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Q4 2022 Amdocs Ltd Earnings Call

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## PRESENTATION

**Operator**

Thank you for standing by, and welcome to Amdoc's Fourth Quarter 2022 Earnings Call. (Operator Instructions)

I would now like to hand the call over to Matt Smith, Head of Investor Relations. Please go ahead.

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

Thank you, operator. Before we begin, I need to call your attention to our disclaimer statement on Slide 2 of the presentation. It notes that some of our comments today may be forward-looking statements and are subject to risks and uncertainties and including as described in Amdoc's SEC filings and that we will discuss certain financial information that is not prepared in accordance with GAAP. 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.

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 and Operating Officer.

To support today's earnings call, we are providing a presentation, which can be found on the Investor Relations section of our website. And as always, a copy of today's prepared remarks will also be posted immediately following the conclusion of this call.

On today's agenda, Shuky will recap business and financial achievements for the fourth quarter and full year fiscal 2022, and will update you on the continued progress we have made executing against our strategic growth framework. Shuky will finish by commenting on our financial outlook for the full year fiscal 2023, after which Tamar will provide additional details on our fourth quarter financial performance and forward guidance.

As a reminder, our comments today will refer to certain financial metrics on a pro forma base where applicable to provide you with a sense of the underlying business trends, excluding the financial impact of OpenMarket, which we divested on December 31, 2020.

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

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

Thanks, Matt, and good afternoon to everyone joining us on the call today. Let me begin by saying how extremely proud I am of Amdocs' achievement in fiscal 2022, which in many respects was a landmark year for the company. With our industry-leading portfolio of technology and services and global reach, we delivered on our objective to sustained, accelerated and profitable revenue growth, and we did so while playing a major role in serving the mission-critical needs and strategic requirements of the global communication and media industry which was without question becomes more the backbone of society post the global pandemic. Of course, none of this would be possible without the dedication and commitment of our global and diverse base of more than 30,000 talented employees to whom I wish to extend my huge gratitude for making fiscal 2022 an amazing year by providing market-leading innovation and exceptional service to our customers.

Turning to Slide 7. Wrapped up strong fiscal 2022 financial performance with solid Q4 results that were in line with our guidance despite persistent foreign currency headwinds and inflationary pressures throughout the quarter.

Regarding the full year highlights. Record revenue of approximately $4.57 billion increased 10.3% on a pro forma constant currency basis and was consistent with our high-end of our outlook for 6% to 10% growth as provided at the start of the fiscal year. Reflecting healthy sales momentum, we finished fiscal 2022 with record-high 12 months' backlog of $3.97 billion, up approximately 8% from a year ago, and we achieved record non-GAAP diluted earnings per share of $5.30, up 12.1% on a pro forma basis as we delivered on our targets for accelerated and profitable top line growth. To further add, our earnings to cash conversion exceeded 100% in fiscal 2022, resulting in better-than-expected normalized free cash flow of $665 million of which we returned more than 100% to shareholders via share repurchases and dividends.

To provide additional color in respect to Amdocs full year financial performance, all 3 of our core operating regions grew revenue on a pro forma constant currency basis in fiscal 2022, as shown on Slide 8. The broad-based growth across geographies demonstrate that our strategy to bring product and services innovation across 5G monetization, cloud, network automation in digital is highly relevant and well aligned with the needs of our customers worldwide. For instance, North America delivered a record year, driven by 5G and cloud transformation projects. In addition to AT&T and T-Mobile, revenue growth across the broader North American region as we continue to expand activities with many customers, such as Comcast, Charter, DISH, Verizon, Bell Canada and Rogers.

Our efforts to further expand in Europe and Rest of the World were also apparent in fiscal 2022. We won important strategic awards with long-standing customers like Vodafone, A1 Telekom, Globe, PDT and XL Axiata and new logos like PPF Group, Vodafone and Azercell which altogether demonstrate Amdocs' impressive global reach.

Fiscal 2022 was also a year in which we solidified our unrivalled reputation for execution. Driven by our consistent focus on operational excellence, we achieved a record number of project milestone deployment in the fourth quarter and full year fiscal 2022, including major go-lives lines in Q4 at Horizon, Three UK, Vivo and Charter to name a few. As to our gross investment, we accelerate R&D in fiscal 2022 to further extend our technological leadership as recognized by various industry analysts throughout the year. Moreover, we now have dozens of accounts using the latest versions of our cloud-native CES suite, which I believe is a testament to the rapid cadence and industry-leading capabilities of our platform. Additionally, we remain confident to M&A as a lever to accelerate our growth strategy by augmentation R&D investments.

During fiscal 2022, we accelerated the post-merger integration of DevOps Group to strengthen our cloud consulting expertise and we acquired Roam Digital to expand our digital experience capability. We also initiated a move to add service assurance to our network automation portfolio with the planned acquisition of MYCOM OSI, which subject to sales and regulatory approval, we expect to close before the end of fiscal Q1.

Turning to Slide 9. Let me also say a quick word about Amdocs' approach to corporate social responsibility, which is tightly interwoven with Amdocs' business strategy. Since Amdocs is crucial to empowering our increasingly connected world, I believe we have an obligation to provide sustainable products that help our customers to advance the interest of the environment while also taking responsibility to enable digital inclusion whenever we can. A great example is our work with Winity Telecom, which is a rolling out 4G and 5G network across remote communities in Brazil bringing connectivity to more than 600 small municipalities and public school to help close the gap in a digital divide.

Now let me update you on our framework for strategic growth the key pillars which shown on Slide 10. As a reminder, our growth strategy is clear and simple: enable our customers to drive growth, improve cost efficiency and providing amazing experiences to consumer and enterprises by bringing market-leading innovation in respect to end-to-end cloud platform and services, creating seamless digital experiences by transforming IT operations, monetizing new 5G services and delivering dynamic connected experiences with real-time automated networks. During Q4, we made additional progress executing against each of these growth pillars.

Beginning with cloud. I am delighted to announce that AT&T Mexico has selected us to migrate its Amdocs system from own premises to the cloud. This 5-year agreement will enable AT&T Mexico to quickly adopt the latest 5G innovation, facilitated new business models and allow unmatched flexibility and capacity by ensuring the right IT service infrastructure to support its network evolution and growing business needs. Additionally, I'm proud to say that Amdocs is working with Rogers Canada to move existing Amdocs services and application to Rogers private cloud.

Moving next to digital transformation. We've extended our work with T-Mobile as they implemented Amdocs AI and data platform on the cloud to unlock business insight for an improved customer experience. We signed a multiyear strategic managed service agreement with Telefónica Hispanoamerica America, to deploy new BSS and cloud-native OSS models on the public cloud for Telefonica's entities in Argentina, Chile and Peru, enabling cost reduction, faster time to market for new services, advanced digital capabilities and improved customer experience. I'm also happy to announce of our first digital transformation engagement with Azercell, an Azerbaijan-based operator. Amdocs modernized Azercell BSS and OSS infrastructure with the cloud-native platform to improve time to market for new products and services while increasing efficiency by digitizing and streamlining processes.

Moving to 5G monetization. At Verizon, we recently went into production with Amdocs CatalogONE, our cloud-native platform designed to rapidly create and launch new 5G services offering. Early in Q4, we also launched our next generation Amdocs charging, which combines the industry-leading charging and BSS capabilities of both Amdocs and Openet to support rapid time to market and the monetization of innovative new services across stand-alone 5G networks and beyond. Leading service providers, including 2 Tier 1 operators in North America are already using Amdocs charging and we are busy working with many others as they explore the ways to make a return on their 5G investments. To learn more about the significant market potential of future 5G use cases, we invite you to join us for Webinar on December 12, where we will share global perspectives and insights highlighting 5G's growing contribution to innovation services, the potential economic impact across industries as well as real-world example illustrating Amdocs' critical role in bringing 5G to life.

Switching to network automation. We are continuing to broaden and strong our relationship with SES, a leading operator of multi-orbit satellite to deliver enhanced form of connectivity. Amdocs recently signed an important new Managed Services agreement with SES under which will provide anomaly detection, monitoring, diagnostics and remediation across SES new satellite communication system. Amdocs also seeing increased customer demand for private enterprise networks as society becomes more reliant on ubiquitous connectivity. As an example, Amdocs is now working with EAF, a new Brazilian communication services provider to build a private network for the Brazilian government.

Finally, I would like to quickly acknowledge Amdocs Media where we are proud to say that Juice, which is the part of Vubiquity, earn a Netflix Preferred Fulfillment Partner of the Year Award for the American region. This is the third NPFP of the year win, the most of any partner since this program launched. Additionally, Vubiquity was recently selected by Cellcom in Israel to ensure a personal detailed content experience for Celcom fiber TV viewers under newly extended agreements.

Now moving to our fiscal year 2023 outlook as presented on Slide 11. As you expected, we are closely monitoring the global macroeconomic environment which has become even more complex since we spoke last quarter. While Amdocs and our global customer are not immune to macroeconomic cycles, we are confident in our unique and relatively resilient business model, which results in a higher recurring revenue stream and strong visibility from the mission-critical system we support and the multiyear engagement. We're already working with our customers to optimize their plans to address the complex macroeconomic situation, helping them to improve customer experience, accelerated cost reduction and increased efficiency by bringing our highly relevant capabilities in digital cloud and automation.

We continue to see rich pipeline of opportunity, which I believe reflects Amdocs' position as a key technology enabler situated at the heart of the 5G and cloud-related investments, strategies that we believe our customer will continue to execute in the next several years.

Tying everything together on Slide 12. We expect to deliver full year revenue growth of between 6% to 10% on a constant currency basis in fiscal 2023, consistent with the long-term guidance range we provided previously. Our visibility is supported by record 12 months backlog entering the fiscal year. We expect all 3 of our core operating regions to grow on a constant currency basis in fiscal 2023, with Europe and Rest of the World enjoying a stronger year compared with fiscal 2022 as recent project awards continue to ramp up.

On the bottom line, we expect non-GAAP diluted earnings per share growth of roughly 8% to 12% in fiscal 2023. The outlook assumes an increased level of profitability as compared with the 2022 fiscal year, mainly resulting from ongoing efforts to improve operational excellence through automation and other sophisticated tools, which now yield benefits. Additionally, we expect cost savings enabled by our move to the new campus in Israel. We expect earnings to cash conversion to remain at around 100% in fiscal 2023, supporting another year of strong free cash flow generation, the majority of which we plan to return to shareholders.

To summarize, we expect to deliver double-digit expected total shareholder returns for the third straight year in fiscal 2023. Assuming our non-GAAP diluted earnings per share, gross guidance plus our dividend yield of about 2%.

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

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

Thank you, Shuky, and hello, everyone. Thank you for joining us. As a reminder, my comments today will refer to certain financial metrics on a pro forma basis, which excludes the financial impact of OpenMarket, which we divested on December 31, 2020.

Turning to our financial highlights on Slide 14. I'm happy to report solid fourth quarter financial results, rounding out a remarkable full year fiscal 2022. Record Q4 revenue of approximately $1.17 billion was up 9.5% year-over-year in constant currency. On a reported basis, revenue increased 7.3% and was slightly above the midpoint of guidance despite unfavorable foreign currency movements of roughly $9 million compared to our guidance assumptions.

Moving down the income statement. Our non-GAAP operating margin was 17.6% in Q4, consistent with the prior quarter and up 10 basis points from a year ago. During Q4, we continued to balance accelerated R&D investments in a competitive labor environment with our initiatives to improve operational excellence and efficiency through ongoing implementation of automation and other sophisticated tools. Additionally, I would like to remind you that our foreign currency hedging program is designed to protect our profitability and free cash flow generation rather than revenue, and we are once again pleased that this strategy has proven mostly effective through the volatile currency markets of Q4.

On the bottom line, non-GAAP diluted EPS of $1.29 was at the midpoint of our guidance range and included non-GAAP effective tax rate of 20.6% which, as expected, was above the high end of our annual non-GAAP effective tax rate guidance of 13% to 17%. For the full fiscal year, our non-GAAP effective tax rate of 15.7% was within our annual guidance range. Diluted GAAP EPS was $1.05 for the fourth fiscal quarter, which was at the higher end of the guidance range of $0.98 to $1.06.

Summarizing fiscal 2022 on Slide 15, we delivered revenue growth of 10.3% on a pro forma constant currency basis, slightly above the high end of the 6% to 10% guidance range we provided at the start of the year. As Shuky mentioned, all 3 of our core operating regions grew on a pro forma constant currency basis for the full year. Our growth in North America was very strong, both at our top 2 customers as well as the rest of the region. In Europe, revenue declined as reported, but realistically, the region grew on a pro forma constant currency basis, as new project activities ramped up through the fiscal second half. Additionally, Rest of the World grew in both Southeast Asia and Latin America in fiscal 2022.

To provide some further data points, highlighting the results of our global diversification initiatives, 6 of our top 10 customers were located outside North America in 2022 despite strong growth in North America. 3 of these 6 customers were new logos added in the last decade. Additionally, the number of countries in which we generate annual revenue of more than $40 million has almost doubled over the 10 years, which is a result of our intentional geographic expansion. On the bottom line, we achieved double-digit non-GAAP diluted earnings per share growth of 12.1% on a pro forma basis in fiscal year 2022, driven by strong top line performance, a slightly better non-GAAP operating margin and the benefit of our share repurchase activity.

Moving to Slide 16. 12 months backlog was a record high at $3.97 billion, up 7.6% from a year ago, our strong sales momentum continued in the fourth quarter. On a sequential basis, 12 months backlog was up $20 million as compared to the third quarter. Our 12 months backlog has traditionally served as a good leading indicator of our business, having consistently averaged around 80% of forward-looking 12 months revenue over the years.

Turning to Slide 17. I'm delighted to report a strong fourth quarter and our best ever year in Managed Services. Fourth quarter Managed Services revenue of $715 million was up 12.1% from a year ago and accounted for about 61% of total revenue. During Q4, we continued to expand our list of Managed Services customers with new multiyear deals, including those with Telefónica Hispanoamerica and SES, which Shuky referenced earlier. Additionally, Charter and Amdocs subscribed an expansion to our Managed Services agreement, providing ongoing support for Charter's growth of Spectrum Mobile. These deals add to an already impressive year for Managed Services renewals including with customers such as Bell Canada, PLDT, Cricket Wireless and BT, in line with our track record of nearly 100% renewal rate.

Additionally, it is worth noting that we have virtually doubled our number of Managed Services accounts over the last 10 years. To remind you, our Managed Services engagements underpin the resiliency of our business with recurring revenue streams, high renewal rates and expanded activities, which may sometimes include auto transformation projects with existing customers.

Now turning to the balance sheet and cash flow highlights on Slide 18. DSO of 74 days declined by 8 days sequentially in Q4, reflecting healthy customer collections in the period. Additionally, the net difference of deferred revenue and unbilled receivables declined by $7 million year-over-year. We generated normalized free cash flow of $176 million in Q4 and $665 million for the full fiscal year 2022, exceeding our target of $650 million. On a reported basis, full year free cash flow was $530 million, including CapEx of $116 million in relation to our new campus in Israel. I'm very excited to report that as we speak, our employees in Israel are starting the process of moving into the new premises.

Since the Israel campus is now substantially complete, we plan to stop disclosing moving forward normalized free cash flow starting from next quarter and only free cash that will be provided moving forward. Overall, we ended the year with a strong balance sheet and a healthy cash balance of approximately $0.8 billion, including aggregate borrowings of roughly $650 million. Moreover, we have ample liquidity to support our ongoing business needs while retaining the capacity to fund strategic growth. This includes the acquisition of MYCOM OSI which subject to certain regulatory approvals, we expect to close before the end of Q1 for approximately $188 million cash.

Turning to capital allocation on Slide 19. We repurchased $108 million of our shares in the fourth quarter and paid cash dividends of $48 million. Overall, we returned a total of $694 million to shareholders through share repurchases and dividends in fiscal 2022, equating to roughly 104% of normalized free cash flow. Looking ahead to fiscal 2023, we expect free cash flow of approximately $700 million, which represents a healthy free cash flow yield of about 7% relative to Amdocs' current market capitalization. Our outlook assumes a conversion rate of approximately 100% relative to non-GAAP net income.

Regarding our capital allocations in fiscal year 2023, we expect to return the majority of our free cash flow to shareholders. This includes dividends for which we are pleased to announce a proposed increase of 10% in our quarterly cash payment to a new rate of $0.435 per share subject to shareholder approval at the annual meeting in January. Overall, I believe fiscal 2022 was a remarkable year for Amdocs, which included record high revenue, slightly better profitability, strong free cash flow generation and double-digit growth in non-GAAP diluted earnings per share.

Now turning to our outlook on Slide 20. As Shuky indicated earlier, we are closely monitoring the prevailing level of macroeconomic business and operational certainty, which remains elevated in the current business environment. That's the first quarter and full year fiscal 2023 financial guidance reflects what we consider to be the most likely outcomes based on the information we have today, but we cannot predict all possible scenarios.

With that said, we are positioned to deliver revenue growth in line with the midpoint of our long-term guidance range of 6% to 10% year-over-year on a constant currency basis in fiscal 2023. Visibility to this outlook is supported by a record 12 months backlog and the strong pipeline we see. Our revenue growth for fiscal 2023 includes a contribution of about 60 basis points from MYCOM OSI given our expectation that subject to certain regulatory approval, this deal will close before the end of Q1. This is similar to the inorganic growth contribution that was assumed in the guidance initially for fiscal 2022.

Additionally, we expect to deliver revenue growth across all 3 operating regions of North America, Europe and Rest of the World on a constant currency basis for the full year fiscal 2023. Our annual outlook includes first fiscal quarter revenue within the range of $1.155

billion to $1.195 billion. On a reported basis, we expect full year revenue growth in the range of 48% year-over-year, which anticipates an unfavorable foreign currency impact of approximately 2% year-over-year.

Moving down the income statement. We anticipate quarterly non-GAAP operating margins around the midpoint of a new and improved annual target range of 17.5% to 18.1%, reflecting the benefits of our ongoing initiatives to improve operational excellence, automation, other sophisticated tools and disciplined resource management as well as expected cost savings resulting from our move to the new campus in Israel.

Beyond the operating line, we anticipate that foreign currency fluctuations and cost of hedging will continue to impact our non-GAAP net interest and other expense lines in the range of a few million dollars on a quarterly basis. We expect that our non-GAAP effective tax rate will remain within an unchanged annual target range of 13% to 17% for the full fiscal year 2023. Specifically, our non-GAAP effective tax is expected to be above that high end of the annual range in the first fiscal quarter.

Bringing everything together, we expect non-GAAP diluted earnings per share growth in the range of 8% to 12% for the full fiscal year 2023. Overall, we expect to deliver double-digit total shareholders' return for the third year running in fiscal 2023, including our outlook for non-GAAP earnings per share growth plus our dividend yield of about 2%, based on the newly proposed quarterly cash payments to be approved by shareholders at January's annual meeting.

With that, back to you, Shuky.

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

Thanks, Tamar. As you can probably tell from our remarks today, I am very proud of our achievements for the fourth quarter and the full year of fiscal 2022. And I believe we are in a strong shape to deliver another year of profitable growth in 2023.

With that, we are happy to take your questions. Operator?

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Tal Liani of Bank of America.

We'll go to the next question. Our next question comes from Ashwin Shirvaikar of Citi.

**Ashwin Vassant Shirvaikar** ***Citigroup Inc., Research Division - MD & Lead Analyst***

Congratulations on the good quarter. My first question is related to the comments on macro, which is front and center for investors as well. Are you seeing perhaps a change in the nature of projects, maybe more cost savings like more cloud and more Managed Services instead of more growth-oriented new product type project? And could you sort of let us know in your base of revenues, does that lean more towards cost savings or growth there?

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

I think, Ashwin, if you think about what we are bringing to the market in terms of the investment domains, we are supporting. Many of them are relevant also in a more challenging macro environment. If you think about the journey to the cloud, for example, in terms of offering the service provider, the agility of providing quick services, matching in an easier way, the peaks of capacity that is required around the peak seasons like holiday season and a more agile cost structure. Those are things that are very applicable also in a more challenging macro environment. Same goes for how do you provide quicker time from marketing ideas to customer experience. So many of those things that we're looking at are very relevant also in more challenging times.

Now one of the big changes we've done irrespective of the macro situation, we've done this decision a couple of years back is to provide for more sophisticated technology, a faster time to market of our products, to the production of the customer environment that from their point of view, is creating faster value. Now one may say in this kind of environment, what kind of features and functions will they want relative to maybe prior times, but that's the beauty of the thing that we can actually respond very quickly with bringing these to production, given today's environment is on comparing it 2 years back, where it took us a year or 2 to develop a product version. So we are very close to our customers monitoring what are their needs. You touched on Managed Services. I think this is absolutely one of the vehicles that we can bring to our customers in terms of reducing their cost structure. We are seeing Managed Services growing as you've seen already 12% in Q4, continue to enjoy very high renewal rate plus new engagements and new logos of Managed Services. So that continues to be a factor. We push forward.

But if you ask me, are you seeing a big change as of now of the behavior of customers? Not yet, I hope never. We have not noticed anything like that. So we are continuing to look very carefully, of course, and we are very close to what's happening out there. The big impact is, frankly, the immediate impact we are seeing is inflation and currency volatility.

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**Ashwin Vassant Shirvaikar** ***Citigroup Inc., Research Division - MD & Lead Analyst***

Understood. Got that. And then on the campus, first of all, congratulations on completing a long process. I wanted to understand there should be ongoing benefits, things like rent expense goes down, maybe because employees are together, it helps in terms of bringing out products faster, things like that. Could you kind of go through what some of the original benefits were that you expected? And are those kinds of things incorporated in your outlook?

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

Yes, definitely. We're very happy to see that coming to life. And as you've indicated, this was a long term and a very important investment in terms of the talent that we are seeking to have as well as the productivity. Now to remind you, when we talked about investing in the new campus, and we believe that this is going to be economically beneficial, we took into our business case only direct savings, meaning tangible reduction in expenses of rent, et cetera. At the same time, I absolutely agree with you, there are also indirect positive influences in terms of productivity, team engagement and things like that.

So I'm talking right now in terms of the direct benefit. That's already factored into the operating margin improvement. We are guiding for 2023. The full year impact of that will happen in 2024, but already to a large extent, we are enjoying that in 2023. And the indirect influence is something that is harder to measure in an accurate way, but definitely something we're looking forward to seeing and feeling as we move into the new campus. And I can tell you the employees are highly excited about the move.

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**Operator**

Our next question comes from Edward Yang of Oppenheimer.

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**Hoonshik Yang** ***Oppenheimer & Co. Inc., Research Division - Research Analyst***

Congratulations on a nice quarter. First question for me would just be around your fiscal '23 outlook. I was a little surprised you kept the fairly wide constant currency growth range 6% to 10% for fiscal year '23. I know it's in line with your long-term outlook, and you gave the same range last year for fiscal year '22. But the low end, 6% would be a fairly draconian slowdown from the growth -- constant currency growth rates you're seeing right now. So what kind of scenarios -- is this conservatism? Or what kind of scenarios do you see where potentially the low end could play out in that range?

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

So when we look into how we are guiding for the year in terms of the range, it's not different than what we've done a year ago and also 2 years ago, just to give you some context. And the reason for the range is that eventually, when we're thinking about our visibility, it's pretty good, as we talked about having the 12-months backlog, covering 80% of our business and having a solid pipeline ahead of us. But at the same time, we're enjoying a peak level of transformation project activity which by itself is just thinking about what does it entail, it's not just about having the signed agreements. It's about having the plan of execution aligned with the customer with different milestones. So we need to be considering that as part of the moving parts. And hopefully, we have given the midpoint, the most likely scenario based on the plan of record we have right now with our customers, but we need to take into consideration some changes that may come along to the upside as well as the downside.

And in addition to that, it's about the demand environment because while going with 80% visibility into the year, we still have 20% to make up from new signings. And just looking on what's on the pipeline and the conversion rate that we're expecting, we try to give the possible scenarios within that range. I would say the bottom line is, yes, there is a range, but we are guiding to something we believe is the midpoint to be the most likely scenario.

**Hoonshik Yang** ***Oppenheimer & Co. Inc., Research Division - Research Analyst***

Fair enough. And my second question would just be on your backlog. And the backlog slowed somewhat. Was that driven by currency or any change? It doesn't seem like there were any changes in customer ordering patterns or macro? And if it was impacted by currency, what would the constant currency backlog growth have looked like in the quarter?

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

Tamar can give you the details, but we don't guide the backlog in constant currency, but definitely, there was a currency impact on the backlog this quarter. Tamar, do you want to take it from me?

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

I think what if we're looking on the 12 -- the year ahead, the next 12 months of revenue completion, we're talking about a 2% headwind coming from currency year-over-year. So definitely, part of that is reflected also in the backlog that we have. I would say in general, we don't see a slowdown in terms of the momentum some quarters in terms of specific signings, it can be different than others. So I wouldn't sign too much into it. But I think we're encouraged to see more deals coming in. We gave a lot of examples today in the prepared remarks.

And to me, and I hope the message got across the fact that we are continuing to sign deals with existing customers but at the same time adding new logos, and intentionally diversifying our customer base and entering more new countries is extremely important. We obviously love our existing customers. We want to have relationships of last for decades and sell to them more of the next-generation and great technology we're bringing to the table, but we want to expand the number of customers and the number of countries in which we operate. And the momentum on that is extremely important and continue to be something we expect to see 2023.

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

And just to add, we see growth in all 3 regions and the pipeline is great.

**Operator**

(Operator Instructions) Our next question comes from the line of Tal Liani of Bank of America.

**Tal Liani** ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

I want to go back to the guidance for next quarter in the year. So the guidance for next quarter in revenues is about $15 million below consensus. And for the year, it's about $80 million. So that means it's not just Q1, it's below the consensus for the next few quarters. And I want to understand -- I'm going to have 2 sets of questions. One is on revenues, and the other one is on margins. So this one is on the revenues. And -- so the question I have is what is driving this guidance versus expectations? Is it -- is there a specific region? Is there any big project that is ending or -- can you give us more information about the trends that you're guiding just given that it's below consensus?

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

The answer is pretty simple. It's called foreign currencies. If you think about the $90 million we are expecting as a headwind going into the year 2023, that spread over the year. We said explicitly our numbers for Q4 relative to regional kind of Q4, lower by $9 million. If we look ahead, we continue to see this negative impact. So if you just take the 90 and divide it by 4 to make it simple, you understand that the magnitude is roughly $20-something million per quarter. And again, it's not behaving in a linear way, but just to make it simple.

Now obviously, this is something that everybody is talking about, everybody is looking at. Our hedging program is designed to protect the bottom line, not the top line. We're quite effective in doing so, both in protecting the margins as well as protecting the cash flow, and we will continue to focus on doing so.

**Tal Liani** ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

Got it. Okay. So the next question is on margins. You don't give guidance for the margin, but you give guidance for EPS and EPS is about $0.09 lower than the Street for next quarter.

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

We actually guided -- just to add, we've guided to the fact we believe operating margin is going to be elevated relative to prior year with a range of 17.5% to 18.1%. And we are actually looking on -- if you compare it to where -- until 2021, 17.5% was the high end of that range. So you can understand that we are pushing forward on the margin to an improved view.

Regarding EPS, I think there are a couple of things at play here. One, when we are looking on what's happening around the finance line with the currencies. Yes, we are heavily trying to hedge, but at the end of the day, it also means there is some cost of hedging that goes into the numbers. And while we are extremely focused on trying to hedge everything possible, it's obviously based also of what's effective in terms of cost. So I'll give you an example, if there is a thinking about Argentina, for example. Doesn't make sense necessarily to go into extensive hedging in Argentina, if it's very expensive to do so. So this is one aspect that goes into the numbers. So although operating margin are improving. And by the way, while continuing to have an elevated level of R&D. So it's not coming to we cut down in the coming, while we are continuing to have strong R&D investments, and we are continuing to focus on hedging and trying to protect the bottom line, it does have some costs.

**Tal Liani** ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

Got it. But when I compare your Q1 guidance to the full year, there is about $0.09 difference between yours and consensus for next quarter, but there is $0.08 difference for the year. So that means you're expecting that after Q1, you should be fine with EPS versus expectations. So do you expect...

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

Again, we're guiding for the -- I want to be clear. I cannot take accountability for consensus. I can explain what we are guiding. We are guiding for an EPS growth rate year-over-year of 8% to 12%, targeting the midpoint of 10% growth for the year. Specifically in Q1, we said that we expect a higher tax rate, specifically in Q1. For the full year, we take the same position around the range of the tax rate being 13% to 17%. Specifically in Q1, given the recent volatility in tax rate between the quarters, we think it's going to be higher. And that's why Q1 EPS is lower relative to the full year.

**Tal Liani** ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

Got it. Great. Last question is about cash conversion rate. Now that the investment is over. And can you talk about -- you improved the cash conversion rate over the last few years. Can you talk about your plan for 2023 and beyond? And what are the puts and takes in the calculation?

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

So the bottom line is we continue to focus on everything that has to do with converting earnings to cash we are confident in the message that we are targeting 100% earnings to cash conversion also in 2023, which leads to the target number of roughly $700 million of free cash flow generated. Within that, of course, there are many moving parts that obviously with a very strong focus on converting the great business activity that we have into invoicing and money in the bank collected from customers, which is something we are very focused on. And then, of course, it's managing the outflow of cash in a disciplined manner as we've done always.

I make it sound simple. Obviously, it requires a lot of activities around that. And within the company, there is a very high focus on that. As we are continuing to look forward into other aspects. The one thing I wanted to take note is that if during the cycle of investing in the campus, we reported 2 metrics, the reported cash flow and normalized cash flow to give full transparency of the investment we are making in the campus and now that it's practically done, we don't need to continue to report normalized cash flow moving forward, and there will be one metric of the reported cash flow.

**Operator**

At this time, I'd like to turn the call back over to Matt Smith for any closing remarks. Sir?

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

Yes. Thanks, operator, and thanks, everybody, for joining the call today and for your interest in Amdocs. As always, we do look forward to hearing from you in the coming days. And if you do have any additional questions, please reach out to us here in the Investor Relations group. With that, have a great evening. Thank you.

**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect.