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DOX.OQ - Q1 2022 Amdocs Ltd Earnings Call

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## OVERVIEW:

Co. reported 1Q22 revenue of \$1.1b and diluted GAAP EPS of \$1.07. Expects FY22 YoverY reported revenue growth to be 3.4-7.4% and pro forma constant-currency revenue growth to be 6-10%. Expects 2Q22 revenue to be \$1.110-1.150b.

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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**Maxwell Osnowitz** *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

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

## PRESENTATION

### Operator

Thank you for standing by, and welcome to the Amdocs Limited First Quarter 2022 Earnings Conference Call. (Operator Instructions)

As a reminder, today's program is being recorded. And now I'd like to introduce your host for today's program, Matthew Smith, Head of Investor Relations. Please go ahead, sir.

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

Thank you, John. 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 as described in Amdocs' 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, Joint Chief Financial and Operating Officer. Consistent with last quarter to support today's earnings call, we are providing a presentation, which can be found on the Investor Relations section of our website. And although 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 provide an update on our recent strategic progress and business performance and Tamar will review our financial results and outlook for fiscal year 2022.

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

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

Thanks, Matt, and good afternoon to everyone joining us on the call today. I will start today's call by recapping our business and financial achievements for the first quarter of fiscal '22. Second, I will update you on the main pillars of our strategic growth framework and continued progress we have made in the past quarter.

I will wrap up by discussing our financial outlook, including our expectation for continuous revenue growth in fiscal year 2023 and 2024, which we are providing today. Tamar will then provide additional details on our first quarter financial performance and guidance.

As a reminder, our comments today will refer to certain financial metrics on a pro forma basis where applicable to provide you with a sense of the underlying business trends, excluding the financial impact of open market, which we divested on December 31, 2020. So let's get going.

Turning to Slide 7. I'm proud to report a great start to fiscal year 2022. At our analyst and investor business update last November, we outlined our strategy to deliver accelerated revenue growth by bringing market-leading innovation designed to meet industry needs for digital modernization, 5G monetization, journey to the cloud and network automation. Based on our first quarter performance, I believe our strategy is continuously gaining traction in the market. Evidenced by another quarter of strong sales momentum across long-standing global customers, such as AT&T, T-Mobile, Vodafone, Globe Telecom and others.

Additionally, we penetrated several new logos that support our ongoing growth and regional expansion, including PPF Group in Europe and Vodacom in Africa. Our customer investment in industry megatrends like 5G and cloud are gathering pace and translating to strong demand for our products and services. The relevancy of our offering to the market results from our past and ongoing commitment to R&D investment, which further extends our technological leadership and brings cutting-edge innovation to our customers.

To add a further point, I believe our capacity to win new business is a function of our unrivaled reputation for product delivery has demonstrated yet by another record quarter for the number of deployment milestone achieved for our customers in Q1.

M&A is another important tool we use strategically to accelerate our capabilities in key growth areas. Focusing our cloud strategy, I'm delighted to announce our position of DevOps Group, a boutique U.K.-based cloud company specializing in engineering, consultancy and training services for enterprises, implementing cloud endeavors.

DevOps Group geographically complements the high-end expertise required with last year acquisition of Sourced Group and further strengthen our professional services organization to support all aspects of our customer cloud journey, including consulting, cloud native software migration of Amdocs and non-Amdocs application, ongoing development and cloud operations.

Overall, I'm proud of our progress in Q1, which we achieved while striving to improve the life of people in our communities. Slide 8 highlights just some of many initiatives. Demonstrating our commitment to green environment, we recently completed the cloud migration project to support improve their quality in London by expanding the city's ultra-low emission zone.

Amdocs Mexico was recognized by NGO human rights campaign as one of Mexico's best places to work for LGBTQ+ for 2021. And our deep commitment to diversity was recognized by the Peruvian government for promoting an inclusive society, which people with disabilities achieve full development. Amdocs Israel also won the diversity in the business prestigious award for our work to promote employability of the Arab minority in the tech industry.

As a mark of our commitment to sustainability and corporate responsibility, Amdocs was recently honored to be included in the prestigious S&P Dow Jones Sustainability Index for North America for the third consecutive year, placing us amongst the top 15 companies in our industry based on long-term economic, environmental and social criteria. I believe such recognition is a testament to Amdocs identity and reflects the value held by our 20,000 -- 29,000 employees worldwide.

I would like to take this opportunity to extend a warm welcome to all those who have recently joined the Amdocs family. And my sincere thanks to all our people for their dedication, resilience and commitment to ensuring a great start to our fiscal year. Our great start to fiscal year is reflected in our Q1 financial performance. The key highlights of each are on Slide 10.

We delivered record revenue of \$1.1 billion, up 10.6% on a pro forma constant currency basis, and led by our best-ever quarter in North America, where we continue to see high activities level across our top customers. Strong sales momentum was reflected in record in our record 12 months backlog of \$3.8 billion, which was up \$140 million sequentially and 9.7% from a year ago.

On the bottom line, we delivered a non-GAAP earnings per share of \$1.20, which was the higher end of our Q1 guidance range. Now let me update you on the recent progress we've made against our strategic imperative as presented on Slide 11. To remind you, our growth strategy is intentional and focused. As industry leaders around the world look to derive growth in modernized 5G, they rely on our market-leading innovation to deliver unparalleled experiences to their consumers and enterprise customers.

Our key innovation enablers include end-to-end cloud platform and services that ensure operational agility, scalability and ultimately clouded scale, monetization of new 5G services like ultra-low latency connectivity, immersive entertainment and connected industries, creating seamless digital experiences by transforming IT operations and reinventing user interactions and delivering dynamic connected experience with real-time automated network.

Beginning with cloud, I am proud to announce 2 key awards this quarter. First, we were selected by T-Mobile's partner to shift non-Amdocs application to the public cloud, thereby expanding our activities in the support of T-Mobile's multiyear cloud journey.

Additionally, we are excited to report a multiyear deal with T-Mobile to deploy and operate Data One, our data intelligence platform. Second, we are free to announce that PPF Group awarded us a digital cloud managed transformation of its next-gen business support system across all lines of businesses. Under which Amdocs will provide its wide set of cloud-native products to be operating on the public cloud as a part of a long-term multi-country agreement.

This award demonstrates Amdocs' ability to expand internationally by penetrating new logos, and we look forward to supporting PPF's 8 million subscribers across Bulgaria, Hungary, Serbia and others. In 5G monetization, Amdocs Open 5G charging and policy solution was chosen by Vodacom. A new logo in Africa, which we are supporting to enable the quicker launch of new products, services and tariff for its operation in Tanzania, Mozambique and the Democratic Republic of Congo. In Malta, we extended our agreement with Melita Limited to provide charging solution that will expand its range of IoT and 5G offering for consumers and business customers. Additionally, we announced cooperation with Samsung Electronics America to deliver end-to-end 5G -- sorry, 4G and 5G private network solution to help U.S. enterprises across key industries to unlock next-generation use cases and to help close the digital divide in how to reach locations.

Turning to digital modernization. We are happy to announce 2 new North American logos in Q1, including Summit Broadband, a Florida-based service provider, which is selected Amdocs for a multiyear deal to uplift their BSS and OSS ecosystem; and Consumer Cellular, a postpaid mobile virtual network operator from Portland, Oregon, which selected Amdocs easing solution.

Additionally, Vodafone Turkey selected Amdocs for a 3-year deal to provide end-to-end quality engineering services that we quickly develop, test and bring to market new products and services for the benefit of its customers. Moving to network automation. I'm excited to share the 2 Tier 1 North American customer, including Lumen, have recently selected to modernize and upgrade on our cloud-native next-generation 5G network services orchestration platform. Additionally, we today announced a 3-year deal with Globe Telecom in the Philippines to provide radio access network optimization services to accelerate the expansion of its 4G and 5G networks and the time-to-market launching of new services.

Finally, let me quickly highlight the Amdocs Media, which continues to expand outside North America. In Indonesia, we extended a multiyear agreement with XL Axiata, we selected our SaaS-based Amdocs MarketOne platform to offer its customers seamless access to international local and regional content services.

Additionally, Amdocs recently worked with Astro, a leading Southeast Asia media and entertainment company to successfully launch new content and broadband bundles, including Netflix, to provide customers with premium, affordable entertainment in a streaming world.

Now turning to Slide 12 and our financial outlook. Let me begin by addressing the revenue growth projections we are providing today for the 3 fiscal years 2022 through 2024. Last quarter, we guided to fiscal year 2022 revenue growth in the range of 6% to 10% on a pro forma constant currency basis. And we are now projecting annual revenue growth in the range of 6% to 10% constant currency in 2023 and 2024. Our conviction in this outlook founded on our technology leadership and the strength of Amdocs unique business model from which we derive highly recurring revenue stream, strong business visibility and durable multiyear engagement supporting our customers' mission-critical operations. Second, we are excited to see large funnel of market opportunity in front of us, the size of which is continuously expanding.

This dynamic is consistent with our view that global operators are still in the early innings of a multiyear investment cycle driven by mega trends such as 5G and the cloud. Third, our strong sales momentum in recent quarters supports confidence that Amdocs is well positioned with the right strategy to monetize the market opportunity, leveraging our innovative cutting-edge technology, which continue to support the future road map of our customers and constantly extend our competitive lead in the market.

Our execution track record, which is the best in the industry and our highly skilled and talented employee base, which is focused on delivering value to our customers worldwide. As a final point, our 3-year revenue growth projection does not depend on a material level of M&A activity. To summarize our long-term view, we firmly believe that Amdocs has entered a new era of accelerated growth as reflected into the 3-year outlook we have provided today.

Turning attention to the current fiscal year 2022, we believe revenue growth is tracking at the higher end of our 6% to 10% guidance range on a pro forma constant currency basis, given our encouraging start of the year to the year. On the bottom line, we are also on track to achieve pro forma diluted non-GAAP earnings per share growth at the higher end of our expected range in fiscal year 2022 outlook, putting us in a strong position to deliver double-digit expected total shareholder returns for the second year running, including our dividend yield.

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 exclude the financial impact of open market, which we divested on December 31, 2020. Turning to Slide 14. I would like to echo Shuky's comment that we are off to a great start to the fiscal year, and we are very proud of our Q1 financial performance.

Record Q1 revenue of \$1.1 billion was up 10.6% year-over-year on a pro forma constant currency basis, driven by our best-ever quarter in North America with a great momentum in our top customers. Revenue was above the midpoint of guidance despite an unfavorable impact from foreign currency fluctuations of \$2 million relative to guidance, which mainly impacted our European region.

Moving down the income statement. Our Q1 non-GAAP operating margin of 17.5% was in line with the midpoint of our long-term target range. Compared with a year ago, our non-GAAP operating margin improved by 20 basis points as accelerated R&D investments were more than offset by a focus on operational excellence and the divestiture of open markets.

On the bottom line, diluted non-GAAP EPS of \$1.20 was at the higher end of our guidance range. Diluted non-GAAP EPS includes a non-GAAP effective tax rate of 19.9%, which as anticipated, was above the high end of our annual target range of 13% to 17%. Diluted GAAP EPS was \$1.07 for the first fiscal quarter, above the guidance range of \$0.91 to \$0.99, primarily due to a net gain of \$0.06 per share from contingent performance-based consideration in the final amount of \$10 million received in relation to last year's divestiture of open markets.

Moving to Slide 15. Strong first quarter sales momentum translated to record high 12 months backlog of \$3.83 billion, which was up 9.7% from a year ago. On a sequential basis, 12 months backlog was particularly strong, rising by \$140 million as compared to September 30. 12 months back will continue to support an expectation for growth on a constant currency basis across each of our 3 core operating regions in fiscal year 2022.

As a reminder, 12 months backlog has traditionally served as a good leading indicator of our business, having consistently averaged around 80% of our forward-looking 12 months revenue over the years. Q1 was also a record quarter for revenue from managed services engagements, which grew roughly 6% from a year ago, equating to roughly 60% of our total revenue. Our multiyear managed services engagement to underpin the resiliency of our business with recurring revenue streams, high renewal rates and expanded activities with existing customers. Among the customer highlights this quarter, BT Group renewed its relationship with Amdocs for application development and maintenance of non-Amdocs business systems in relation to BT's EE brand.

Turning to the balance sheet and cash flow, as you can see on Slide 16. DSO of 79 days increased by 1 day year-over-year and 6 days sequentially in Q1, primarily reflecting higher invoicing levels triggered by a record number of milestone deliveries achieved in the quarter. We also saw a healthy increase in deferred revenue in Q1.

Altogether, we generated normalized free cash flow of \$186 million in the first fiscal quarter. Overall, we ended the quarter with a strong cash balance of approximately \$869 million, including aggregated borrowing of roughly \$650 million.

Our balance sheet is strong, and with ample liquidity, we expect to be in a good position to continue to support our ongoing business needs while returning the capacity to find our future strategic growth investments as and when the right opportunities arise. Additionally, we remain committed to maintaining our investment-grade credit rating.

Turning to capital allocation on Slide 17. As you can see in the first chart, we accelerated our buyback program and repurchased \$171 million of our shares in the first quarter, which we believe demonstrates our confidence in the future success of Amdocs.

We returned \$216 million to shareholders in Q1, including \$45 million in cash dividend payments. Regarding our capital allocation in fiscal year 2022, we remain on track to generate normalized free cash flow of approximately \$650 million, the majority of which we expect to return to shareholders. Additionally, we remind you that free cash flow in the second fiscal quarter is typically lower due to the timing of annual bonus payments.

As an added point, our normalized free cash flow assumes a conversion rate of roughly 100% of non-GAAP net income, which is consistent with our long-term average. Normalized free cash flow also excludes anticipated CapEx of about \$131 million in relation to the development of our new Israel campus, which remains on track for completion and move in by this summer.

Now turning to our outlook on Slide 18. The prevailing level of macroeconomic business and operational uncertainty surrounding the magnitude and duration of the COVID-19 pandemic, including its novel strains remains elevated. The second quarter and full year fiscal 2022 revenue 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 believe full year fiscal 2022 revenue growth is tracking at the higher end of our guidance range of 6% to 10% on a pro forma constant currency basis. Our outlook is field revenue growth across all 3 of our key geographical regions and includes an immaterial contribution from the small bolt-on acquisition of DevOps Group.

Our annual outlook includes second fiscal quarter revenue within a range of \$1.10 billion to \$1.50 billion, the midpoint of which equates to a healthy growth of roughly 7.7% from a year ago. On a reported basis, we expect full year revenue growth in the range of 3.4% or 7.4% year-over-year as compared with 3.7% to 7.7% previously, which anticipate an unfavorable foreign currency impact of approximately 60 basis points year-over-year compared with an unfavorable impact of 30 basis points previously.

Moving down to the income statement. We anticipate quarterly non-GAAP operating margins to track roughly in line with the midpoint of our annual target range of 17.2% to 17.8%. This outlook continues to assume an accelerated pace of R&D investment to support our customers in line with our strategy, balanced with our constant focus on achieving operational excellence.

Below the operating line, we anticipate that foreign currency fluctuations 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 in the second fiscal quarter will be above the high end of our annual target range of 13% to 17%.

For the full year fiscal 2022, we expect our non-GAAP effective tax rate to be within the annual target range. Bringing everything together, we believe non-GAAP diluted earnings per share goal is tracking at the higher end of our guidance range of 8% to 12% on a pro forma basis for the full fiscal 2022. Likewise, we believe non-GAAP diluted earnings per share growth is also tracking at the higher end of our guidance range of 6.3% to 10.3% year-over-year on a reported basis.

Overall, we are fairly on track to deliver double-digit total shareholders' return for the second fiscal year running in 2022, assuming the higher end of our pro forma non-GAAP earnings per share growth guidance plus our dividend yield.

With that, back to you, Shuky.

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

Thanks, Tamar. As you can probably tell from our remarks today, we are excited by the great start to the year, our progress and growth strategic focus areas and the healthy accelerated growth outlook we provided for the next 3 years.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Our first question comes from the line of Tal Liani from Bank of America.

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

I almost didn't recognize my own name. I have an easy question for you because your quarter is kind of straightforward. But if I take a step back, in the last 3, 4 quarters, your growth is accelerating repeatedly, and now you're even providing more visibility into the next to the following 2 years.

And my question is simple. What -- when you analyze your numbers in the last few quarters, including this last quarter and when you provide guidance, can you take us through the basics, meaning what drives your growth? What kind of projects are happening in the market? Where you are in terms of high-level positioning in the market kind of types of opportunities? I'm not talking about specific customers because you gave a lot of examples. I want more to understand the bigger picture. What's happening in the market that eventually drives your growth acceleration?

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

Tal, I will start and Tamar can add. I think, first, there is a great alignment between our product and services to the market needs. I think there are many years in the company, but this is one of the, I would say, the best-ever positioning of Amdocs that all the mega trends that they were there, we predicted them, invested a lot to make sure that we are ready, and we talked about these megatrends like 5G, journey to the cloud, network automation, the digitalization in general, I think we are very ready to this megatrend.

So I think this is one top reason. The second is that we see a lot of success globally. So it's not just in North America or in Europe, we see a very good momentum -- sales momentum across all regions. And as important, as I mentioned, we see a lot of funnel ahead of us. So it's not that you know that we want some deal that's it. Actually, we see that the funnel of opportunities is increasing from quarter-to-quarter.

So the -- and by the way, it's reflected by our backlog. So if you took everything together, tying it all together, we believe we have a very strong momentum. We have the right product, the right services. I think that our technology leadership of our products comparing the competition is the highest ever. So we are very encouraged with our position. And as you see, it's working well. Tamar, do you want to add?

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

Maybe just to add some different dimension of look at it. We look on our position in the market, as you know, we have a very strong customer base. So one thing that is extremely important is that we are chosen again by key customers to build the future on Amdocs.

So talking about names such as AT&T and T-Mobile and Vodafone. They're building their next-generation stack to support their business in the heart of their strategy on Amdocs. On top of that, we are expanding our footprint within very strong names in the market that are relatively new customer for us, but very strong in the market, such as Charter, such as Verizon and other name.

And then add to that penetration into many new logos globally, such as the examples we gave on the call, PPF, we talked about additional affiliates within the Vodafone Group, for example, in Turkey. We talked about Vodacom in Africa. And from quarter-to-quarter, you see more and more examples of these new logos that are supporting the growth as well. So it's a combination of expanding in existing customers, entering new large potential logos that can be very meaningful for our future and many, many other logos internationally.

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

Great. I have 2 quick questions also. Your customers, sometimes they deploy -- you're a pure software company, your customers, though, depend on equipment to launch some services, and they do suffer from supply constraints. And we also cover the equipment vendors who are not growing as much as the order is growing just because they can't supply. So the big question here is whether your business is impacted in any way by supply constraints that we're seeing across the hardware market? And if yes, how...

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

The answer is no. First of all, we are working in the cloud. So we are not using directly connected to any how the process it used to be. And I will tell you that so far, we did not incur any headwinds, which are related to the supply chain issue.

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

Got it. Last question, Tamar. As reported, you grew 1.7% and constant currency, you grew over 10% -- 10.6%. It's a big gap. Can you take us through what's happening there? Can you take us also through the -- not just the revenue but also the expense match with currencies? And I'm not looking for the outlook because it's impossible to predict. I'm just looking to understand what happened.

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

Yes. The main difference, Tal is the fact that Q1 '21 still included the full quarter of open market. The company we divested on December 31, so that's the main difference between the reported and the pro forma. Currency had some impact, but it was more like, I don't know, less than 10 -- probably less than a percent so the vast majority. If you remember, we talked about open market being roughly \$300 million a year. So to make it easy on you, it's probably like a quarter would be \$80 million.

So that's the main reason. And that's why we keep giving the performance number, we chose actually the real business growth of the company. Then on the currency, we continue to track all our exposure, focusing mainly on protecting the bottom line. We've always had this philosophy on our hedging program. So we are continuing to track on each currency in each activity the different exposure positions and trying to, first of all, create operational decisions that are building the natural hedge where possible.

I've always used the example of Brazil as a country for. We have business in Brazil and part of the decision of how much of the execution for our Brazilian customers is done locally in Brazil has to do with this kind of exposure. That's what I call the natural hedge. And then on top of that, wherever we have a remaining residual exposure. We are building derivatives where I would say, affordable to do so. So most of the currencies we are applying also derivatives for the hedging.

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**Operator**

(Operator Instructions)

Our next question comes from the line of Tim Horan from Oppenheimer.

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

This is actually Edward Yang on behalf of Tim. Congratulations on a great quarter, Shuky and Tamar. My first question, obviously, you're speaking very positively about the outlook. But just focusing on the backlog, the backlog -- the 12-month backlog was up close to 10%.

But in the prior 2 quarters, it was up a little bit more than that, 10.5%, 10.8%. Is there anything to read into that? Or is that just normal fluctuations quarter-to-quarter on the backlog?

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

It's normal fluctuations. I don't think you should read into that to the accuracy of decimal points. But the most important thing for us is that we've seen very strong visibility by awards that are happening for -- as you see in the scale that we've not seen in the past. So that's definitely driving a lot of the confidence that we have.

And on top of that, it's the pipeline that is large and getting stronger. Just additional point. I believe that it's really important that this is not one-trick pony kind of thing. We talked about the mega trends in the industry, the investment trends and also the fact that it's across the different regions. So it's a healthy situation where we are seeing this momentum all over the place.

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

Understood. And my follow-up question would be on 5G use cases. We're hearing a lot of telco customers talk very aggressively about fixed wireless deployment. And part of that is trying to monetize the 5G investment. They're talking about growing subs 50% per year, obviously, off of a very small base. But is that an area where you participate? And I'll get into that, just on additional 5G use cases. Tamar, I think I heard you at a conference talk about your MarketONE platform. That sounded like a different type of business than what Amdocs is associated with usually. And I was just wondering if you could talk a little bit more about that and whether carriers are open to plugging into your platform versus traditionally hiring you to build something in-house for them?

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

I'll try to answer the first question. So fixed wireless, there is a lot of potential to it, mainly in rural areas since it's mainly consumer type of activity. And as you know, as we speak, we are building both AT&T and T-Mobile is another, all consumer base. So definitely, we are involved. I think the industry is still yet to be seen to what degree this will catch up, but definitely that we are involved in many fixed wireless initiatives.

And our system supported in initial before. Regarding MarketONE, you are right. This is a different platform. This is a Software-as-a-Service platform. The idea in MarketONE is that many of our customers like to offer their customers many OTTs, some of them for content, some of them for Microsoft application and many others. So the idea of MarketONE is rather than every one of our customers will start to integrate specifically in a bespoke way to Netflix, to Shopify, to many, many other content, Peacock, HBO Max, whatever, to do it in one on one integration, we have a platform today that actually integrated for many, many OTTs.

And the customer needs to do one integration point to Amdocs and on a SaaS basis. And immediately, we have a long -- many, many partners or OTTs already integrated to our platform. It's accelerated definitely time to market. It's very, very, I think, efficient and we have a lot of traction to

this offering, by the way, across the world, not just in North America, in a very popular platform, getting a lot of traction on a completely Software-as-a-Service basis.

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**Operator**

Our next question comes from the line of Tom Roderick from Stifel.

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**Maxwell Osnowitz** - *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

It's Max Osnowitz on for Tom. Just thinking about the geographic breakdown of the business. Europe has had a little bit of a decline in the last 2 quarters. How much of that is related to the divestiture of open market? And how should we see that business kind of trending going forward?

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

So comparing year-over-year, it does have some influence from the open market. About 1/4 of the open market business was in Europe. But I think the more kind of fundamental and interesting thing in Europe is the fact that we have naturally ramped down some large-scale transformations and recent awards are starting to ramp up now in terms of revenue. So we expect a much stronger second half in 2022 for Europe, and hence, the conviction of the full year growth year-over-year also in Europe as reflected already in deals that we have in our pockets.

And definitely looking on the pipeline, we're encouraged to see those more opportunities coming ahead. In addition, a slight impact sequentially and also year-over-year is coming from the currencies. A lot of the currency movements we are talking about is impacting our European business.

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**Maxwell Osnowitz** - *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

Got it. And then just kind of focusing on the long-term outlook you gave. I know that, that excludes foreign currency, and then it also excludes any real M&A activity. But is the company positioned to achieve that right now? Or are there some things that need to happen in addition to the pipeline and like the current sales team? Are there any going to be incremental investments to capture that?

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

Look, the plan of record that we have is supporting these numbers, obviously, we need to execute. So I don't want you to think it's in our pocket, but it's not building on anything special that we don't have a clear line of sight to, including the product offering, execution, everything that has to do with backlog, the pipeline, regular business.

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**Maxwell Osnowitz** - *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

Awesome. Congrats on a good quarter and a good start to the year.

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**Operator**

(Operator Instructions)

Our next question comes from the line of Jackson Ader from JPMorgan.

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

Great. First one on AT&T. So revenue from AT&T jumped up a bunch in 2020 or fiscal '20 and then kind of flattish last year. Just curious whether there was anything in particular that caused that slowdown there?

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

Jackson. So AT&T 2021, we saw a very significant ramp up in the second half of the year. And I can tell you that for the growth that we see in North America in 2022 and generally in the company, AT&T represents a significant part of this growth, and we see a very, very healthy growth in AT&T in 2022.

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

Maybe to add some color on AT&T. As you recall, we are running a large transformation building next-gen stack for AT&T. In the heart of the strategy, consumer mobility, we talked about expansion of business, helping them migrate to the cloud, many of their applications beyond just our own technology and products. We mentioned last quarter the fact that we actually extended the managed services engagement through 2026.

So from any angle, we are looking at it beyond just obviously the very large importance of the numbers themselves. The relationship is expanding and very healthy.

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

Yes. And the bottom line, we see AT&T growth supporting significantly the growth of the company.

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

Yes. Okay. So just like a mismatch of timing, exit run rate, I guess, or like exit velocity of that AT&T business better than the full year growth of...

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

Yes, yes.

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

Not so much.

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

Okay, cool. All right. And then the follow-up. You guys have a bunch of employees all over the place. Just curious what the expectation for any impact of wage inflation might be either in the U.S. or abroad and how that's being kind of factored into your margin outlook here, Tamar?

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

So naturally, we have factored our expectation into the margin outlook. And as we've seen, we managed to expand even margin year-over-year, given the different in and out into the numbers. So yes, there are wage increases around the world. But working globally, including in many

emerging countries, wage increases is not a new phenomena. The war for talent is definitely there, but we have a global flexibility model that enables us, a, to attract talent and apply decisions where we want to hire.

We have a very sophisticated onboarding platform and processes to make sure that we are not only getting into the company effectively new employees, but we're reskilling many existing employees into the new technologies. And as discussed in the Investor Update Day last quarter, we have a lot of benefit coming from the unique business model in providing not only the international career mobility opportunity, but also career opportunities within the company to move around between different domains, which is very attractive for career development of people. So yes, wages are part of the overall package. But personal development, the career opportunities and obviously the people-centric mind that we have is extremely important as well in attracting and retaining the talent.

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### Operator

Your next question comes from the line of Charles Erlikh from Baird.

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**Charles Joseph Erlikh** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

Congrats on a strong quarter. I was hoping you could talk a little bit about Verizon and how that account has progressed over the past few quarters. And also, is that something that's contemplated in the 3-year revenue guidance? And if so, sort of how much growth are you kind of contemplating from Verizon specifically?

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

So for the second question, definitely, the opportunity is in Verizon or back into our opportunities for the next 3 years. The answer is yes. Regarding Verizon, we are progressing very nicely in the programs that we started with them. And they are starting to deploy our catalog and other services are increment in the network domain and many other services. So we see very good traction. And I think that Verizon is starting to experience the quality of Amdocs product and services.

And at the same time, we'll be developing a lot of opportunities ahead of us, and we compete on new opportunities, and we hope to win them. But overall, a very nice progress in Verizon.

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**Charles Joseph Erlikh** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

Great. And then I was hoping to ask one more as well. Just on the operating margins, maybe medium term, do you think it's possible that you might be sort of above the range of the 17.3% to 17.7% that you've been calling out. Is that something that you're trying to do? Or do you think that range is sort of just the optimal level for the business?

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

What you see now, we see that range as the applicable one. But obviously, it's something that we will continue and focus on. It also depends on very specific decisions we are making around the level of investments in R&D and the opportunity to expand into many new countries and new logos. So it's a balancing act all the time between the fact that we are expanding margins from our performing engines and the more mature engines of the company and how much we want to reinvest.

And we need that level of flexibility within that margin range that we have guided for. So I believe that what we see as a momentum now in the market. The fact that we are seeing expansion in the total serviceable addressable market that is very meaningful. Shuky mentioned the investment thesis that we have around the megatrend in the industry. All of these are great opportunities. We are positioned very well to take the controlling years of that opportunity and very focused on doing so.

**Charles Joseph Erlikh** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

Great. If I could just -- sorry, I just squeeze one more follow-up. So to the degree that more of your revenue growth over the next 3 years is expected to maybe come from new business opportunities and new customers. Is that somewhat of a headwind actually to operating margins?

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

I don't think so. We are already experiencing a great momentum with new names, new countries, new logos. And as you can see, we're managing to balance all of that with a lot of activities that we're doing in building new tools, automation, methodologies, et cetera, that are more than offsetting for that.

**Operator**

This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Matthew Smith, Head of Investor Relations for any further remarks.

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

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

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

Thank you.

**Operator**

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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