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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Third Quarter 2023 Amdocs Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Matt Smith, Head of Investor Relations. Please go ahead.

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

Thank you, Liz. 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 including 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, 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 our business and financial achievements for the third quarter of fiscal 2023, and we'll update you on the continued progress we've made executing against our strategic growth framework including the vast opportunity of the rapidly emerging field of Generative AI. Shuky will finish by commenting on our financial outlook for the full fiscal year 2023. After which Tamar will provide additional detail on our third quarter financial performance and forward-looking guidance. And also elaborate on our continued commitment to ESG.

And so 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. I'd like to begin thanking our global base of talented employees for their hard work and incredible contribution towards another solid financial and operation performance in our third fiscal quarter. As we continue to execute against our core growth pillars for digital modernization, 5G monetization, cloud and network automation. As you can see, the financial highlights on Slide 6.

Record revenue, $1.24 billion was slightly above the midpoint of our guidance on a reported basis and was up 6.9% for a year growing constant currency. Non-GAAP operating margin increased by 20 basis points from a year ago as we continue to realize the benefits of operational efficiency initiatives in our business. On the bottom line, non-GAAP diluted earnings per share of $1.57 was above the guidance range, mainly due to lower-than-anticipated non-GAAP effective tax rate in the quarter. [Operational] backlog was a record high $4.14 billion, roughly 5% from a year ago despite some impact from the challenging macro and industry environment.

Amongst the third quarter operational highlights, I'm encouraged to report continued cloud-related sales momentum. As shown on Slide

7, following last quarter wins with (inaudible) in 2 leading European operators, Amdocs was recently selected to support the cloud strategies of Bell and TELUS in Canada and Claro in Brazil.

Additionally, we won new awards and deepen relationship with Verizon and DISH in North America and one in Telkomsel in Southeast Asia and many others around the world as we focus on driving greater adoption of our broad product offering and capturing more share of wallet at our customers.

Significant long-term growth potential also exists in Managed Services, which we delivered another record quarter, driven by expanded activities with long-standing customers like Globe in the Philippines and contribution from new first-time logos signed earlier. Additionally, I'm pleased to report growing sign of demand for our next-gen cloud operations as the latest future-ready component of our Managed Services offering.

I'd also like to highlight Media, where Amdocs Vubiquity extended its position as a trusted provider to the world's leading streaming services during Q3. We continue to work closely with Disney to execute on their content strategy globally as we expand our engagement with them. Amdocs Vubiquity has also been selected by Lionsgate to support the technical enhancement of its iconic 18,000-plus film and TV title library by performing quality assessment and content editing using industry-leading automation.

In addition to reach Vubiquity content and catalog, services was recently chosen to support premium services for Watch Brasil and VIDAA in the U.S. Superb execution was another highlight of Q3 as we achieved a very high number of project milestones in support of digital transformation journeys as customers like AT&T, T-Mobile, Vodafone, and Three UK. Demonstrating Amdocs capabilities we recently surpassed the migration of more than 18 million prepaid subscribers to our newest highly robust and scalable system for XL Axiata in Indonesia.

Moving to Slide 8, I would like to highlight a very important strategic priority to establish Amdocs as the telecom industry's leader in the rapidly emerging field of Generative AI. Earlier at (inaudible), we announced the launch of Amdocs amAIz, a cutting edge Enterprise-grade Generative AI framework, which creates a foundation for global service providers to benefit from the immense potential of the Gen AI area. Amdocs AmAIz combines our carrier-grade architecture and telco-specific expertise with open an eye and the industry most advanced open source technology and large language models.

The framework also empowers service provider to deploy Generative AI use cases across the telecom ecosystem. From customer experience to network provisioning for consumer and enterprise customers. The Amdocs amAIz framework follows the expansion of our strategic partnership with Microsoft earlier this year and marks an important step towards capitalization of market-leading Generative AI capabilities such as those resulting from this partnership.

Amdocs has also launched a company-wide program to accelerate the way in which Generative AI can be harnessed internally to derive organizational agility, operational efficiency and cost reduction. Spanning the software development cycle, our Managed Services activities and many corporate functions, the program has so far identified more than 80 Gen AI use cases, many of which are already in progress.

Now let me provide you with the progress in respect to our strategic growth pillars, which have driven a major expansion of our addressable market by ensuring we bring market-leading innovation to help our customers. Accelerated journey to the cloud, create seamless digital experiences by transforming IT system and operations for consumer and B2B, launch and monetize new 5G services and deliver dynamic connected experiences with real-time automated networks.

Starting on Slide 9 with cloud, the value of potential of which service providers are still in the early stages of maximizing. For most, the cloud will be a multiyear journey that will require the proven capabilities of Amdocs, including our cloud-native product suite and our ability to simplify complexity by delivering an end-to-end fully accountable migration paths.

As highlighted earlier, we signed cloud deals with multiple Tier 1 operators in the Americas this quarter. First, and of supporting Bell Canada's digital transformation by moving on-premise essential application to the cloud. Second, Amdocs collaborates with TELUS in

Canada to move on price application to Google Cloud, helping TELUS to be more flexible and cost-efficient unlock new business models. Third, at Claro Brazil, we are moving on-premise infrastructure to the cloud, unlocking new opportunities in the customer and enterprise markets and improving cost effectiveness.

Overall, we are pleased with the recent sales momentum in our cloud business, which we believe reflects the combination of our unique industry expertise and our strategic cloud partnerships. Moving to Slide 10. Service provided continued down the path of digital modernization to grow revenue, reduce cost and improve experiences for consumer and B2B customers. Making the significant milestone in Vodafone Spain's multi-digital formation journey, Amdocs recently completed the successful modernization of a customer engagement software for this operator, providing it with the improved system stability, security and performance while enabling the delivery of new and exciting services to Vodafone Spain customers.

Among other highlights this quarter. Amdocs signed an agreement with DISH for a new software as a service-based billing presentment for Boost Infinite subscribers, providing an enhanced experience. We successfully added Swiss operator Sunrise modernization capabilities, enabling them to sell and deliver a wide range of innovative products to the customers.

In South Africa, restoring our partnership with Melon digital, digital-led mobile virtual network enabler, which has selected Amdocs eSIM cloud platform to provide its customer worldwide with eSIM capabilities on the primary and secondary devices. In Southeast Asia, Amdocs successfully implemented an IoT connectivity management platform at Telkomsel in Indonesia, thereby enabling this operator to increase business agility and quickly launch new IoT services for consumer and enterprise customers.

Turning to 5G monetization on Slide 11. Amdocs continue to provide a global service provider with the next-generation solution that will need to monetize and unlock the future market potential of a true 5G stand-alone network as they roll out over the next few years. 5G Fixed wireless is one of the most powerful use cases to emerge from 5G. And we can now say that T-Mobile selected Amdocs home operating system to simplify Internet and device management and to automate consumer customer support for its 5G Home Internet customers.

Additionally, we recently delivered a 5G-ready next-generation charging solution for a major European operator to enable enhanced agility and time to market for innovative new products and services. One of the early adopters of the true 5G stand-alone network is Singapore, where we are delighted to continue working with M1 Limited, a leading digital network operator, which has selected Amdocs monetization engine to power its prepaid platform.

By leveraging our monetization platform to launch their prepaid and MVNO offering, M1 will be able to main cutting-edge experiences to enterprising consumers and drive new revenue streams while increasing agility and efficiency.

Turning to network automation on Slide 12. I'm happy to say that we closed the previously announced acquisition of TEOCO''s service assurance business on June 30, thereby, equipment and us to deliver a unique end-to-end service orchestration offering, assuring the quality of the service and enabling the modernization of next-generation dynamic customer experiences. Amdocs expertise in network domain continues to be recognized by the market. Among recent example, DISH implemented Amdocs network services to expand its 5G services on the public lounge, which include 5G run core and voice services. Culminating this successful rollout of a comprehensive 5G network that now reaches over 70% of the U.S. population.

Additionally, in Verizon, we went live with the 5G orchestration platform, enabling service and network automation in addition to which we have expanded our engagement in operational engineering to include continued platform support in network function, onboarding and improved automation.

Now I would like to make a few points about our business within the current operating environment as presented on Slide 13. To begin, we remain on the deal that Amdocs is sitting at the heart of a multiyear technology-driven investment, cycle center around the major long-term trends of 5G, network automation, digital modernization and cloud. Moreover, we strongly believe global service providers must continue to participate in this investment cycle to ensure the long-term competitive position in their respective markets.

Therefore, as a key technology enabler and trusted partner to the communication industry, we continue to see high level of customer engagement and large pipeline of opportunity, which we believe Amdocs is well positioned to monetize. The current economic uncertainty and industry pressure is, however, beginning to weigh on the spending decision of some customers which are now prioritizing multiyear strategic modernization programs ensure further investment to enhance legacy systems.

Amdocs is already at the heart of this modernization journey with many customers and we are ideally placed to expand our fully future scope of activity in these programs. Given we are also the incumbent provider of the legacy application for this customer, these business dynamics are nevertheless presenting some headwind to revenue growth. To adjust to these business dynamics, we are taking proactive and appropriate measures to optimize our expenditure and resource allocation and to ensure continued long-term growth, together with continued gradual improvement of our operating margins.

These measures include even greater emphasis on the operational excellence and cost leadership, primarily led by efficiency gains resulting from our growing adoption of automation, sophisticated tools and the future expected benefits of the Gen AI-related capabilities while maintaining investment in our strategic growth areas.

Wrapping everything together, revenue growth for the full year fiscal '23 is now tracking slightly below the 8% midpoint of our original guidance range of 6% to 10% in constant currency. On the bottom line, we are raising the midpoint of our outlook for non-GAAP diluted earnings per share growth in fiscal '23 for the second time this fiscal year.

Additionally, we are reiterating our free cash flow outlook of approximately $700 million for the full fiscal year, equating to a conversion rate roughly on par with expected non-GAAP net income. Overall, we are well on track to deliver double-digit expected total shareholder return for the third year running, including our dividend yield.

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

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

Thank you, Shuky, and hello, everyone. Thank you for joining us. I'm pleased with our solid financial results for the third fiscal quarter, the highlights of which you can see on Slide 15. Record Q3 revenue of approximately $1.236 billion was up 6.9% year-over-year in constant currency. On a reported basis, revenue increased 6.5% and most slightly above the midpoint of guidance, including a positive impact from foreign currency movements of approximately $5 million compared to our guidance assumptions.

To clarify, there was no revenue contribution from the acquisition of TEOCO' Service Assurance business in Q3 as the deal closed in the last day of the quarter June 30. On a geographical basis, North America delivered its best ever quarter as we continue to support the strategic modernization journeys of customers across the border region while in Europe, we achieved the second consecutive quarter of record revenue as project activity continued to ramp up.

Rest of the World declined on a sequential and year-over-year basis in Q3, reflecting some fluctuations in customer project activity. Moving down the income statement. Our non-GAAP operating margin of 17.8% was up 20 basis points from a year ago and unchanged as compared with the prior quarter. On the bottom line, non-GAAP diluted EPS of $1.57 was above the guidance range, primarily due to a non-GAAP effective tax rate of 12.3%, which was lower than anticipated.

Diluted GAAP EPS was $1.32 for the third fiscal quarter, which was above the guidance range of $1.16 to $1.26 also due to a lower-than-anticipated GAAP effective tax rate. Moving to Slide 16. I'd like to double-click on our non-GAAP operating margin, which has trended higher in fiscal 2023, in line with the new and improved guidance range of 17.5% to 18.1%, which we provided at the beginning of the year.

The year-over-year improvement in profitability reflects our commitment to operational excellence and cost leadership in respect to which we are now planning to take additional and appropriate measures to further optimize our expenditures and resource allocation and to realize ongoing efficiency gains led by a growing use of automation, sophisticated tools and the future expected benefits of Generative AI-related capabilities.

These measures include workforce reductions aligned with our global site strategy and work model and will result in restructuring charges of roughly $50 million to $60 million in our fourth fiscal quarter. Looking ahead, we expect to sustain gradual long-term improvement in non-GAAP operating margin as we have done over the last years.

Moving to Slide 17. 12-month backlog was a record high at $4.14 billion, up roughly 5%. On a sequential basis, our 12-month backlog was up by $30 million in Q3. During Q3, we continue to sign deals with new logos and existing customers. Additionally, work in backlog is progressing with no project cancellations. And Managed services renewals are tracking at 100%.

As such, 12-months backlog increased again in Q3 although compared with Q2, the year-over-year growth by 5% was lower this quarter, reflecting the business dynamics referenced by Shuky earlier. As a reminder, our 12-month backlog has traditionally served as a good leading indicator of our business, having consistently averaged roughly 80% of forward-looking 12-months revenue over the years.

Turning to Slide 18. Managed Services revenue was a record $720 million in Q3, equivalent to about 58% of total revenue. In fact, fiscal 2023 has so far been a landmark year in Managed Services with revenue in the first 9 months, up roughly 5% from a year ago.

During Q3, we signed a multiyear extension of an existing Managed Services agreement with a Tier 1 operator in Western Europe. Amdocs has also selected -- was also selected by customer into Caribbean to consolidate its business support systems under a single stack while taking over IT operations via Managed Services. To remind you, our Managed Services engagements underpin the resiliency of our business with recurring revenue streams, near 100% renewal rates and expanded activities under multiyear engagements.

This sometimes include modernization projects, which further deepen our relationship, a recent example of which is our extended partnership with Globe in the Philippines, as announced this quarter and last.

Now turning to the balance sheet and cash flow highlights on Slide 19. DSO of 79 days decreased by 3 days year-over-year in Q3 and increased by 5 days sequentially. The net positive difference between deferred revenue and unbilled receivables, aggregating the short-term and long-term balances narrowed by $101 million sequentially, largely offsetting the sequential increase of $102 million recorded in the previous quarter. As a reminder, the net difference between deferred revenue and unbilled receivables fluctuates from quarter-to-quarter, in line with normal business activities.

Reflecting strong execution and healthy customer cash collections in the period, we generated free cash flow of $144 million in Q3. Free cash flow was comprised of cash flow from operations of approximately $173 million, less $29 million in net capital expenditures. Overall, we ended Q3 with a strong balance sheet and a healthy cash balance of approximately $750 million, including aggregate borrowings of roughly $650 million.

Our cash balance already reflects the acquisition of TEOCO''s service assurance business, which closed for a net consideration of roughly $90 million. Moreover, we have ample liquidity to support ongoing business needs while retaining the capacity to fund our future strategic growth.

Turning to capital allocation on Slide 20. This quarter, we repurchased $129 million of our shares under our current authorization, of which there was roughly $156 million remaining as of June 30. Reflecting our confidence in the future success of Amdocs and the company's ability to generate cash, our Board has today authorized a new share repurchase plan of $1.1 billion with no stated expiration date.

Between the 2 authorizations, we have up to $1.26 billion of remaining repurchase authority. Additionally, we paid cash dividend of $52 million in the third fiscal quarter. In respect to the full year fiscal 2023, we are reiterating our free cash flow outlook of roughly $700 million. Excluding payments related to the restructuring charges referenced earlier. Our free cash flow outlook assumes a conversion rate roughly on par with non-GAAP net income and equates to a healthy free cash flow yield of roughly 6% relative to Amdocs current market capitalization.

Regarding our capital allocations in fiscal year 2023, we now expect to return the vast majority of our free cash flow to shareholders by way of our quarterly share repurchases and dividend payments program.

Now turning to our outlook on Slide 21. To begin, we are continuing to closely monitor the prevailing level of macroeconomic business and operational uncertainty, which remains elevated in the current business environment. That the fourth 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.

We now expect year-over-year revenue growth of approximately 7.6% in constant currency, assuming the midpoint of our full year fiscal 2023 outlook. This is slightly below the 8% midpoint of our previous guidance range of 7% to 9%, yet we are well within our original 6% to 10% range for the year. As a reminder, our initial outlook for the fiscal year included an expected contribution of roughly 60 basis points to revenue growth or inorganic activity, which never materialized.

On a reported basis, we now expect revenue growth of 6.3% to 7.1% year-over-year as compared with 6% to 8% year-over-year previously. The new outlook anticipates an unfavorable foreign currency impact of approximately 0.9% year-over-year, which is slightly less than our previous assumption of 1%.

Our outlook includes fourth fiscal quarter revenue within a range of $1.22 billion to $1.26 billion, and an immaterial contribution from the consolidation of TEOCO's service assurance business. Moving down the income statement. We anticipate quarterly non-GAAP operating margin to fluctuate around the midpoint of our annual target range of 17.5% to 18.1%. Below the operating line, we anticipate that foreign currency fluctuations in 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.

For the first fiscal year, 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, but above the high end of the range in Q4. Bringing everything together, we now expect non-GAAP diluted earnings per share growth within the range of 11% to 12% in fiscal 2023. The 11.5% midpoint of which is roughly 50 basis points higher than our previous outlook and roughly 150 basis points better than our original guidance issued at the beginning of the year. For your modeling purposes, the anticipated Q4 restructuring charge will be excluded from our non-GAAP financial results.

Overall, we are on track to deliver double-digit expected total shareholders' return for the third year running in fiscal 2023, assuming the sum of our expected non-GAAP EPS growth and our dividend yield of nearly 2%. Before passing it back to Shuky, let me say a few quick words about ESG, which sits at the core of Amdocs DNA and which is embedded through out our business operations, strategic priorities and the value we deliver to customers. Among many highlights this quarter, we are thrilled to say that Amdocs Vubiquity has been selected to provide a full suite of content management services to power Herflix, a subscription free online streaming service focused on film for adult and by women.

Amdocs believes that the presentation matters and by championing female lead narratives, we believe this partnership allows Amdocs to contribute to a more inclusive and representative media landscape that reflects the diversity of our society. Another key dimension of our ESG strategy is the environment in support of which we all also sign a recent agreement that will enable all Amdocs Park in Israel to be powered by renewable energy from 2024.

We look forward to providing a fuller account of our ESG strategy and recent initiatives in our new 2022, 2023 corporate social responsibility and ESG report, which we expect to publish later this month with an ESG Investor webinar to follow in September. With that, back to you, Shuky.

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

Thank you, Tamar. As you can probably tell from our remarks today, we are pleased with our solid financial and operational position as we enter the final quarter of fiscal year. Notwithstanding the uncertainty of the global macrodynamics and industry environment. With that, we are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Tavy Rosner with Barclays.

Tavy Rosner ***Barclays Bank PLC, Research Division - Head of Israel Equities Research***

You mentioned lowering slightly the midpoint of guidance due to industry pressure. Can you talk a little bit about the kind of pushback you're getting? Is it from a certain geography? Is it for a certain product? And how do you see the next couple of quarter evolving around that kind of push back?

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

Thank you for the question, Tavy. So I just want to remind the several facts. First of all, as you know, roughly 60% of our business is Managed Services will be pretty solid. We don't see any -- actually, business continue to grow. As I mentioned last quarter and this quarter, we see very strong momentum of all the cloud-related deals. You can see that we announced some of this today, last quarter, but we really see a great momentum in our activities, in taking our customers to the cloud and you see more and more deals and momentum around this.

At the same time, we see also acceleration in all the large modernization program that we are doing for our largest customer, AT&T, T-Mobile, Vodafone, 3 and others. So we see a real acceleration in the modernization program. And we don't have any cancellation from any projects. What we -- where we see some pressure, if you know -- if you remember, we -- in most of our customers, we are running both the legacy platform or the [current] platform in parallel, while we are building the next-generation platform for these customers at the same time.

So what we see is more -- to reflect to your question, what we see lately is more prioritization done by our customer, and they are prioritizing much modernization program that we are doing for them comparing the current or legacy platform that we continue to maintain with them. And we usually continue to enhance them also as we speak.

But we see some pressure in this area of enhancing the current on the legacy system comparing the other domain that we see acceleration. So all in all, this is the area that we see some pressure. Historically, we see ups and downs in this, what we call legacy, our current system spending. I can tell you that at the end of the day, why we spend with our customer a lot of attention and money and efforts to deploy the next-generation platform. The current platform is actually what is running the business today.

So this is -- you still need to invest in this platform while we are bringing or building together the next generation platform. But this is the key reason that it's reflecting the pressure. And another reminder, and I will start with that you can remember when we gave the guidance at the beginning of the year, we anticipate at roughly 0.5% or something like this also a contribution from the MYCOM, service assurance company that was in my numbers.

This as you recall, this -- unfortunately, this acquisition did not materialize. So this is obviously a revenue that is not part of our guidance. But I think all in all, just to make a long story short, the main pressure is coming from investment in the current or legacy platform.

Tavy Rosner ***Barclays Bank PLC, Research Division - Head of Israel Equities Research***

That's helpful. And maybe as a follow-up, most of the presentation, the slides really talk about the strategic domains, like the new domains and strategic initiatives? And perhaps it would be interesting to understand where the growth is coming from, like because you seem to emphasize mostly the new domain. So is it fair to say that most of the growth nowadays is really the new domains rather than -- I would call it legacy, but perhaps the existing kind of infrastructure, like can we get a sense of how much is coming from...

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

For the most part, you are right. I mean there are some -- not too many, by the way. customers of Amdocs that are running current or legacy systems that don't have at this point at least or did not start any modernization program. So these customers are still investing heavily in the current platform because this is what is running their business. I was reflecting more to the customers that are actually building a very, very robust modernization plan while running the platform still on legacy. But you're perfectly right. The growth is coming from the growth engine.

As I mentioned, the cloud-related deals momentum that we see. Everything around 5G monetization, network automation, digital transformation in general. This is -- I think this is the pillar, of course, that we see. While as I said, we continue to maintain many, many activities in a current platform and modernization platform. But overall, this -- as I said, this phenomena is more related to customers that are investing heavily in modernization. And we have a lot of customers that are not investing yet in this modernization. So for this customer, they will continue to invest a lot in the legacy platform.

Tavy Rosner ***Barclays Bank PLC, Research Division - Head of Israel Equities Research***

And maybe just housekeeping questions. You mentioned the acquisition of TEOCO. What kind of revenue contribution will they bring if you look at it on a 12-month basis?

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

It will be roughly 0.5%, as we said before, starting -- naturally starting slower and then ramping up as we move along the -- so that's why we said specifically in Q4, contribution is insignificant, and we believe that it will build itself up as we move through 2024.

Operator

(Operator Instructions) Our next question comes from the line of Timothy Horan with Oppenheimer.

Timothy Kelly Horan ***Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

A few questions. So can you give us some sense of the magnitude here of what you're talking about? Like what percentage of your revenue is this? I'm assuming it's just that, that legacy business isn't growing, but can you give us a sense of how much of your incremental growth came from, I guess, upgrading or doing whatever you need to do on the legacy business? And was that reflected in the quarter and the third quarter? Are you seeing that in the fourth quarter? Do you expect to hit that next year? Just kind of any sense of the magnitude that we're talking about here.

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

That was actually the majority of growth, as Shuky said, is coming from the new drivers for modernization, right? Everything we are talking about on our strategic growth pillars, while investing in the future while building the next-gen stack, typically customers would like to make changes in terms of go-to-market approach, adjustment to the existing systems, et cetera. So it's something that is managing them to run their current business while they are building the next-generation stack.

So it never was a growth driver. It's more of a kind of keep the existing capabilities while building the right stack for the future. We have started to see that a bit more during Q3, and we're taking that into consideration for Q4. We are not guiding right now specifically for next year. And of course, we will have more data points as we move along and say how is that happening? But I really want to emphasize again, we see the momentum in the pipeline.

We see the signings of new deals. We don't see any project cancelation, 100% renewal rate of managers. I would really want to just to put some focus on that phenomena. But we need to take it into perspective. It's not a big part of the overall story. And definitely, you can see the growth and the sequential increase. Also we've seen in the backlog of $30 million, which is continuing to be healthy.

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

Historically, this is not the first time that we see fluctuation in -- so we see -- it's not new to us this phenomenon.

Timothy Kelly Horan ***Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

Okay. Great. Verizon, can we get a sense of how big of a contract this is or step up? Is this a 10% increase in their revenue spend with you? Was it a 50%, 100%? Just any kind of sense of what's going on here. And yes.

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

As you know, we don't share this type of information. I can tell you that this is a very important strategic project for Verizon in all the service orchestration domain, which actually is doing the old orchestration of all the new 5G services. So it's not -- it's a strategic project. It's not a niche project. What we expanded this quarter is actually we were implementing the offering in the prior quarters, what we're expanding is actually the operation of this service SDLC, the Service Delivery Orchestration. This is what we've done in prior quarters. And in this quarter, actually, actually, we're expanding the operation of this platform. As a reminder, also, Verizon is running our catalog. So all the service offering, all the offering of Verizon or running through our catalog too.

Timothy Kelly Horan ***Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

Okay. Lastly, on the AI side. Can you -- I mean the -- I think you said 80 different use cases. I mean, could this be material to margins? And where are you with deploying this for your customers, some of the same capabilities?

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

So for our customers, we are building many, many amazing use cases I will give you one example of what we implemented. So in our catalog today, when you want to build offering, you will say, I want to -- actually you can talk, I want to build an offering in Dallas area for millennial in this range, tell me what you think will be the population and what will be the right offering. And this will generate 4, 5 different options for you and we'll also anticipate what will be the uptake.

So this is like a game changer in the way you -- this is one example, and we have many of these how to create offering. So this is from a customer perspective. We are implementing a lot of improvement for what we call the SDLC, the software development life cycle, automating many areas in this domain from testing to requirements gathering, I think that we probably will be more mature next quarter.

But I can tell you that part of the -- our cost leadership thing that we are doing today and we announced most of them are relying on previously automation will be developed and a lot of them are related to expected capabilities that we are going to get from a generative AI. So this is from what we do.

I mean this is true for Managed Services for development for everything that we do run software development. And the last thing, like every good corporate, I mean, we see a lot of opportunities in our corporate activities in HR and finance and other that also believe we could do things faster and cheaper and also will contribute to our margin expansion.

Operator

Our next question comes from the line of Ashwin Shirvaikar with Citi.

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

I guess my question is with regards to some of these types of projects that you're signing a cloud, moving existing on-premise work to the cloud. How does the economics of what you're doing? I mean, how does your economics change when that happens, if you could provide maybe some color around that, that would be useful.

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

I don't know if the economics change. Let me share first what we do. So when we do -- when we are doing a cloud project is mainly start with consulting. So we look at the ecosystem of the system. By the way, this is true for Amdocs system or non-Amdocs system. And then we come with a combination of what is the right plan. And then the next step after we agree, we're actually doing all the execution of building the platform in the cloud and then doing all the migration of the data to the cloud.

And then we are doing the operation. what -- this is, as I said, this is the cloud operation. So it's a very robust end-to-end accountability program. By the way, in many cases, we are also managing the -- all the cloud itself and the -- how they call it the -- the workload -- all of this is part of -- and as you know, we have a very good relationship and strategic partnership with Microsoft (inaudible).

So I don't think there is a big change in dynamics. I can tell you, as we shared before, that obviously, the new platforms, especially the one that we are investing heavily in Generative AI give us more opportunities for margin expansion in the future. Because when you implement a well-architected micro services environment of -- in the cloud. This is where we put our offer to automation Generative AI, definitely in the future, there is a potential margin expansion.

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

Maybe just to add, Ashwin, I think we can back it to 3x of move to the cloud. One, the customer is deploying our next-gen stack, cloud native. We take it -- consulting to modernization projects, all the way potentially to cloud ops, et cetera.

The second is that they want to take a more gradual approach. And they're moving from an existing version of an Amdocs product, and we've allowed them to actually step up to the cloud and then modernize over time. And the third could be that they want our help in migrating some applications that were running on-prem to the cloud, sometimes our own application to non-Amdocs applications, such as the examples we've provided in the past in AT&T and other examples where we are helping them actually do that.

So we're giving them a very wide variety of how to go about it which is accepted very well and customers feel that they can take a modular and gradual approach, they can do it in a more aggressive way. So that's perceived and accepted very well by customers and giving them a lot of optionalities.

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

That's very useful and comprehensive. I just have to ask about the environment, the business environment, you mentioned in your prepared remarks as well, the business dynamics are decelerating growth rate. So as you kind of sit here in beginning of August, and start planning for next year, how should we consider at least this framework for next year, and you can't give guidance now, but at least the framework in terms of the ability and the pieces to get to a double-digit shareholder return?

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

So I think that first of all, I think that we feel confident that we can continue to double digit. We believe it's not -- we are not guiding right now. but it will come as more. But definitely, we want to continue in this past, and we'll give you more details when we talk in November.

Regarding the environment itself, I think that what we reflect right now, what we see now, as I said, there was fluctuation in these activities and we come with the full guidance. There are , as I mentioned before, there are certain elements of our revenue like Managed Services that we see increase, and these are -- I don't think there's any impact from anything that we see around us from the macroeconomic environment.

There are areas that we see some headwinds, as I mentioned, some type of legacy systems in some customers. But overall, I think that as you might imagine, we are doing all the bottom-up and top-down activities to come with the guidance next quarter.

Operator

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

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

Thank you, Liz, and thanks, everyone, for joining the call this evening. We do look forward to hearing from you very soon. And if you have any questions, just reach out to us here in the IR group. Have a great evening. Thanks a lot.

Operator

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