as the level of activity will depend on market conditions.

For the full fiscal year, we continue to expect to deliver diluted non-GAAP EPS growth of 3% to 7%. Our full year EPS outlook incorporates our expected repurchase activity over the year. We expect our non-GAAP effective tax rate to remain within the same target range of 13% to 17% for the full fiscal year 2019. To assist you in your modeling, we continue to expect free cash flow of close to $500 million in fiscal 2019. As a reminder, free cash flow in the second fiscal quarter is typically lower due to timing of annual bonus payments. As a result, our cash balance is expected to decline sequentially in Q2 before increasing again throughout the second half of the year.

We expect normalized free cash flow for the fiscal year 2019 of approximately $600 million, which equates to a conversion rate of approximately 100% relative to expected non-GAAP net income. Normalized free cash flow adjust for items, such as the previously mentioned cash payment of $55 million related to the settlement of last quarter's legal dispute; net capital expenditure of roughly $50 million associated with our new campus in Israel; and payments of nonrecurring charges of a $20 million for business realignment actions taken in fiscal 2018.

Consistent with our previous guidance, we plan to return a majority of our normalized free cash flow to shareholders in fiscal 2019 by way of our quarterly dividend and share repurchase program. With that, we can turn it back to the operator and we are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

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

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

The first question for you, Tamar, if we can have maybe a little bit of color on the company's factoring program and how much it contributed to cash flow in 2018. And then also how much we should be expecting for 2019?

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

So in 2018, we adopted the factoring program as part of expanding our liquidity vehicles. We've had before a revolver facility of $500 million. We've always had cash in the balance sheet and, obviously, can use that as well. And we felt that having the attractive terms that we could achieve through the factoring program would be an interesting addition. The materiality of the factoring was not significant relative to the overall collection. And I can assure you that the improvement we are talking about in terms of normalized free cash flow in '19 will result from normal business operations and not from any material use of the factoring. So it's just another vehicle, but not one that we expect to use in a material way.

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

Okay. Understood. And then quick follow-up. On the campus buildout, so it was only a couple of million dollars in additional CapEx this quarter. Can you either give us some more detail on what the remaining, call it, $150 million or so is made up of in the campus buildout? And then also, when should we expect the CapEx hit to come in fiscal 2019?

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

So within the $350 million that we have in the program, first of all, there was around almost $100 million invested in the land, of which half was funded by our partner in the venture. So that's $50 million. $90 million, as we said, is going for the core and shell of the program. And then on top of that, there is a facade, the glasses, the aluminum, the fitout, the equipment, the land development, elevators, I mean, there are many, many items that go into the $350 million net investment that we are planning. In terms of the investment in 2019, as we indicated, we plan it to be around $50 million. You're absolutely right that in Q1, it was an immaterial amount of only $2 million. And the majority of the $50 million will probably happen in the second half of the fiscal year.

Operator

Our next question comes from Ashwin Shirvaikar with Citibank.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

I guess, my question is Amdocs continues to sign these transformational deals. So obviously, a good indicator in and of itself. To the extent these large multi-peer projects lead to the use of percent of completion accounting, which is normal, can you first give us what proportion of total revenue this POC, and maybe sort of if you can provide a status update on maybe the 1 or 2-year-old projects in terms of hitting milestones, that would really help. Eventually, where I'm pointing is the implication this has on your operating and free cash flow. If you could talk about this.

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

Thank you, Ashwin. We are running dozens of transformational projects these days. It's actually the record high level for the company. Just to give you an indication, 3 years ago, it was less than 10. So quite significant increase in the level of transformational projects that we are seeing. Now what differentiates this transformation project from regular modernization that is ongoing is that, usually, it's larger in scale. It includes putting up a new stack. Many times, it's involving new customer for us. We just talked in the last Analyst Day about the fact that we've added 10 new countries in which we didn't have any activity several years ago, and now, comprise already tens of millions of dollars for the company. Usually this is a beginning of a relationship with the new logo, that then translates later on to decades, hopefully, of doing business with that customer and moving to more recurring nature of revenue and absolute opportunities. Now in terms of the overall size of revenue, I would say roughly speaking, it's about a quarter. Don't take it literally. But we are running the majority of the revenue of Amdocs are more recurring in nature. As you can see, every quarter we are disclosing Managed Services engagement as part of the total revenues is over 50% in sales. On top of that, there are different kinds of recurring revenues such as ongoing support, maintenance and just incremental modernization work we are doing. And we are very happy about the transformation projects yet. As we've indicated, it does require working capital investment just because of the nature of how it works and the lag that we see between progressing on the revenue as we progress with the work of the projects, and while the invoicing is coming more as a step function. In terms of examples, for example, we talked a couple of years ago, we bought a big wheel of transformation with the SingTel group that included both Singapore and Australia, and we are very happy to see that we are making progress there, achieved major milestones already in this transformation. We are seeing, on the other end, newer activities. We mentioned Italy as a growth driver for the company in the last year. So for example, we are running this very transformational project with Vodafone Italy, that is relatively earlier in its phases of the journey. So at the end of the day, it's the portfolio of deals. But those wins, such as the ones we talked about today with VimpelCom in Russia, a leading Tier 1 carrier in Spain, a leading carrier in Southeast Asia, I mean those are great new wins that should, obviously, support moving forward additional projects. So we are very happy about that.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Got it. And then the second question is with regards to inorganic contribution, and I completely understand your point, companies you acquired that integrated and so on and so forth, but it would still be useful if you can provide a status update fairly close to the 1 year anniversary on Vubiquity and projekt202 and how they are doing relative to your original expectations with regards to revenues, integration. Anything you can provide in contribution would be great, too.

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

So looking on the acquisitions we've done last year, we have talked quite a lot during the last Analyst Day around the media opportunity. Vubiquity is at the center of our media offerings, and we are very happy with the acceptance we are seeing in the market globally for our media offerings, whether it's from the side of the communication service providers who want to add entertainment to their connectivity services that have been more traditional in terms of what they used to do and now adding more entertainment, or the other way around, for different content providers that want to grow over-the-top directly to consumers, we've seen an increase in the pipeline over the last -- less than a year since the acquisition and we are very happy to start seeing some convergence of this pipeline already. As you know, sales cycles are long in our space, but we are definitely starting to see the convergence and very happy about that. Projekt202, another exciting domain we added to our capabilities around the digital experience layer. Projekt202 is a boutique-consulting SI that is actually helping us deliver with our customers the revealing of the reality of how their consumer -- customers are actually consuming their services and then in return, creating a much more focused, a much more deliberate experience that we can help them develop and improve. And we're excited to see the progress there as well with many of our customers adopting this. We just talked as an example about the fact that in Altice, we talked today about the new win with Altice to support them -- launch their MVNO services, and projekt202, for example, is part of that scope of the deal. So overall, Ashwin, we are happy with the progress. And as we always say, usually it takes more than just the first year, of course, to realize the synergies, but we're very happy. Now taking a broader kind of look back, if you look on Comverse that we've done in 2015 and now already several years later we are seeing a lot of customers that the regional footprint into also the Comverse acquisition, and now we are talking about major deals with these customers. So just looking on the announcements of today, VimpelCom in Russia used to be a prepaid customer of Comverse; the leading provider in Spain that we mentioned, the win with -- is a customer of what used to be Comverse, now, we are sending the full AmdocsOne suite. So we are very focused on continuing to drive synergies. Obviously, this is an example of a deal that's already a couple of years past, and we're seeing wonderful synergies from that.

Joshua Sheffer - *Amdocs Limited - President & CEO*

Ashwin, this is Shuky. I want to add that another characteristic of the new deals that we have, among them the one we announced this quarter, that this is not a BSS deal. It's a complete activities of all our offerings. So part of it is, obviously, BSS, but it's part of our network we sell, projekt202, some media companies, artificial intelligence, so we are very happy to see the deals that we are selling today in the managed transformation deal actually bringing most of the components of the new portfolio of the company into play in 1 large deal, which is a very good, I think, testament to the rest of our offering.

Operator

Our next question comes from Shaul Eyal with Oppenheimer.

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

I want to maybe build a little bit on Ashwin's former question, specifically on Vubiquity. Maybe try and approach it off from a different respective. And Tamar, I completely get the longer-term nature of Amdocs' M&A transactions and the fruition that they generated and yield longer term. But maybe just as you anniversar-ize the first year of Vubiquity, is it, has been coming in line, a little better, below your expectation? You can provide us kind of with the quantitative comments, not necessarily the numbers, if it makes it a little easier. And I have a follow-up.

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

In terms of the activity level we are seeing -- I'll separate between the revenue and pipeline. From a revenue point of view, it's more or less in line with what we expected. From pipeline point of view, it's actually better. So in terms of kind of the expectation moving forward, and now we are seeing the acceptance in the market to the joint offering that Amdocs and Vubiquity can bring, we are very encouraged with the reaction, we are very encouraged with the kind of dialogue and pipeline progression. So time will tell how this pipeline is converting into deals. But I would say this is definitely a good start. And when we are looking also on the geo distribution of the activity, just to remind you, Vubiquity has been more focused historically in North America, and to a lesser extent, internationally. And now with the outreach of Amdocs, for example, in APAC, Vubiquity did not have business in APAC before, and with the outreach of Amdocs and the breadth of customers we have in the South East APAC region, we can take that forward and bring this very different expansion and reach in terms of the sales pipeline. Do you have anything to add?

Joshua Sheffer - *Amdocs Limited - President & CEO*

Yes, yes, I think that the -- like we have done in other places, Vubiquity is part of Amdocs Media. So we are not obviously -- it's had its own pipeline and its own very good relationship with many, many content creators and content distributors in the world. But when we try today to push media, it's not just -- obviously, Vubiquity is a big part of it. But we are adding our user identity solution, we are adding our monetization with digital solution. So we are trying to package deal, which are end-to-end a media offering. And obviously, we have also these deals separately, but I think the unique value of Amdocs is the ability to package like in complete end-to-end, everyone wants to go OTT. We can come and bring end-to-end solution, from the content delivery to monetization to customer experience to everything.

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

Got it. Got it. This is great color. And maybe Shuky or Tamar, on the NFV front, so another solid announcement with Globe. Shuky, can you talk to us about the NFV selling process? Are you seeing some acceleration with the rate of C-level executives' willingness to adopt and implement NFV capabilities?

Joshua Sheffer - *Amdocs Limited - President & CEO*

The trend that we see that the -- I think a couple of years ago, a year ago, everyone was looking -- there is no more big bang in NFV. I think that the industry started realizing the way that people are starting to implement use cases that bring them value in NFV. And the most popular and common use case is about B2B. So this, we see people are starting with the B2B domain before consumer. So we see more demand to start use cases and to deploy not necessarily an end-to-end NFV across all the network components and the processes, but more use cases on this respect, we see the activity intensify.

Operator

Our next question comes from Tal Liani with Bank of America.

Tal Liani - *BofA Merrill Lynch, Research Division - MD and Head of Technology Supersector*

I have, first, the more personal question to Shuky, and then a question on AT&T. Shuky, you recently joined the company or no, not join, become the CEO, and you're known to be hard on sales team in a good way, meaning, you are more sales-oriented than previous CEOs of the company. Can you tell us about your experience with deal closure or sales closure? Where can you improve and what can you do with different processes for sales organization in order to improve the growth rate? That's question number one. The second question I have is about AT&T. A lot of it was disclosed already in terms of their projects. It's known that revenues were down 15% last fiscal year. What needs to change or what needs to happen for this customer to grow? Meaning, give us a little bit of the color of what is declining when revenues are declining 15%. Because there's certain parts that are not declining, certain parts that are declining. What needs to change in order for that part that is declining to grow? And I'll stop here.

Joshua Sheffer - *Amdocs Limited - President & CEO*

Okay. Regarding sales, so you're right, sales is something which is dear to my heart. I think the company -- we have 2 DNAs. One, we know sales is the lifeline of the company. So the whole company is focused how to deliver sales. I think that from a competitive position, the company may be in the best place ever. I mean, we look some of our competitors is growing, and I think that the overall -- if you look about AmdocsOne portfolio recognition from Gartner, I think that there is a major focus to win every deal in the market, and so this is one. And there is major focus in the company across all the units. The other DNA of the company, which I think helps to the first one, is that we also know to deliver. So it's not just a shiny sales process but we deliver what we promise. So between the 2, I think that Amdocs is now positioned to win the majority of the deals, automation deals in the market, I think that our win rate prove this, and we are very excited about where we are today. And as you mentioned, the whole company is sales-driven with the intention to meet our growth targets. So this is regarding sales. Regarding AT&T. I think I shared this before. We are operating in many, many places with AT&T. This is not like -- we are working with them in consumer, in enterprise, in digital domain, in enterprise domain, in Cricket, in Mexico. So we are all over working in many, many domains with AT&T. And if you look at the activity of AT&T, in some cases, we see positive momentum. Some cases, slow to mature, and we would like that to mature faster. I think that we understand exactly the -- this policy of AT&T and there is a lot of alignment. Obviously, like anyone else, you see that AT&T is under a lot of pressure, this is impact, obviously, of the discretionary spending. But we believe that AT&T is the #1 telecom in the world. For now, it's a company that deliver content and media and everything and I believe that over time, the discretionary spending will improve. But I think the more important point is that why we are facing the -- what I just described in AT&T, we are able to offset with the very healthy activity from the rest of North America and all the other growth engine of the company, either coming -- penetrating to new logos like we announced this quarter, like the network domain, the growth in Europe, the growth in APAC. So overall, I think that we are committing to the midpoint between 2% to 6%. And we hope that, over time, AT&T spending will get back to normal.

Operator

Our next question comes from Tom Roderick with Stifel.

Matthew David Van Vliet - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Matt Van Vliet on for Tom. I guess, first off, looking at the VimpelCom deal that you announced. I think this is one that may be Ericsson had signed or at least mentioned a big deal. Just curious in terms of that deal specifically or overall, some of the news we've heard about Ericsson pulling back in some of the BSS markets that they've previously been operating in, what you're seeing from an overall sales opportunity now and what you're expecting over the next couple of years?

Joshua Sheffer - *Amdocs Limited - President & CEO*

So VimpelCom is a long-term customer of Amdocs. It used to be from the postpaid days and also it's a long-time customer of Comverse for the prepaid. As you rightfully mentioned, Ericsson announced winning this -- the old VimpelCom group about, I think, 3 years ago. Eventually, this project was canceled. I don't recall the details, but I think it was publicly canceled. And we are working in the last year very closely with the VimpelCom and Beeline Group. I think we delivered a very strong relationship. And actually, the new deal is what we call, as we mentioned, managed transformation. So we do -- at the same time, we do Managed Services and we modernized all the systems of Beeline or VimpelCom to our newly native cloud-based AmdocsOne portfolio. Regarding Ericsson, in general, we saw the announcement like you guys. We were aware of all their issues because this is something that we see in the market. As you might imagine, as we speak, we are looking exactly what is -- what type of potential it presents for us. But I believe it does represent opportunities in the market.

Matthew David Van Vliet - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

And then looking at the trends with both the DSOs and some of the unbilled receivables. The unbilled, Tamar, I think you said ticked down this quarter. Just curious if we've reached sort of a high-water mark in terms of some of the digital transformation projects that you have that have been driving that unbilled receivables figure higher and we should expect it to sort of flatten out here, some quarters up, some quarters down? Or should we continue to see that number grow as the projects that you're signing layer in with existing projects underway and the projects overall seem to be getting slightly bigger?

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

So it's hard to provide an accurate forecast on a quarterly basis for this metric. But definitely, the fact that we are guiding for $600 million of normalized free cash flow this year, that is reflecting the conversion rate of roughly 100% earnings to cash, is an indication that we believe we should start converting those unbilled accounts receivables to billings. Actually, already in Q1, we've seen a very high level of billings. And we are continuing to track, obviously, as we move forward with the different milestones achieved in this project that should enable us to hit billing milestones and collect the money. At the same time, as you rightfully indicated, we are happy to see new projects starting. Those new projects should also require some working capital investment. But all of that has been taken into consideration in our annual guidance for $600 million normalized free cash flow.

Operator

(Operator Instructions) Our next question comes from Will Power with Baird.

William Verity Power - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I've got just a couple of follow-ups, I guess. Maybe just going back to the unbilled receivables question. Thanks for all the color, by the way, Tamar. But I guess the other question I still have there and have also heard from investors, just trying to understand what's different today about the transformation projects you're taking on versus maybe at different times in the past like because I think, there may have been times in the past where transformation projects were as much as 25% of revenue as well, and yet we didn't see the increase in unbilled receivables to the degree we have. So any color there about the nature of these transformation projects versus ones maybe you've been a part of in the past?

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

I think we need to differentiate between the regular project activity can be a gradual modernization with existing customers. But oftentimes, we have, say, for example, T-Mobile. This is an existing customer, and we've been supporting T-Mobile with the un-carrier strategy, and that included all kinds of modernization to their systems. But that's I would call an ongoing project activity. This is different than when you go into a new transformational project that this putting in a new stack into the customer environment. Very different in terms of the dynamics, meaning, usually, it's a new relationship with the customer, it's very different in terms of how the contract is being structured, which is more of a milestone-oriented invoicing. So if we're looking on the level of transformational projects that we have, we're actually at the highest level I can recall as a company. And I've just given as an indication the fact that just several years ago, it was probably less than 1/3 in terms of the number of transformational projects we are running. So we are very excited about this because it means that we see many relationships with new customers or igniting major activities with customers in which we did not have anything meaningful that is new. And this is usually driving, not only the revenue that is coming from the project itself, it's usually driving a follow-up sale opportunity, we are very excited to see more and more of managed transformation, which means that in addition to the fact that we are doing the buildup of the new stack of the software, we are also taking responsibility to run the systems on behalf of the customer. Oftentimes, this includes taking over and running the legacy systems as they go through this transition, which is very unique to the accountability model Amdocs can provide. We do not just bring the new best software and take the responsibility to deploy it, we are also helping the customer transition from old to new in a way that we are taking the responsibility and managing this process. So overall, we are seeing this high level of transformational projects, at the same time, this is translated to a high level of unbilled receivables, as explained before.

William Verity Power - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. All right. No, I appreciate that. Okay. And then I guess, there's a recurring question that's been kind of around organic growth. I know you partly answered this. I know we're happy with Vubiquity and the media growth you're seeing generally and the opportunity there. So any way to get any further breakdown as to the contribution from, if you look at Vubiquity, UXP, projekt202, what they contributed to the quarter just to help us frame what those contributed versus kind of the legacy business?

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

So to remind you, when we acquired Vubiquity, we said it's running at about $100 million annual run rate of revenue. And as you can imagine, we are trying to grow from that base. So we are continuing to push for better performance there. UXP has been very small in terms of the revenue. It's added significantly to our offering around the digital identity and the user lifecycle management. As Shuky mentioned, this is now part of the overall media offering. So it contributed more in the technology side and the product offering, and less from a revenue point of view. And projekt202 has been relatively small in terms of the revenue but we are seeing a very nice pick up since the acquisition. And the fact we can take projekt202 that was more focused on non-Telco customers and take it now to all of our customer base is actually enabling us to grow this. So it's not a huge in terms of revenue yet, but definitely we see the opportunity and the growth that can come from that. And many times, it's small engagements, it's more meaningful in terms of the strategic presence it gives us and the ability to help customers drive the digital experience. But over time, we believe it can generate also more interesting revenue levels.

Joshua Sheffer - *Amdocs Limited - President & CEO*

I want to add that the more this offering is blended into the Amdocs offering, it's almost impossible to classify. I think that in the deal that we mentioned in Southeast Asia with a media company, I think that we have components of projekt202 and UXP and others. So in 1 deal, we have 1 price for the customer to do everything, and we have like 5 different offerings. So it's more and more difficult when we blend this offering within our portfolio in the company, it's almost impossible to track the revenue per offering.

William Verity Power - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Maybe just final follow-up. Shuky, just kind of back to AT&T and some of the comments you made in your prepared remarks. I just want to make sure I understand where that stands. Has the outlook or the visibility there changed from where you were a quarter or so? I mean, it feels like maybe it's gotten worse or maybe that's not the case. Or -- and is that a business you think can be flat or you think it actually decline again year-over-year based on just some of the uncertainties there?

Joshua Sheffer - *Amdocs Limited - President & CEO*

I think it's too early to say. First quarter was solid. As I mentioned, in some areas, we see positive momentum, and in some areas, they're slow to mature. But I think it's too early to say. But overall, I can tell you that, as I said, Q1 was solid, and we hopefully be able to continue in this way.

Operator

And our final question today comes from Damian Wille with Barclays.

Damian Justus Wille - *Barclays Bank PLC, Research Division - Research Analyst*

A lot of the questions I was going to ask kind of gotten picked over. I think that I'll go a little high level. So I guess following up on maybe what you're just talking about. Obviously, you've done a lot of M&A in the last few years and media assets and it sort of diversified the business. But can you give us an update on how you plan to take those diverse services to market? Like are you bundling the sales channel into 1 point of contact or there are multiple points of contact? Just generally, how or whether you've adapted the sales force to match the sort of evolution of your product offering?

Joshua Sheffer - *Amdocs Limited - President & CEO*

So this is something that we pay a lot of sense, spend a lot of time how do it in the most efficient way. Because on one hand, we have significant relationship across the world, and we have executives that already know the customer intimately. On the other hand, we have a lot of offering, and the question is how we are to push them in the most effective way to bring value to our customers. So what we've done in order to make it easy, actually we've split all our offerings to 5, which is the low-level consumer offering, all our media offering, enterprise offering, our network offering and all our services offering. And the way we built it is that the team on the ground are responsible to identify the issues that their customer have over this opportunity. And then we follow up with the skillful experts that are coming over to talk to the customer to understand the potential. And so far, it works for us very well. So we are mainly using the existing sales channel that we have today to push almost double. If I compare the number of offering to, as you mentioned, 2, 3 years ago, we almost doubled the offering. So we are using the same sales channels and bring -- they identified opportunities and bring the expert. Obviously, we need to open some experience centers. So now, obviously, we want to take Vubiquity, all the media offering to APAC and to Southeast Asia, so definitely, we need to open a new center and expertise in Singapore, for example. So we're making sure that we have the local experts while leveraging the existing sales channel.

Damian Justus Wille - *Barclays Bank PLC, Research Division - Research Analyst*

Helpful. And then maybe the quick follow-up on -- I am hoping if you can give some color about when you expect the new deal wins this quarter to ramp up on -- and I mean, one of those have been in the Philippines, which, obviously, you guys have had a lot of success in. Is it right to think that, that deal should ramp faster than the previous deals in that geography because you already have the infrastructure there? So that was specifically in that just more broadly about the timing that you can give on the ramping of those deals that you announced.

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

So in general, when we are signing a deal, it starts with the high-level design, which is a bit slower in terms of the recognition. And then, as you go and finish that phase of the detailed design, you start actually the buildup, the development that goes into the project, which is higher in terms of the revenue. So you should expect those deals to start making impact more towards the second half of the year. And again, each deal has its own characteristics and we'll not go one by one here, and some of them can obviously ramp up faster than others, such as the example you mentioned in Philippines. But in general, there is usually several months of high-level design, and then we go and start ramping up the development.

Operator

Ladies and gentlemen, thank you for participating in today's question-and-answer session. I would now like to turn the call back over to Mr. Matt Smith for any closing remarks.

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

Yes, 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 next few days. And if you have any additional questions, please call the Investor Relations group. Have a great evening. And with that, we'll wrap up the call. Thanks.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may all disconnect, and have a wonderful day.
