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PRESENTATION

Meta A. Marshall - *Morgan Stanley, Research Division - VP*

All right. Perfect. I'm going to start with the disclosures. For important disclosures, please see the Morgan Stanley Research disclosure website at morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative. For those of you who don't know me, I'm Meta Marshall, Head of Networking and Communications Software here at Morgan Stanley. We're delighted to have Amdocs here with us today. Anthony Goonetilleke, Group President of Technology and Head of Strategy; and Matt Smith, Head of IR. I'm pleased to have you guys here.

Anthony Goonetilleke - *Amdocs Limited - Group President of Technology & Head of Strategy*

Great, thank you.

QUESTIONS AND ANSWERS

Meta A. Marshall - *Morgan Stanley, Research Division - VP*

All right. For investors who are maybe less familiar with the Amdocs story, can you just describe the company and how you're competitively positioned within the market? And then just some of the key growth drivers and how those are evolving?

Anthony Goonetilleke - *Amdocs Limited - Group President of Technology & Head of Strategy*

Yes, sure. So we predominantly focus on the communication space on that vertical, been there for decades. And we service pretty much all of the Tier 1, Tier 2, Tier 3 customers globally, starting from the big guys like the AT&T, T-Mobiles to the small up-and-coming guys, ranging from wireless providers to cable providers to MVNOs. So essentially, if there's anything to do with connectivity, generally, we have a plan and we're supporting our customers from that perspective.

I would say kind of our angle to it is we're very focused on customer experience. And I don't just mean the front-end, on how you deal with the customer, but all the way to capturing an order, handling an order, provisioning it, connecting it through the network. So that whole end-to-end customer experience or the customer journey, we're very focused on it.

And I think that's what kind of differentiates us a little bit. So you have companies that do just CRM or do just network pass or do just ordering or something like that. Because we have this kind of holistic view, it kind of puts us in a little bit of a unique position.

Meta A. Marshall - Morgan Stanley, Research Division - VP

Okay. Perfect. You just mentioned you guys have a clearly unique business model versus your competitors. Just how does this -- how does being more of a product-led company, but also having all of these -- how does that translate into greater customer success and you're almost a one-stop shop for your customer?

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

Yes. So if you think of -- I kind of think of the space of being a red ocean, right? So you have all these SIs that are competing against each other, you have these product companies that are competing against each other, these data center places that are competing against each other. So Amdocs comes and we don't like play directly in that field, like we carved this space. And we say, look, our model is unique because we provide you an end-to-end accountability model, driven by our products, predominantly and the services and we really focus on delivering results.

So it's about an accountability model that we bring to the table. So it's not like, hey, here's our product, throw it over the fence and just hope that someone can get it working or the other way around, right? If you're an SI, you just saw, I got this product, and it doesn't do the job. Like there's no finger-pointing, right? So our customers choose us because they can look at the business KPIs, they can predict an accountability model and they know they have this one throat to choke in terms of the overall deliverable, including, in some cases, managed services, where we do operations and end-to-end services.

Meta A. Marshall - Morgan Stanley, Research Division - VP

And how much leverage do you get out of that internally where you don't have to -- you've already made all these pieces work -- and so...

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

Yes. Look, it's huge. I mean the amount of overhead, you look at this huge transformation project, right? I mean there are so many vendors and everyone's trying to protect themselves and point fingers and say it's not their fault, where the poor customer sitting there going, "Oh my gosh, like I need to get this to work. So I think internally, we just see, when we get a project end-to-end from design all the way to building it, to deploying it, to operating it. There's just so much of this overhead taken out of the space.

And I think our customers really appreciate it at the end of the day. And I think time has shown it. I mean, we don't lose customers. We've had customers for a very long period of time. And as we kind of invest in our product portfolio and things like that and bring new things to market, it also gives us an opportunity to go back and say, "Hey, what about this? Have you thought of this, things like that.

Meta A. Marshall - Morgan Stanley, Research Division - VP

Okay. A question I get a lot is just why would carriers leverage Amdocs versus trying to build it themselves internally? And just -- how do you kind of respond to that pushback? Probably both from investors and from your customers?

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

Yes. It's a great -- no, it's a great -- it's absolutely a great question. I would say, if you ask me who our direct competitor is, we don't have like one direct competitor, right? Like I said before, you have the SI guys, you have the product guys, you have the data center. So we don't have one specific competitor necessarily, but it's internal IT, right? So the differentiation is that, look, over the last few years, we've spent over \$1 billion in R&D, right, of building products, number one.

Number two, we're deploying this globally, right? So we see trends, we see what people are doing. We see what works. So we're bringing all of this experience to the table at the end of the day. And just that experience of making sure all of these bits and pieces work to deliver a business outcome, right?

So when you start working with us on day 1, you get that at day 0, right? And that's very hard to get, right? I mean, even if you think of technology, we replatformed our entire suite about 4 years ago to be cloud native, running natively on the cloud using micro services. I mean this journey itself, if someone decides to begin it, takes years.

And then you have to learn the lessons and you have to learn the hard way sometimes, right? And you have all of these 70 vendors you need to manage. You now have open source software, who's going to support that. So rather than focusing on your business and trying to do what you really wanted to do, you have all of these infrastructure things you're kind of focusing on.

I kind of like jokingly, I give the example of like if you're FedEx, do you really want to make tires for your truck, right? We just want to buy the best tires from whoever provides it and then fit them on your truck, right? So, another way to think of Amdocs is like if you think of it like the LEGO blocks. So we come to the table with this kind of vast array of LEGO blocks. And if you've ever walked into a LEGO store, like you go to the back of the store and you see all of these different size blocks and things like that. So you come to Amdocs and you can say, you know what, I'll take the catalog, I'll take ordering. This is what I want to do. All you'll come to the table and say, "Hey, I want to focus and really transform my retail sector.

And you can choose these components and build whatever you want out of it, right? Because our customers, if you look at North America, I mean, we pretty much have the entire population of customers there. And the business models are very different. The go-to-market is very different, right? What they focus on is very different, but it's still the same core components. So the closest analogy I can think is like getting all of these different LEGO blocks and then the service provider can build exactly what they want to build out.

Meta A. Marshall - Morgan Stanley, Research Division - VP

It almost like, in some ways, you're also giving them some of the prebuilt characters like and they can build the whole landscape, but you've given them all the pieces to (inaudible).

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

Absolutely. And it goes the other way as well, right? Like we'll work with the service provider, and I think this is one of our value adds like we would have one -- we have a very innovative service provider in Asia Pacific, and they would come to us and say, "Hey, like I really want this piece that goes around a corner. And they think about it, right? And we know that's a good idea. We'll incorporate that in our product. And then suddenly in the next release, all our customers have access to that piece, right?

So we take the input not just from the market but also from our customers, put it back in our product. And if you're building it in-house, these are things that you won't necessarily get or even think about.

Meta A. Marshall - Morgan Stanley, Research Division - VP

Yes. Okay. I mean just how do we think about the market in terms of in-sourced versus outsourced? Is there a way to kind of segment that?

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

I think these things always go in cycles, right? So been around for a little while, and I remember when Netflix just kind of came out and Reed Hastings are doing all these stuff. And every TEOCO said, "Hey, like we want to be like Netflix. We want to build everything. And then they said, hang on a second, like maybe we should just focus on our business because that's not our -- our business is not building technology, right?

And so I feel like these coming cycles, depending on organization and things like that. But I think that over time, we've proven that there is value. In some cases, we will be design partners with our customers, right? In other cases, we will bring those LEGO blocks to the table, but not just bring those LEGO blocks, but say, "Hey, like if you take 5G or even general AI or anything like that. Like we'll come to the table going, I know you have the LEGO blocks, but here's the catalog of amazing use cases you guys can look at, right? Here are different ways to monetize fiber and 5G, right? Here is a way you can focus on ubiquitous connectivity.

So these are kind of like business principles, we've collected over time, that we bring to the table. So I think over time, customers kind of may go in the cycle, but eventually, they kind of start using us and then focusing on more on the upper layers on how to market things and how to go to market and deliver the next generation of product.

Meta A. Marshall - *Morgan Stanley, Research Division - VP*

Okay. So you've mentioned that your platform touches nearly 3 billion consumers worldwide. What does the product suite look like more specifically? And just what are the common use cases. You've mentioned a lot of these kind of building blocks, but just what do we think of kind of as what are those most popular ones?

Anthony Goonetilleke - *Amdocs Limited - Group President of Technology & Head of Strategy*

Yes. So the 3 billion comes from the perspective of we have all of these different modules, right? So if you look at RCRM, to our ordering, to our billing monetization, charging rating, if you kind of add them all up, it's pretty hard to go anywhere in the world, where you're not touching an Amdocs system in some shape or form. So that's kind of where the 3 billion number comes from.

And so I would say our customers kind of -- if they take something like, for example, if they take the catalog, there is an opportunity to go in there and have a discussion with them about their ordering platform or if they have an issue on their networking side. So it always opens these doors for us to kind of have this kind of discussion with them.

And so we don't take it lightly because, of course, that's a nice position to be in. But we feel like with all of these data that we get from the customers, all of these customer journeys, we have a purview to, we can build better products for the future.

Meta A. Marshall - *Morgan Stanley, Research Division - VP*

Yes. Okay. And I mean just how do you think about growth of the company versus kind of selling current customers, more pieces of the portfolio versus kind of adding in new customers and new subscribers?

Anthony Goonetilleke - *Amdocs Limited - Group President of Technology & Head of Strategy*

Yes, that's a good question. So we look at it from, I would say, a multifaceted perspective. So absolutely, land and expand, right? So when we have a customer, our goal is to increase the share of the pie, and you've seen we have some big customers where we continue to increase. And the interesting thing is there is not really necessarily a ceiling there, right? Because it's a moving kind of trajectory, right? Because today, we're looking at GenAI, tomorrow when we be looking at something else. So there's always an opportunity even with our existing customers.

But we're always looking at kind of new lines of business. So one of the new lines, just the more recent one is what we call digital brand. So we see a phenomena all around the world where people are coming in and saying, "Look, I want to build a pure zero touch, digital brand mobile service, targeting a very niche vertical. So we did one in South Africa called Melon, which is just like just really cool, low-touch digital brand.

We're having several discussions in the U.S., examples could be, for example, you may be targeting like college kids or kids that go to college football games, like these very specific niches. And if you think about those the money to stand something up needs to be -- like the TCO needs to be small, and it needs to be agile because in 2 years, that niche may change, right?

So that's a new one, and we've got some, I think, 5 or 6 new logos in that space now. So that's a new vertical. And also we continue to expand our offering, right? So initially, when we started with -- we started in the billing space. We start -- actually, if I -- historically, if I go back, Amdocs started in the yellow pages, we've evolved since then, but we can...

Meta A. Marshall - *Morgan Stanley, Research Division - VP*

Happy to knowing that..

Anthony Goonetilleke - *Amdocs Limited - Group President of Technology & Head of Strategy*

It's that big book used to stand on to reach a shelf. Believe it or not, there's still yellow pages apparently somewhere in the USA has been delivered. But Amdocs has evolved from that perspective. And so today, we have kind of sweep it up, from A to Z, right? We don't do hardware. But everything from a software perspective from, if I go now kind of southbound to northbound, from RAN management, to network components to OSS, to BSS, to kind of all your channels, including retail, we just build this really cool retail store in the Middle East for Etisalat, which was like this zero touch, it's kind of like that Amazon Go store, you just walk in, pick up something and walk out, kind of using generative AI in the space.

So all the way from that, to network provisioning, we are constantly expanding our portfolio. We just acquired a company called Astadia that helps our customers migrate legacy systems to the cloud. Right? So that was a very strategic asset for us because we know our customers need that help to accelerate their journey to the cloud, and we saw that piece as a fundamental component.

That's something we didn't have before. right? So I would say we did service assurance because we knew, as we look at 5G and 6G coming out, you need to make sure your network service is assured and delivered as promised. So it was a component we didn't have. So instead of building it, we went and acquired it. So I would say that first, absolutely land and expand; second, kind of expanding our offering; and third, looking at these kind of new verticals that are popping up within the connectivity space.

Meta A. Marshall - *Morgan Stanley, Research Division - VP*

Got it. Okay. So you alluded to GenAI in your last answer. It's been a major kind of company priority. And as opposed to a lot of the names here that are talking about, oh, end of '24, beginning of '25, I start thinking about things. You guys have been well on your way for a number of years. And so can you just kind of give us a sense of both how you see utilizing GenAI internally and then for your customers?

Anthony Goonetilleke - *Amdocs Limited - Group President of Technology & Head of Strategy*

Yes, absolutely. I mean we were kind of helped from the perspective of we were already using AI, right? So the step to GenAI for us was a smaller step versus people that weren't using it that just had to kind of leapfrog. And then we discovered again, is kind of going back to the analogy of it's probably not a good analogy, but eating your own dog food, right? Like we consume it, eat it, breathe it, inside starting all the way from the top from my boss Shuky, the CEO going, look, this is something that we're going to double down on. And so we started to use it extensively.

And not just like I run a technology organization with 7,000 or 8,000 people, that's the easy part, right? Because technology people love to grab stuff. But I'm talking about HR. I'm talking about operations. I'm talking about marketing. Just to give you a very simple example, in terms of like corporate marketing and things like that, people don't create graphics or slides anymore, right? We used to pay some agency to go develop them today. They're just 100% generated and done in 30 seconds, and you don't need multiple people, right?.

So internally, I would say absolutely, we're 100% on board. I would say, externally, what we've done is we realize that, we're not in the business of building a large language model. That's the job of the Google, the OpenAIs of the world, those guys to build it. But we focus very, very specifically on the telecommunications sector.

So we infused the large language models with the TEOCO taxonomy. So understanding how TEOCOs work take something as simple as there's a term called early termination fee in telecommunications or proration. They're very unique in terms of the way they handle, right? So if you take something like that, we also know that there are 117 different database entities that connect to something like proration, right?

So we do all of these joins and connections and teach the model, how to understand the telecommunications taxonomy. So this is one thing. The second thing is around trusted AI. This is a big thing. I mean, look, our customers are some of the biggest brand equities around the world, right? Like everyone knows them by name, right? Doesn't matter if they love them, or hate them, they know them. So you cannot afford to make any mistake to have any hallucinations to kind of go off the rails because that's going to be front page news.

So we are very focused on having this kind of governance module that helps you put the guardrails in place. And the third thing, which is very important is kind of all of the plumbing that needs to be done, right? So all of these data sources it's not just about ingesting a data model. Like we have -- we showed an example at Mobile World Congress, where the use case today is 30% of incoming calls to call centers, is basically someone going, hey, like my bill is different than last month, like what is going on? Or I don't understand this it's some type of billing part, right? So that's about 1/3 of it.

So we kind of did a whole ingestion of voice to text calls basically trained a large language model. And we kind of benchmarked if we looked at it, if someone calls a call center and say is, hey, like something is wrong with my bill, this is different the last 2 months. Even if you're a trained agent, it takes you 10 to 15 minutes to pull up the old bills, to look at what was different, to try and compare it. If you've seen your bill, I'm sure it's like -- as an industry, we need to do a better job. There's so many line items and fees and charges, it's very difficult to understand, right?

So at the best, it takes 10 to 15 minutes. We showed a model where you can come and ask the question, within 30 to 40 seconds, you get the most beautiful articulate answer. But in order to do this, we had to not only go to a large language model, we use our Amdocs amAIz platform, we get all your real-time data in terms of your customer transactions. We look at your billing history. We collate all that together and give kind of the best possible answer to address your outcome.

So rather than being upset, rather than being on hold for 15 minutes, you get an answer and you go, "Oh, okay, it's because I upgraded my Internet service from 300 to 1 gig. That's why it happened. And then you can have a better discussion with them saying, "Hey, how about this plan? Or how about this service, right? So change that kind of negative call to a positive NPS type discussion.

Meta A. Marshall - *Morgan Stanley, Research Division - VP*

Okay. Perfect. Within AI, you've had partnerships with both NVIDIA and Microsoft. Can you just give a background on these partnerships and how they help differentiate?

Anthony Goonetilleke - *Amdocs Limited - Group President of Technology & Head of Strategy*

Yes. We did some long and hard thinking in terms of who we kind of doubled down on these rates, right? Clearly, we have partnerships with AWS, Google, Microsoft, but the Microsoft partnership comes in 2 different perspectives. We also work with them in the CRM space, together with Dynamics. We jointly develop a road map for, what we call the customer experience platform for telecommunications.

So this integrates with all of the -- think of the workplace management components like Teams and things like that all together with their sales force automations stuff. So this is Part A with Microsoft. Part B is around generative AI and their collaboration with OpenAI or their partnership, I would say, investment with OpenAI, and we work directly with the OpenAI guys as well. Because at the end of the day, today, if we kind of benchmark, OpenAI is still probably ahead of the pack in terms of results.

So we thought that was a very important partnership to consolidate our R&D teams sit together. We're developing stuff together, for our customers in the telecommunications space.

The NVIDIA angle was also very important because our customers also want optionality. So NVIDIA helps us bring together the GPUs, to process all of this work, helps us bring together open source large language models, such as Meta's LLaMA 2, for example, because we know cost is going to be very big, very quickly, right? So we want to have this optionality. So if you use our Amdocs amAlz platform, there are some transactions that we can just go to an open source model and give you an answer quickly, and that's going to cost you very little versus going to a proprietary model maybe that's costing you.

So we believe that those 2 partnerships really provide us with a foundation to provide our amAlz platform, as a solution. And again, we come to our customers with this kind of GenAI in a box saying, "Hey, here's the integration, here's the platform. Here's the large language models, here's the cloud services, tell us your business problem, or if you don't know, which business problem, here are 40 use cases or GenAI apps that you could use to start. So we look at an ROI model with our customers, and we say, okay, this is an area that you're having the most problems in. So let's start here.

And that's kind of the approach we're taking right now. And we are like in the middle of several POCs with customers. I always kind of say if 2023 was the year of experimentation, 2024 is really the year of product -- productionization of really proving the result. And I have to say, I mean, I've been a technologist for all my life. It's a game changer in terms of the results we're seeing. I mean, I always hold my breath, we know when we do these demonstrations going on. I hope this works because it's a live example, right?

But I've always been like positively surprised with some of the emergent behavior coming out of it, how it measures the information, and it's so succinct and articulate, in terms of the way it brings information out. And so I think there are huge efficiency savings to be had.

Meta A. Marshall - *Morgan Stanley, Research Division - VP*

So I mean listening to you, there's a ton of stuff you can help your customers with. There's a lot of forward thinking in terms of the portfolio. Your customers are not known, as being necessarily the most forward thinking. And so just how do you kind of translate your enthusiasm and what you can do for your customers into action by your customers? Or how much of this is like a push/pull on your customers?

Anthony Goonetilleke - *Amdocs Limited - Group President of Technology & Head of Strategy*

Look, I would say our job in the industry is to hold that beacon and always push these things out, right? So like you said before, we started generating AI, when -- before it was even out to consumers, right? So when we come to our customers, like, I think we had over 1,000-plus meetings with C levels in Barcelona this last week. Not one of them said we are not interested in doing it nor do we not want to do a POC, right, in generative AI.

So everyone is really interested in it. And I think our customers almost demand us to come to the table with what's going on, what can we do it? How can we implement it. That's one of the reasons I think they choose us. And we also come to the table with kind of like business ideas, right? It's not just the technology. But like you said, I think the pull side comes from the fact that there are mergers and consolidations that happen, right?

So they're like, okay, we need to get this done, like you think of like the Sprint T-Mobile, for example, right? Like that's more of a pull because like we have a business imperative, we need to get this done. Then there is the push stuff when it comes to one of the core projects we're working now is what we call enterprise consumer convergence.

Meaning, if you have Anthony, as an enterprise customer, well, why shouldn't you be pitching him your consumer services. But today, predominantly in the industry, the 2 are led very separately, govern organizations very separately. And so these are, I would say, the push ideas that we come to our customers.

And of course, if they embrace them and they like them, that then converts their project or a transformation project.

Meta A. Marshall - Morgan Stanley, Research Division - VP

Okay. So maybe moving on to the cloud side of the equation. You saw strong momentum from the last year carry into Q1. Can you just speak to Amdocs kind of end-to-end cloud offering and strategy? And just where is the industry in terms of kind of these time lines?

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

Yes. And I think our customers were probably a little bit slower to kind of embrace the public cloud, and move on it. But that was not for a negative reason. That was for 2 reasons. Number one, they're running on -- I mean, they're providing critical national infrastructure, right? So it's one thing to say, like Gmail is down or whatsapp is down. But we know that when a service provider never goes down.

Meta A. Marshall - Morgan Stanley, Research Division - VP

Never goes down?

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

I mean it's not just front page. It takes on a whole life of its own, right? It's like a world just stopped, right? Like people were like -- the funniest tweet that I said was someone was questioning whether it was like aliens invading or something like conspiracy theory, to country attacking to like -- it goes crazy. So when you embrace something like the public cloud, you need to make sure that it can provide the services you want, the SLAs, the security it wants.

Because if you think about customers, they are some companies -- not all companies have their own data centers and infrastructure, our customers do, right? So that's why they were slower to moving to the public cloud. But I think -- in the last 3 years, we've seen a journey and a migration path, and I think that will continue probably for the next 5 to 7 years because it starts from noncore systems to IT systems. And the last component is the network system because they are mission-critical and all of those capabilities need to be provided in the public cloud.

So when we come to the table, we're like, look, we can help you move your legacy stuff to the cloud in more of a lift and shift manner. We have a new set of platforms that are cloud native that you can start to use. This asset we bought, call it, Astadia their whole purpose is to migrate legacy code to the cloud, for example.

So we bring all of these assets and wherever you are in the continuum, we can help you build a plan to migrate to the cloud. So that is why we think that's one of our kind of a generational pillar, meaning it will go on for years, as our customers continue to gradually move to the cloud, it's kind of like one step forward, test it, make sure it's okay, then do 2 steps, test that, make sure it's okay. And that's kind of this continual journey, I would say.

Meta A. Marshall - Morgan Stanley, Research Division - VP

Okay. Just because it's kind of topical to a lot of the weakness that we've seen, on the 5G side of the equation, we get a lot of debate as to whether investment has peaked. I know your team views the opportunity still in early days. I do as well. So just what do you think about kind of the monetization of 5G, as investments and just where you're seeing those best use cases?

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

Yes, I would kind of look at 5G and maybe I'll split it in a couple of different ways. I think maybe the infrastructure investment may have peaked a little bit in terms of putting out the radios and things like that. But the rollout of stand-alone is still going on. It may have slowed due to kind of

macroeconomic issues and things like that and may have slowed down a little bit. But -- so if I break it into 3 parts, right? So I say the RAN, 5G stand-alone and monetization, we are -- we haven't even touched the surface on monetization, we are still very early days in monetization.

We're starting to see obviously -- you look at the results on fixed wireless, for example, with T-Mobile and Verizon. They're some of the fastest-growing net ads, right? Like if you look at fixed wireless. So there's definitely promise there. I was talking to a customer out in Manila and they were talking about this kind of democratization of broadband, right?

So you think of these countries like that, you go and light up some cells in Manila and suddenly, you have millions of people having access to broadband and how does this change a society, right? It's a complete game changer when it comes to it. So I think we're -- from the space of monetization, we're still in early days, I was kind of like laughing to myself and kind of like wondering what I should say I had an interview at Mobile World Congress and the guy wanted to talk to me about 6G, like yes, I can talk to you about 6G and white papers and stuff like that. But I think 6G at the end of the day is a continuum of 5G, right?

I think 5G was a big leap. But I think what we'll see is the stand-alone networks allowing us to do things like network slicing, allowing us to segment the network like we couldn't do before. And that will just start to increase as 6G rolls out and the technology comes in. But I think the way we like to think about it is more around this ubiquitous connectivity notion, right? Like as a consumer, I don't care, right? Like just give me the best broadband. I don't care if it's fiber or 5G or 6G or whatever it is, just connect me wherever I am, just connect me.

And I would say the other upside that we're starting to see very early signs of. So if you think of myself 10 years ago, I had a relationship with a cell phone with my carrier, right? Today, I have a sim in my cell phone. I have a sim in my Apple Watch, I have a sim in my iPad, I have a sim in my laptop, I have a sim in my car, I also have a smart meter in my house that has a sim, right? I just bought the Humane little device, the AI device that's coming out, right? And a SIM card in it, so suddenly, you go from this one relationship with the service provider to ten.

And that's not -- that's something that's just going to keep expanding, right? So I think there are multiple ways to monetize it. Because I don't think like if I'm just going to give you a 5G service, you're never going to pay double for just because, it's 5G or 6G or whatever, right? So I think we have to be more creative. So I think. Yes. Maybe the equipment rollout of 5G and the initial CapEx investment maybe we saw a peak there on the RAN side.

I think standalone is still going on, but very, very early days in terms of monetization. And look, let me be very candid. We need to do a better job as an industry, monetizing it because there are others that are monetizing it on top, right? You even talk about edge services and things like that. But generative AI, it becomes -- edge services becomes more important and who has the best edge present better than the web scale guys or anyone. It's a telecommunications provider right?

So I think as an industry, collectively, we just need to do a better job at it.

Meta A. Marshall - Morgan Stanley, Research Division - VP

Okay. And so maybe I'll circle back to just kind of the current operating environment and demand environment. Clearly, service provider spend has been under pressure given macro. Just what are your latest kind of assumptions for recovering in that environment?

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

Yes. And as we kind of were planning for this fiscal year and we look towards it, we did see some kind of headwind coming from some of the legacy stuff. But the exciting thing was we still saw our customers continue to spend on moving to the cloud, generative AI has become a big thing, right, fiber rollout. So there are these areas that we are playing in.

We don't see any material change in terms of kind of what we saw and we -- as you know, we did predict the second half would also pick up. So we don't see any material change. But we're not whatever happens on the macro space or some of our customers being impacted, we are connected to it, right? So...

Meta A. Marshall - *Morgan Stanley, Research Division - VP*

Yes. Now, I'm going to get you involved in the kind (inaudible) . And so one of the priorities has been to kind of accelerate profitability. Can you just speak to some of the actions you've taken to kind of help drive that profitability and just how to think across -- about margins across the rest of the year?

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

Yes. I mean I think improving profitability is just part of the ongoing operational excellence in the company, right? So over the past few years, we've been very focused, for instance, on finding ways of implementing and deploying all kinds of automation, whether it be traditional AI or machine learning or the sophisticated tools into the operation in order to drive efficiencies and productivity gains in managed services, for instance.

We're obviously always working the global delivery model very hard in the way in which we manage our talent resources globally. Coming into this year, we're starting to see the cumulative benefits of all of that impacting in a bigger way, perhaps. But in addition to that, we've got those benefits coming from generative AI, that Anthony touched on earlier.

So when you tie it all together, we're actually looking at a nice for us anyway, a relatively nice lift in operating margin -- non-GAAP operating margin this year. We've guided to a range of 18.1% to 18.7%. The midpoint of that range is about 60 basis points better than where we were last year. For Q1, we were at 18.1% at the low end of that range, and we expect to sort of continue gradually improving through that range as we go through the fiscal year.

So margin expansion is with us this year. But typically, we're trying to keep the operating margin at least stable to gradually improving over time. So -- but this year, we are getting the ad bonus of GenAI.

Meta A. Marshall - *Morgan Stanley, Research Division - VP*

And then your free cash flow outlook assumes conversion -- a conversion rate of around 100%. Can you just outline kind of what makes up kind of the capital allocation strategy?

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

Yes. I mean, first of all, on the free cash flow, I mean, typically, we're trying to convert free cash flow. It's about 100% of non-GAAP net income, right? Some years it might be a little bit more, some years it might be a little bit less. But generally speaking, we're around about 100%. And this year, by the way, we're looking at \$750 million, and we've said that the vast majority of that free cash flow will be returned to the shareholders in the form of dividends and buybacks.

And that's no big departure, by the way. It's pretty much the same message that we've had for probably the last decade or more. So we are very focused on sort of using the free cash flow to enhance the returns that we're providing to our shareholders. We are -- if we hit the midpoint of our range, this will be the fourth year in a row, that we have delivered double-digit non-GAAP EPS growth. And with the dividend yield was solidly in the expected double-digit total shareholder return kind of range.

Meta A. Marshall - Morgan Stanley, Research Division - VP

And then just with \$600 million of cash on the balance sheet, just capital allocation priorities and just you've laid out kind of an extensive road map. Where are the R&D priorities within that?

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

Yes. Look, I think from an R&D perspective, there are no material changes that we expect. Clearly, there is reallocation within R&D because clearly, we're investing more in generative AI, and maybe less in billing, for example, just as an example. So I don't think there are any material changes in that. I think from an M&A perspective, we continue to execute on strategy.

So we think there is a component that can expand our portfolio, get us another customer base, things like that. We'll continue to do it. And we kind of -- M&A, we kind of think of it from 3 vectors. We look at kind of consolidation plays if it makes sense, like the Openet acquisition, for example, we look at kind of verticals, even within the industry, if it makes sense and going to it and new competencies. So the cloud competency like acquiring source like we did -- and I guess we'll continue to do that.

Meta A. Marshall - Morgan Stanley, Research Division - VP

Okay. Perfect. Well, that basically takes us to time. So Anthony, Matt, thank you so much for being here.

Anthony Goonetilleke - Amdocs Limited - Group President of Technology & Head of Strategy

Thank you.

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

Thank you.

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