

# FINAL TRANSCRIPT

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## **DOX - Q2 2011 Amdocs Ltd Earnings Conference Call**

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## CORPORATE PARTICIPANTS

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*Amdocs Limited - VP of IR*

**Eli Gelman**

*Amdocs Limited - President CEO*

**Tamar Rapaport-Dagim**

*Amdocs Limited - SVP and CFO*

## CONFERENCE CALL PARTICIPANTS

**Chris Koh**

*Stifel Nicolaus - Analyst*

**Sterling Auty**

*JPMorgan Chase & Co. - Analyst*

**Shaul Eyal**

*Oppenheimer & Co. - Analyst*

**Daniel Meron**

*RBC Capital Markets - Analyst*

**Ashwin Shirvaikar**

*Citigroup - Analyst*

**Julio Quinteros**

*Goldman Sachs - Analyst*

**Amir Rozwadowski**

*Barclays Capital - Analyst*

**BJ Cowan**

*Raymond James - Analyst*

**Daniel Cummins**

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**Michael Bauer**

*FBR Capital Markets - Analyst*

## PRESENTATION

**Operator**

Good day, everyone, and welcome to the Amdocs second-quarter 2011 earnings release conference call. Today's call is being recorded and webcast. At this time, I will turn the call over to Ms. Elizabeth Grausam, Vice President of Investor Relations for Amdocs. Please go ahead, ma'am.

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**Liz Grausam** - *Amdocs Limited - VP of IR*

Thank you, Marvin. 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 and its internal



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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 to the SEC on a 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, 2010, filed on December 7, 2010, and in our quarterly 6 K filed on February 8, 2011. 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 today are Eli Gelman, President and Chief Executive Officer of Amdocs Management Limited, and Tamar Rapaport-Dagim, Chief Financial Officer. Following our prepared comments, we'll open the call to Q&A. With that, let me turn the call over to Eli Gelman.

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**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you, Liz. Good afternoon to everyone on the call today. Today we are pleased to announce our second fiscal quarter results, which were within our guidance ranges for revenue, margins and EPS. I am happy to report that we have made significant progress during the second quarter in meeting our key delivery milestones on several of our market-leading implementations.

Additionally, the investments we are making in employee knowledge buildup are yielding benefits in our workforce productivity. These two factors, along with the easing of nonrecurring pressures related to our Clearwire contract, and the new emerging markets deal that we won quarter 1, contributed to anticipated sequential improvement in profitability. Additionally, we expect profitability to continue to modestly improve in the second half of fiscal 2011.

We continued to see healthy demand across our business, including several of our key growth drivers. Consistent with trends observed over the past several quarters, our managed services practice remained an area of trend for Amdocs. The quarter's growth in managed services were largely fueled by our performance with North American clients. Deal momentum in the emerging markets remains healthy in Q2, with a particularly strong quarter in Latin America.

I will point out, though, that quarterly revenues in emerging markets will ebb and flow during the normal fluctuations in the products. Specifically, we do not believe the sequential revenue decline in Q2 should be taken as a sign of weakness of this region. Finally, consistent with our comments last quarter, we saw stability in European demand, which is an improvement relative to last year. While this has yet to be reflected fully in our results, we are encouraged by the activity level across Europe. Based on this demand strength, and our year-to-date performance, we now expect revenue growth toward the upper end of our 4% to 6% guidance range in fiscal 2011.

Beyond our results, I want to share some observations from our industry, after several major announcements this quarter from service providers and after participating in many discussions with our key customers in Davos, Barcelona and on site. The greatest commonality among our customers is that they believe their space is facing rising complexity. This complexity is evident, along



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multiple dimensions, including, carrier size, line of business, diversity of offering, level of competition, geographic reach, and overall pace of change.

We believe the multiple dimension of this complexity compelled carriers to seek out strong partners to help them cope with these dynamic changes. Many service providers view Amdocs as a critical strategic partner, and view our offering as a competitive differentiator to enable the future success. The rising complexity is also manifesting itself in further service provider consolidation, including the recently announced AT&T/T-Mobile merger.

Naturally, at this time I cannot comment on potential impact of announced M&A transactions. However, I do believe Amdocs bring unique capabilities and proven experience of the communication industry in managing comprehensive system consolidation. I will conclude my remarks simply by saying that we are pleased with the progress we made during the second quarter, and we remain excited by the dynamics unfolding in our industry.

With that, I will turn the call to Tamar.

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**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

Thank you, Eli. Second quarter revenue of \$789 million was at the high end of our guidance range of \$775 million to \$790 million. Favorable foreign currency fluctuations provided an approximate \$5 million benefit to sequential revenue growth over the first quarter of 2011. Our guidance does not assume the significant effect from currency exchange rates. As we mentioned at our analyst day, in order to provide additional transparency, we have begun disclosing quarterly revenue for managed services arrangements and emerging markets customers.

Given that it is the first quarter of regular disclosure, I would like to make some brief comments on each. For the fiscal second quarter, revenue for managed services arrangements increased 8% year-over-year, and 3% sequentially, to \$383 million. The strength this quarter was largely driven by solid performance within our existing North American clients, including some improved discretionary spending.

Second quarter emerging markets revenue was \$52 million, down both year-over-year and sequentially. Quarterly revenue fluctuations are common in this region, as a result of our project oriented business across a relatively smaller set of clients. As Eli articulated, business momentum in signings in the emerging markets remain strong in Q2, and we still expect double-digit growth in the emerging markets for the fiscal year. Our fiscal second quarter non-GAAP operating margin was 16.2%, within our guidance range of 16% to 17%.

As Eli mentioned, profitability remains a major focus for the company, and continues to be impacted by several initiatives that are requiring incremental spending, including our investments in key customer implementation, and in our internal knowledge programs. Non-GAAP EPS was \$0.58 in Q2, compared to a guidance range of \$0.53 to \$0.60. Interest and other income net was flat this quarter. However, for forward-looking purposes, we continue to expect that net interest in other income may be negative in the range of a few million dollars quarterly, primarily due to foreign currency fluctuations.

Free cash flow was \$55 million in Q2. This was comprised of cash flow from operations of approximately \$75 million, less \$20 million in less capital expenditures and other. This result includes an annual cash bonus distribution of roughly \$60 million for the prior fiscal year, in line with the impact we forecasted on last quarter's call. DSO of 66 increased quarter-over-quarter by two days. Our total deferred revenue, both short and long-term, was down slightly and sequentially. But total and billed receivables were relatively flat as compared to the first quarter of 2011.

Our cash balance at the end of the second quarter was approximately \$1.2 billion. 12 months backlog, which includes anticipated revenue related to contracts, estimated revenue for managed services contract, letters of intent, maintenance, and estimated ongoing support activities was \$2.59 billion at the end of the second quarter, up \$30 million sequentially. During the second



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quarter, we repurchased 161 million of our ordinary shares. During April, we completed the 700 million buyback program, within the authorization period of 12 months.

At our analyst day in February, we announced authorization of an additional 1 billion share repurchase program, which we have already begun executing. Looking forward, we expect revenue to be within the range of \$790 million to \$805 million for the third fiscal quarter of 2011. In developing this estimate, we have not assumed a significant foreign currency impact of sequential revenue growth, positively or negatively.

We anticipate our non-GAAP operating margin in the third quarter to continue to be within a range of 16% to 17%. We anticipated our non-GAAP tax rate will be in the range of 13% to 15%, and we expect Q3 non-GAAP EPS to be in the range of \$0.57 to \$0.63. Incorporated into these views is an expected average diluted share count of roughly 187 million shares in Q3, and the likelihood of negative less interest and other income due to effective foreign currency fluctuations.

We excluded the impact of incremental future share buyback activity during the third-quarter as the level of activity will depend on market conditions. For fiscal 2011, we now expect revenue growth will be towards the higher end of our previously guided range of 4% to 6%, based on the trends we are currently observing.

Additionally, we anticipate profitability to improve in the second half of fiscal 2011. However, as we explained last quarter, we do not expect operating margins to much exceed 17% in any quarter during the remainder of fiscal year. We would also like to point out, that the margin progression may not be linear quarter-to-quarter, due to natural fluctuations and continued investment in the business.

With that, we can turn it back to the operator to begin our question and answer session.

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS) Our first question comes from Tom Roderick with Stifel Nicolaus, please go ahead.

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**Chris Koh** - *Stifel Nicolaus - Analyst*

Hello, guys, good afternoon. This is Chris in for Tom.

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**Eli Gelman** - *Amdocs Limited - President CEO*

Hi, Chris.

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**Chris Koh** - *Stifel Nicolaus - Analyst*

Eli, just wanted to clarify, and I think Tamar might have mentioned this, but as far as the discretionary improvement that you're seeing in managed services clients in North America, I just wanted to clarify, is the discretionary, kind of what you used to call, or what Dov used to call project revenue, is that included in your managed services number? And what's the nature of -- what are you seeing that kind of leads to you believe that people are feeling better about the discretionary spending?

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**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

The discretionary includes within managed services arrangement is not new projects, but activity within this customer base in which the predominant activity with managed services. However, there may be a situation, for example, where you have the per subscriber fee. In addition to that, there is fluctuation in development around that arrangement. For that [inaudible] is being paid by scope, and therefore it's more discretionary in nature rather than fixed or easily visible like the other type of revenues talked about. And many times within this customer base, this kind of activity can go up and down, but this is not new project.

**Chris Koh** - *Stifel Nicolaus - Analyst*

Got it, okay. So it's separate from what you guys used to consider more volatile segments, right?

**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

Yes, but even within the managed services customer arrangement, there can be some changes from quarter to quarter in the development activity that is done. Partner activity could be more volatile.

**Chris Koh** - *Stifel Nicolaus - Analyst*

Great. Sounds good, guys.

**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you.

**Operator**

For our next question, we'll go to Sterling Auty with JP Morgan. Please go ahead.

**Sterling Auty** - *JPMorgan Chase & Co. - Analyst*

Yes, thanks. Hello, guys. From a high level perspective, things look like they are a little bit better, you're guiding to the higher end of the range of revenue. As you continue see to things improve, how should we think about the mix of the managed services business versus some of the project work? Is there one that should lead the other as, knock on wood, global expansion continues?

**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

It's quite hard to tell which one. Obviously we're working hard to promote both activities. Many times we approach customers proposing the full scope of both transformation and modernization, and taking responsibility over managed services. Some customers agree to go with the full and planned approach of both. Some would like to start -- some would like to start first, knowing Amdocs some kind of transformation, gaining the trust over time, and then moving to managed services. So, while we are pushing for both types of businesses, it's hard to tell which one will be faster than the other.

**Eli Gelman** - *Amdocs Limited - President CEO*

And Sterling, just one comment to add is, usually again, there might be exceptions, but usually managed services require some trust from the customers, so you would usually see managed services as an expansion of regular delivery project, either within

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short period of time or long period of time, but quite rarely you see customers that jump into managed services at the beginning of the relationship with us.

So, this is just the dynamics that we see, which is very natural and we don't expect anything else. And the other comment I would make is, we have to remember that all of our managed services activity are software related, we are not just trying to push the button faster or do something stupid as this. Usually it's around tweaking the software, modernization of the software, adaptation, additions, some business processes, but it's all related to our core expertise on product and services and just for the managed services sake of activity.

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**Sterling Auty** - *JPMorgan Chase & Co. - Analyst*

Okay, and then the final question would just be on the margin. You talk about it may not be linear expansion, not getting over 17%. Do you have visibility on where the timing of those investments, or is it a challenge -- could some of these investments move around quarter to quarter, and as you think longer term, do you think they are still scaled to get above 17, and towards more of your historical highs?

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**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

As we look in the near term, the moving things -- we're talking about a few million dollars that can translate into a couple tens of basis points, and therefore would like to remain focused on making the right investments rather than targeting the point of number within this range we are providing with overall a lot of focus being done on the company to continue improvement, focus on reduction of cost structure, improvement of margins over time.

Looking into the longer term, as we talked about on analyst day, we are looking at a range of between 16% - 18%, within that, depending on specific timing of where we are in the cycles, whether we see opportunities for new investments, or less so, that would be the main determination of margins, and well as some longer term activity, such as large managed services activities or renewal of managed services activities that could play itself into the margins. So, there will be different moving parts within any given period, but overall, we guided to 16% - 18% for the next two years.

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**Eli Gelman** - *Amdocs Limited - President CEO*

And one of the important things we need to remember is we said all along that the 16.5% is not where we're comfortable in. We improved this quarter, we believe we will continue to improve in the next 3 quarters. It's a focus area for the Company, but on the other hand, we do not run the Company by the few basis points here and there. We need to do both, to invest for our future and our growth and to keep the EBIT improving and that's why we made the comment and the commitment that we will improve the EBIT as we progress.

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**Sterling Auty** - *JPMorgan Chase & Co. - Analyst*

Got it, thanks.

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**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you.

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**Operator**

Our next question comes from Shaul Eyal with Oppenheimer & Co. Please go ahead.

**Shaul Eyal** - *Oppenheimer & Co. - Analyst*

Thank you. Hello, good afternoon, guys. Two questions on my end. Eli, 2 quarters ago when you guys reset the operating margins expectations, 1 of the reasons out of the 3, if I recall correctly, was a potential win with an emerging markets customer. Any color you can share with us where you guys stand on that front?

**Eli Gelman** - *Amdocs Limited - President CEO*

First of all, the most important color is that we won this deal and we basically reflected it in the previous quarter numbers, but it was a 1-time event or flexion and that's one comment I would make. The second 1 is that a few months went by and we believe we did the right decision in taking this account or this customer. It's an important vision. It's an important customer.

It's -- we believe it will grow, so it's not retrospect yet, but at least in perspective of couple of months, we think it was the right decision. More than that, I think we would have to wait a little bit with names and scope and stuff like this.

**Shaul Eyal** - *Oppenheimer & Co. - Analyst*

Okay. That's good. That's good to hear. And Tamar, as the Shekel continues to appreciate against the US dollar, and we kind of spoke about it in the past, how do you think about it? And maybe what level of -- what kind of level of operating expenses did the Shekel represent out of the total? And should we be expecting cash again at around triple digits come next quarter?

**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

So regarding the currency, first of all, with all currencies, we continue to see very strong fluctuation. The Shekel is one of the dominant currencies that is impacting us, many on the expense side, with a few thousand employees in Israel, it's definitely an important currency. We are hedging the Shekel exposure like we do with all the other meaningful currencies that are impacting us, but as I always explain, the hedging is a relatively near-term solution.

Obviously, we cannot hedge few years ahead, so, with the currency in the near term is hedged at the same time it's one of the factors that is impacting the overall cost structure, like wages increases and things like that. Globally that is considered as part of the overall cost structure planning when we look ahead. So, we are fully aware of it, taking care of it, so we're hedging in the near term and looking into it into the long-term.

**Shaul Eyal** - *Oppenheimer & Co. - Analyst*

With respect to cash flow next quarter?

**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

We continue to see healthy performance in the cash. We are not guiding specifically to it, but unlike this quarter, there was a seasonality item in the form of annual bonus payments. There isn't any unusual item expected for the next quarter.



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**Shaul Eyal** - *Oppenheimer & Co. - Analyst*

Thank you very much, and good luck.

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**Operator**

Thank you. Our next question comes from Daniel Meron with RBC capital markets. Please go ahead.

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**Daniel Meron** - *RBC Capital Markets - Analyst*

Hello Eli, Tamar, congrats on the healthy performance here. Can you provide maybe some color on any impact, if there is any from the AT&T starting to acquire T-Mobile? I know there is nothing definitive, it may take a while until this merger comes together. But if you could provide points on how we should think about this impact in near term and the longer term. Thank you.

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**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you, Daniel. It's a little bit premature to comment specifically about the impact of it and that's why also we included it in the script. But if you look at it in the generic terms, we believe that most likely AT&T will try to keep their vision of one AT&T. That is to say they will more likely than not consolidate the back-end systems, BSS stack onto the 1 AT&T.

As you know, we do the 1 AT&T for AT&T customers. And based on the experience that we have in many other consolidations around the world, and especially throughout the growth of AT&T, we hope that we can help them in this process as well, but it's really premature. They don't -- they are not allowed to discuss too much of it. The deal is not approved yet. We are free to do our own calculation and preparation, but nothing is material yet.

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**Daniel Meron** - *RBC Capital Markets - Analyst*

Okay. Thanks. And maybe just a quick follow-up. Can you provide us with some color. AT&T's obviously a very big customer, but if you could provide us some color about how much of AT&T's business is recurring versus incremental in any, on annual basis? Or if you can provide that number in any other fashion for the leading customer that you have in North America?

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**Eli Gelman** - *Amdocs Limited - President CEO*

Well, in terms of AT&T or others, we do not really provide this granularity of data, but I would refer to the fact that we had some reduction last year in the revenue from AT&T, as we announced in our reports before. And then we see growth in AT&T, so naturally it means that we have some new projects in AT&T, this is obviously not related to the T-Mobile announcement.

And AT&T is a very important customer. Not only in terms of the scale of it, but as big as AT&T is, AT&T is an early adopter, they think quite aggressively and we enjoy very good relationship with them when it comes to new projects. In this specific quarter, actually as of last week, we were very proud to get the Number One Supplier Award for AT&T, among some others, but none in the BSS/OSS space. And this is a very marketable position to be in, not only that we have very large revenue from AT&T and very close relationship with them, they are also very satisfied with our level of service and as such, it has been reflected in this specific award.

After more than 20 years working with their customers, we are especially proud that we manage to keep this level of service and this level of attention to the details and to the overall relationship as reflected in AT&T.

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**Daniel Meron** - *RBC Capital Markets - Analyst*

Very good. Thank you.

**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you.

**Operator**

Thank you, found our next question, we'll good to Ashwin Shirvaikar. Please go ahead.

**Ashwin Shirvaikar** - *Citigroup - Analyst*

Yes, hello, Eli and Tamar. Congratulations on the good performance.

**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you.

**Ashwin Shirvaikar** - *Citigroup - Analyst*

My first question is, should we expect from here on out, given that some of these investments are now behind you, should we continue to expect steady margin improvement? And could you comment on the pace of that margin improvement, if so?

**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

So as you know, we do expect the second half of the year to show improvement in the margin. However, it's not necessarily going to be linear, just given natural fluctuations and business decisions we are making. Overall, we are focused on seeing the improvement. We are not expecting any quarter within the current fiscal year to be much beyond than 17%, but we expect improvement during the year.

**Eli Gelman** - *Amdocs Limited - President CEO*

It's -- could be a slow creep up of the margins, as we had focused on it and when we are clearing up some, some of the changes that we shared with you 2 quarters ago and 1 quarter ago. Again, not all of them are completely resolved, but there is a steady progress on all fronts. Delivery, knowledge base, customer situations, all of the above.

The one-time winning the emerging market is behind us, so we are now working on the project itself. So, yes, you should expect gradual and modest improvement as we said. We are just trying to give you the color but do not measure us on every 10 basis points on every quarter, but this would be the direction in our opinion, yes.

**Ashwin Shirvaikar** - *Citigroup - Analyst*

Okay, and is there a specific cash flow impact when you meet the delivery milestones for those contracts that -- I don't know if government contracts is the right word for it --but from the contracts that had delivery issues in a couple of quarters ago?



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**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

It's not necessarily an unusual thing. Many of our activities are connected to different milestones. That's a typical way in which we build the payment milestones of any activity, especially when it's a new project. It's split into -- for example, the scoping, the delivery phases, and things like that, but it works the same thing. We are not facing major challenges in delivering free cash flow in a healthy way, as you can see, which is a great proof of the fact that, at the end of the day, our customers are satisfied with what they are getting.

**Ashwin Shirvaikar** - *Citigroup - Analyst*

So nothing unusual there?

**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

No, nothing unusual.

**Ashwin Shirvaikar** - *Citigroup - Analyst*

Great. Good job. Thank you, guys.

**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you.

**Operator**

Thank you. And our next question comes from Julio Quinteros with Goldman Sachs. Please go ahead.

**Julio Quinteros** - *Goldman Sachs - Analyst*

Hello, Tamar, just real quickly on the model, stock compensation dropped for the quarter. Is this the new run rate that we need to be thinking about, or anything to think about as we go forward there on the stock comp side?

**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

As we are guiding, actually the influx next quarter is going to be back more to the normal range, back to the \$0.04 - \$0.05 on the EPS. There are fluctuations in this line item that have to do with the timing of grants and other factors, but this quarter specifically was lower than usual.

**Julio Quinteros** - *Goldman Sachs - Analyst*

Okay, great. And Eli, just maybe on the spending for telco versus cable, if you could characterize whether cable continues to outpace the telco side, that would be helpful. Thanks.

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**Eli Gelman** - *Amdocs Limited - President CEO*

As an industry, or for us?

**Julio Quinteros** - *Goldman Sachs - Analyst*

For you guys, sorry. For your business.

**Eli Gelman** - *Amdocs Limited - President CEO*

I'm not sure, because we see in different regions and different areas, we see quite nice growth. So, if you compare it to the emerging market rate, I'm quite sure that it would not. We believe it will keep on growing on average in the company, maybe at the later stage when we have one more and more proven implementations, we may see some acceleration in that.

All together, we see it as a healthy component of the business and -- but we mentioned that also at the Analyst Day it's still a diamond in the rough, so to speak. Whereas some other diamonds in the rough, we are pleased to report that these slightly better polished such as OSS. As we saw, this quarter we saw picking up in our OSS activity, especially in color in Latin America. So we see progress in more than one dimension of the business.

**Julio Quinteros** - *Goldman Sachs - Analyst*

Thanks.

**Eli Gelman** - *Amdocs Limited - President CEO*

Thanks.

**Operator**

Thank you. And now we'll go next to Amir Rozwadowski with Barclays Capital. Please go ahead.

**Amir Rozwadowski** - *Barclays Capital - Analyst*

Thank you very much. Good afternoon.

**Eli Gelman** - *Amdocs Limited - President CEO*

Good afternoon.

**Amir Rozwadowski** - *Barclays Capital - Analyst*

Eli, I was wondering -- I realize you can't talk too much about what's going on in North America with this merger, but perhaps can you give us a little bit of color as to the opportunities that you have seen with similar large mergers that have taken place in the US? You know, over time have those been incremental opportunities for you folks? And sort of perhaps around timing of when those have translated into incremental opportunities?

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**Eli Gelman** - *Amdocs Limited - President CEO*

Without relating to any specific one, I would say that when we hear consolidation anywhere in the world, we smile. The chances that we'll gain something out of it versus lose something out of it is actually good. Much better chance that we will gain out of it and the reason is quite simple. The reason is that all these consolidations translate into highly complex project.

Think about emerging giants, okay. Forget about AT&T now. Think about different systems and different mergers, and different business processes, and -- all synergies in every one of those consolidations is around running the business better and allowing the combined carrier to offer all kind of cross geography, cross carrier type of services to have different bundles that were not developed in either one of them prior to the consolidation, and many, many other aspects.

So the more complex the situation is, it's better for Amdocs because there are very, very few companies that can deal with it and -- we strongly believe only one company that can deal with it, and definitely one company that has the experience, not only in theory, maybe can deal with it. I would say that usually it turns out to be something positive for us, and timing is really hard to tell. Sometime it's -- there was one very important project like a spike in activity for conversion, but some other time it's really different companies would take different angles. So it's really, really hard to -- it's measured in quarters usually, not in years.

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**Amir Rozwadowski** - *Barclays Capital - Analyst*

Okay. That's helpful. And then one other question I wanted to ask about your announcement with Vodafone Germany earlier during the quarter. I was surprised to see that HP is actually the prime systems integrator for that announced contract that you folks had highlighted. I wanted to see, is there sort of a change in terms of the company strategy in going after some of these opportunities, willingness to be a bit more flexible when it comes to working with other systems integrators, specifically in targeting some of these upgrade opportunities with operators?

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**Eli Gelman** - *Amdocs Limited - President CEO*

To say a trend, I'm not sure. We are a practical company. We have good relationship with HP. We have good relationship with IBM. We have good relationship with many others. And it's really per case. This specific one was, just the way it was structured does not mean anything about our activity versus HP activity, so it was a very important project around the LP implementation and Vodafone Germany.

Very -- it's a brilliant project, and since HP did a few other things there, that was the most effective way to get in there. But we did the product, we did the services, we did the full implementation under the framework of HP. Now in Europe, we see maybe more cases like this, but again, we had a few cases like this in APAC, Latin America. I don't think it's a trend at all. We have all the capabilities in house to do A to Z, and if the situation call for more practical solution to work with other partner this size or what have you, we'll do it.

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**Amir Rozwadowski** - *Barclays Capital - Analyst*

Great. Thank you very much for the amount of color.

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**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you.

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**Operator**

Thank you. Our next question comes from Shyam Patil with Raymond James. Please go ahead.

**BJ Cowan** - *Raymond James - Analyst*

Hi, guys. This is BJ Cowan in for Shyam today.

**Eli Gelman** - *Amdocs Limited - President CEO*

Hi, BJ.

**BJ Cowan** - *Raymond James - Analyst*

Just had a couple quick questions. My first question is, if you look at North American cable revenue and back out Comcast, can you talk about how revenue is trending? Do you see it growing?

**Tamar Rapaport-Dagim** - *Amdocs Limited - SVP and CFO*

We are not providing the disclosure on cable on a quarterly basis. We are providing it on an annual basis. Overall, we mentioned on the analyst day, we continue to see cable as a very important focus for us -- we continue to perform a leading project in the industry in terms of transformations. As well as expanding our footprint within existing customer base by selling more and more products into them.

**BJ Cowan** - *Raymond James - Analyst*

Okay, great. And my second question is do you think you could talk a little bit about the competitive environment in APAC?

**Eli Gelman** - *Amdocs Limited - President CEO*

What would you like to know about it? In APAC, you basically see -- we have not been in APAC, let's say up until maybe 3, 4 years ago. Since then, we are growing our business in APAC quite significantly, in a double-digit growth rate, actually. It's a strong growth.

We used to have -- this area used to either be -- would provide software by Comverse which is mainly Keenan or ex-Keenan, you would see some Huawei naturally in this area as coming from the region. But if you ask the major carriers today where they are facing the similar complexity and volumes that are not in the few millions anymore, it's in the 10s of millions, could be in the 100s of millions in some cases, we see more and more demand to our product and our services there, also to managed services.

So we are very encouraged with our progress in the region. In some areas, we actually becoming very, very strong, in some others we're still in penetration mode. But all together, we feel very strong about this region.

**BJ Cowan** - *Raymond James - Analyst*

Thanks, guys.

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**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you.

**Operator**

Thank you. Our next question comes from Dan Cummins with ThinkEquity. Please go ahead.

**Daniel Cummins** - *Thinkequity - Analyst*

Thanks. Looking at your, the incremental optimism on revenue growth this year, curious if, if you see orders improving in any 1 or 2 particular product groups, you know, CES versus revenue management versus OSS or even digital commerce? Thanks.

**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you, Dan. No, actually we see growth on all fronts. We see growth on billing, and on realtime charging, and postpaid and prepaid. We see demands and growth on the CRM, and some components of the CES, which is evolving product set on OSS, as I mentioned, on cable. No, I would say that we see demand on all of them and more than that. I actually counted yesterday just for sake of counting. I met this quarter, I think 36 CEOs, and we had several conventions, we have several extensive tours, and what you see when you take -- it's quite representative already if you talk to 36 CEOs in such a short period of time. Their need for help in the complex environment they live in -- that the complexity is just going to rise, it's not going to go backwards. So that translates, usually, to many components.

It's not just one area that they have a concern, so some of them would need more help on the customer front or customer management front. Some of them would have more issues with their stores. And some have completely different need for better monetizing their, monetizing their network.

So that's also indication of the demand that we have on our front, and also differently prove that our strategy to have all the product and all services to our line of businesses was a very good strategy for us for the last few years. And also, we are getting very strong realization on our future strategy, the CES, as we expand and see how the components will evolve as well in the next couple of years.

**Daniel Cummins** - *Thinkequity - Analyst*

Thanks. That's great color. Could I ask one follow-up. I see today Century buying Savvis, Verizon's recently done a deal, so the telcos want to be, you know, seems very much at the low end of outsource data centers. I'm curious if you guys have spare capacity where you could market your capabilities on that, on that sort of basis to Tier 2 - Tier 3 carriers.

**Eli Gelman** - *Amdocs Limited - President CEO*

Let's say that we are into the high end business range. So, we are not sure that -- if you compare it to what the carriers are doing, we are not sure that this is exactly the area we want to be in. But we may use our capacity in different other ways, but it's a little bit too premature to comment about the other ways. There's more strengthening, hosting, stuff like this. We are not sure that we have the unique capabilities, and we usually try to be very focused on areas that we are uniquely positioned in.

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**Operator**

Thank you. Our next question comes from Arvind Ramnani with UBS. Please go ahead.

**Arvind Ramnani** - UBS - Analyst

Hello. Thanks for taking my question. Just really quickly, can you provide some color on emerging markets revenues in the pipeline? And how should we think about what that is in terms of revenues?

**Tamar Rapaport-Dagim** - Amdocs Limited - SVP and CFO

When we look at emerging markets, it's more focused on project activity. We are, obviously, trying to sell more and more managed services into that region, but as Eli explained before, usually you build a track first with the customers before you move into the managed services. And unlike North America, where we already established managed services, which provide more of a constant stream of revenue, in emerging markets, it's still more heavily tending towards project activity, and based on a smaller amount of customers at this stage.

So, this is why we see more volatility in that region. But overall, important part to try to focus on the momentum is positive. We see wins. We feel confident that we will continue to stay positive over time in terms of revenue generated from those wins, so we feel it is a healthy and growing area for us.

**Arvind Ramnani** - UBS - Analyst

Great. Thank you very much.

**Eli Gelman** - Amdocs Limited - President CEO

Thank you, Arvind.

**Operator**

Thank you. And next we'll go to Daniel Ives with FBR. Please go ahead.

**Michael Bauer** - FBR Capital Markets - Analyst

Hello, guys, this is Mike for Dan. Just at a high level, you guys mentioned that European demand has seen some improvement in the quarter. Was this in line with your expectations? Because I know you guys mentioned about reacceleration of European, on the revenue front, on the analyst day. And then, if so, is that all tracking in line in terms of your pipeline for what we're seeing in the second half of the fiscal year? Thanks a lot.

**Eli Gelman** - Amdocs Limited - President CEO

Well, first of all, all the projected projects that we think we will get are baked into the numbers. So, we believe it will be awarded in quarter three and quarter four are in our projection. In terms of Europe, We see some interesting dynamics in Europe, you see the European are willing to do unorthodox things. If you look, for example, this joint venture in England, between T-Mobile and Orange, we just called everything everywhere, is a new way to run the business.



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You see some sharing of networks. You see larger implementation of LP, which is, again, we mentioned in 1 of our announcements in Germany. So, you see different activities in Europe, some may come from consolidation or joint ventures or what have you. Some would come from the need to standardize around standard billing or rating engines. Some would come from OSS projects, and some service. So we see more activity in different areas in Europe, and that's why we cautiously say that we are a little bit more optimistic about Europe in the near future.

**Michael Bauer** - *FBR Capital Markets - Analyst*

Great. Thanks, guys.

**Eli Gelman** - *Amdocs Limited - President CEO*

Thank you.

**Operator**

Thank you. And this concludes today's question and answer session. I would like to turn the conference back over to Ms. Grausam. Please go ahead.

**Liz Grausam** - *Amdocs Limited - VP of IR*

Thank you all very much for joining us this evening. We look forward to talking to you in the future. Take care.

**Operator**

This concludes today's conference. Thank you for your participation.

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