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PRESENTATION

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

Let's get started here. Pleasure to have Amdocs here today. I mean, Shuky Sheffer here with us today. I am Meta Marshall. I cover the networking and communication software space here at Morgan Stanley. Very pleased to have you guys here as well.

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

Thank you.

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

Maybe just since Amdocs is not always the most well-known company out there, let's have you just kind of start with an overview of the company and the industry because it's a fascinating story.

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

So I have 25 minutes to do this?

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

So 20 -- yes.

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

We are serving the telecommunication industry, the service provider. Pretty unique in a couple of domains that we described. And we are doing just -- if you think about service providers, all of us, obviously, familiar with the web channels, mobile application, retail store, call center. So the all ordering system, catalogs, all the financial system, billing, invoicing policy, charging and all the fulfillment system to the network. Pretty unique by the fact that we have all the portfolio end-to-end, pretty integrated. I don't know of any other company that have the same offering. Even more unique that there are services company and there are product company. We do both, meaning that we develop our products, we implement them and we operate them, very unique accountability model that I don't know of anyone else in our industry can give it.

We are -- I would say, we are by far the leader in our domain. Just some names, so in North America, working with obviously AT&T, T-Mobile, Verizon, Comcast, Charter, all the big names; Canada, all the 3 companies, Bell, Rogers, TELUS. We are by far the market leading in APAC. In Europe, we are working with all the big names like Vodafone and others. And very successful Latin America in the big groups over there, America Model and Telefónica. Very unique business model from this perspective. I'm sure we get something in the question, but this is what we do. And actually, we believe that between 2.5 billion to 3 billion people every day touch Amdocs. So if you'd like now to come to the U.K. you open your phone, you touch Amdocs. It doesn't matter if it's Vodafone, Three, whatever, this is where we are.

QUESTIONS AND ANSWERS

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

Like Facebook-like numbers. All right. So given your recent results and traction, it appears we're kind of at an inflection point of service providers needing to modernize our networks, which obviously leads to kind of more of your services. Why do you think that we're finally at this time of modernization?

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

There is a perfect storm from the good sense of technology and others. It actually creates a strong tailwind for Amdocs from all our growth engine. Obviously, the move to 5G and the investment of this technology and all the value that you can bring, journey to the cloud, all our customers in some shape or form are a type of journey to the cloud. This transformation in general, exists before the pandemic definitely accelerated because of the pandemic. And the network automation, which comes off with 5G, the ability to have -- when we have a service -- sorry, in software-defined network, which is all the protocols are pretty open, give us a lot of opportunity in what we call service assurance, fulfillment and this domain. So we used to have growth engine before. It was really unlikely that all of them will collide at the same time for the good sense. So -- and these are not like 2 years. There are trends that are going to stay here for the years to come.

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

Got it. All right. So you mentioned kind of your 5 key growth areas within service provider projects, so cloud, digital transformation, 5G modernization, network automation and media projects and that all of those are kind of converging today. But just how should we think of what are kind of the near-term drivers of growth and which one of these have 5-, 10-, 15-year sales?

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

I think that all of them -- I say in digital transformation, I think, will always be there. I mean, it was be prepandemic, accelerated by pandemic. So this one, I think, we will say for a long time. 5G is in early stages. Most of our customers are starting to deploy 5G, U.S. is leading. But it's now in more in the initial stages of 5G deployment, mainly the radio, not the full 5G system. It will take to deploy the network, even in the U.S., at least a couple of years. No it reads to say that we are busy mainly in 5G monetization, which is our part on this.

And cloud journey, the industry is really the beginning. I mean, I would argue -- we are the market leader. Maybe 5% of our customers are just starting. And the network automation, this is another trend just, I would say, evolving -- have you heard of the term, vRAN, ORAN, all of these. So this is -- so I think the short answer that these trends are really, really started. There are 2 countries in the world that have 5G stand alone, I think. It's -- and they are not too big. It's Singapore and South Korea. So -- and 5G started relatively fast in the U.S., just starting in Europe, very late follower like in APAC and Latin America. So I think we are going to see this trend for a long time.

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

Great. I mean, you described upfront that Amdocs was unique and kind of being able to make, implement and service your own products. But just why are you in such a unique position with kind of your telco customers? Is it the long relationship you have with them? Is it just the breadth of the portfolio?

Joshua Sheffer - Amdocs Limited - President, CEO & Director

I think it's all of the above. I think this is the very unique accountability model of Amdocs, that the traditional competitor to Amdocs will be -- if you want to compete with Amdocs, it probably put a consortium of 3, 2 companies with some system integrator because no one has the full stack like we do, no one has the second ability model. In 2010, 12, 15 years ago, there was a fight between 2 camps, which was like the best of breed. And what we bring, it's the full accountability model. I think our model win for the most part. I think people understand that stitching, growing several products together in this very, very complex project never works. So I believe this is a unique differentiation that was true for the company for many years and now even more. And all this transformation, which were driven because of all the things that we mentioned, actually driving very, very complex projects, and Amdocs' ability to deliver this project is second to none.

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

Got it. Aside from just network modernization, from the perspective that you have, what other pieces of the ecosystem need to come around for us to kind of see some of these 5G use cases that were maybe promised in the idea of 5G?

Joshua Sheffer - Amdocs Limited - President, CEO & Director

So today, we basically don't see the most advanced use cases of 5G. And this is because the deployment of 5G network was not finished. The radio is pretty much finished, but the core network was not. And until you have deployed the core network and then you have what we call 5G stand-alone, you cannot enjoy the value from 5G. Today, when you buy service from T-Mobile or Vodafone, whoever, there's no quality of service. You can get one speed in one part of the city, different latency. In the real 5G, stand-alone 5G deployed, you can have quality of service both for speed, latency and other network slicing and all this technology.

So it means that creating something simple as gamer package, it's guarantee, speed and latency, guarantee for, I don't know, health for doctors. I mean, all these new use cases, one of our customers in APAC, where they have a full 5G, created a gamer package, which includes the game, guaranteed speed, guarantee latency, the IV glasses and everything in one package. So all the -- and this is just the start. So we will see the new, I would say, interesting use cases in consumer -- B2B maybe earlier, we are going to see them probably late or during 2024. So it means that what our customers are doing right now, mainly with us is getting ready, the ability to deploy this type of unique use cases.

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

Got it. Okay. That's helpful. For your own growth strategy, you have a 3-pronged strategy, namely building next-gen platforms for existing customers, expanding footprint with other Tier 1s and adding new logos. Is the timing of this all concurrent? Or just what are nearer term versus longer term opportunities?

Joshua Sheffer - Amdocs Limited - President, CEO & Director

It's all concurrent. On top of the portfolio or the growth engine, which is pretty broad, you need to think that we have a lot of large customers in which we can grow either by new services or new -- or they're adopting part of a new portfolio item that we are bringing. And we are converting successfully customer to managed services. So this is another growth engine in an existing customer. We are penetrating new logos in new geographies. I don't know, 7 years ago, we had 0 business in Ireland. Today, we do both Vodafone and Three. I know it's amazing, but we have 0 business in Italy. Now we had Vodafone Italy, Telecom Italia. So we are expanding within customer domain new logos and expanding also with different groups. So all of you in the U.K. know the Three Group. We started with Three Ireland, then did a good job. Now we are doing actually transformation for U.K. both for B2B and Consumer. So getting to new geographies, new logos, and expanding with an existing customers, everything happened at the same time.

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

Sometimes -- is the challenge sometimes with new customers getting them to realize you can do it more efficiently? Or is it just getting them to realize what they use to.

Joshua Sheffer - Amdocs Limited - President, CEO & Director

It's -- to move to managed services require a lot of trust, like you're taking IT moving it to a third party. In some cases, we signed a deal from the get-go deal like this. In some cases, over time, we build enough trust and to do this. By the way, most of the Amdocs customers today are not under managed services. So in a way, it represent for us a lot of opportunity. Obviously, all the big ones, the Mobile AT&T and others are, but still, there are many, many Amdocs customers which are not -- in many cases, if you ask, who is the biggest Amdocs competitor, it's the internal IT. It's not Ericsson or Salesforce. I mean it's the internal IT.

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

It sounds like a good pipeline. All right. So perhaps to your advantage, you've noted seeing less macro impact maybe compared to your peers. Are you seeing any changes just in how customers are spending? Or just any changes that you're seeing or any opportunities to provide them kind of more services?

Joshua Sheffer - Amdocs Limited - President, CEO & Director

Maybe I will start again with fundamental and some data on Amdocs. So we -- when we start the year, we have -- our backlog, 12-month backlog represents 80% visibility. 75% of our revenue is recurring and 61% is under managed services. So we are -- and we are running mission-critical systems. So it's not just, I mean -- and by the way, we look at stress test that happened in the financial crisis in 2008 and '09, obviously, in the -- during March '20 with the pandemic. We did not see anyone shutting down operations or shutting down projects given the fact that it's still a mission-critical system. And we talk about the projects that we do or what you might call maybe discretionary spending. We are not -- most of our projects are highly critical to our customer strategy. We deploy 5G, you want to monetize 5G. So I would argue there are less tendency to touch these projects even when money is tight, and there is a lot of pressure on cost.

If you look at our margin profile, the reason that they are so stable is because of that. We have a very good visibility of all the projects. The fact that we do both products and services and allow us to do a lot of automation help us also if there are some headwinds of labor cost or any other headwinds. We can obviously buy very good research management because we have a lot of visibility of the project, we can mobilize people to the right place, offshore when it makes sense, do automation to replace people. So we have a lot of lever to deal with this type of headwinds. Now obviously, all of us now dealing with inflationary environment, energy cost in Europe, Northern Europe, China, Taiwan, interest rate, and the list is pretty long.

So to tell you that Amdocs or our customers are completely immune, the answer is no. Are we more resilient given our visibility and the fact that we do mission-critical systems and products? I believe that we are more resilient, not immune. So far, we don't see like a wave of longer sales cycle or stopping or opposing project, we did not see it. Actually, the pipeline is pretty rich. But we're watching carefully to see what's going around us. And I think so far, I think we see very good demand to the services, giving the nature or the strategic nature of them.

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

Perfect. Okay. You've mentioned potential M&A opportunities that you're considering for kind of buy versus build. How do you consider either other domains that you would get into versus just service provider or just any other M&A areas that would contribute to growth?

Joshua Sheffer - Amdocs Limited - President, CEO & Director

So M&A and Amdocs is pretty much -- we are doing M&A to support the strategy. And by the way, we have -- we talked about capital allocation. We have a very, I would say, disciplined capital allocation, that we return the vast majority of the earnings to -- of the free cash flow to our shareholders via our dividend or buyback. We are pretty consistent with this also last year and all the other years, and this is what pretty going forward. The company has net cash, so we don't have any debt. We took in 2020, \$650 million bond at 2.5%. I mean today, it looks like why would it take 3x more. But who can predict it's -- where we're going to be. So we have a lot of capacity, both to do -- to return, obviously, money to the shareholders and to do M&A.

We do M&A for 3 reasons. One is to consolidate competitors. Sometimes we identify there some competition that we believe it makes sense because it completes us. It depends on customer and offering, but sometimes, we've done it a couple of times, probably in the last 5 years of consolidated competition. The second one is bolt-on technology. In this case, most of R&D is done by ourself -- by the way, while improving the margin and even guiding to improve margin next year, we are also exerting R&D investment in the last 3 years comparing to what we used to do given the opportunity. So sometimes we -- as I said, if we see technology, we do most of the R&D, so what we call bolt-on technology. If we are missing a piece, we believe that we should buy it versus build it by ourselves, then we do this. And the third reason is because sometimes they are domain that we believe we don't have enough know-how to go in. We don't have enough know-how.

I don't know, today, Amdocs is a player in the network domain, 7 years earlier, we didn't have this knowledge, so we had to acquire several companies to get this know-how. And we are very strong now in pushing the cloud agenda to our customers and supporting their cloud journey. It's very difficult to start to collect cloud consulting people from the street. So we acquired a couple of companies that brought us a lot of 200 cloud experts that help us to give this.

By the way, we -- another example of M&A that eventually is not going to happen is the one we announced in May, buying a service assurance piece to complete to our network portfolio. Eventually, amicably and mutually we agreed not to continue with this acquisition given the regulatory process in the U.K. took much more than we think. And we agreed it doesn't make sense. And we have -- when we can obviously offer it through partnerships. So we are looking ways to do something else. But in any case, it's not material to continue with our guidance. It's not material to our 2023 guidance. So in any case, I think M&A is a tool that we are using. Some use more, some use less. We have a very big desk capacity. I mean we have a great rating from all -- from everyone. So this is something we'll continue to push our strategy needs.

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

Got it. And will -- are there other customer markets that you would consider entering into? Or....

Joshua Sheffer - Amdocs Limited - President, CEO & Director

Other industries?

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

Yes.

Joshua Sheffer - Amdocs Limited - President, CEO & Director

I mean, we are looking around, like anyone else because we want to diversify our business, not just building on the service provider industry. And we got to different acquisitions customer, mainly, by the way, in financial services. So we're looking to see if we have a play there, not in core banking system. But -- and we do have more than 1,000 people today that are giving services to different industries in UI/UX design. So I think this is something that we are looking as part of our strategic process to see what type of additional capabilities we can build and revenue stream, which

areas which are not the telecom or the service provider industry. It's still small, growing fast. And I think that when we're more ready to share more information, will become more big, we'll do that.

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

Okay. Perfect. Maybe building on your opportunity with cloud transformations, a recent example of that was the new 5-year arrangement with AT&T Mexico. Can you just talk about the sales cycles on deals like this and just how we should think about the expectations for growth and profitability on cloud transformation.

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

I see that -- so when you talk about managed services in general, I think it's important to remember that our agreements with our customer managed services are outcome-based. It's not that we sell, by the way, like maybe Accenture or other of (inaudible), okay, we are selling you 200 people. So we are not a rate type of relationship. What we do is we are committing this part of this agreement, what are the systems that we are running what are the service level and KPIs that can -- this is the way they are measuring us. So it means that over time, when we do apply automation, obviously, we can reduce the number of people, then obviously, it can contribute to our margin.

In AT&T Mexico -- by the way, we look at our activity in AT&T we have many activities in AT&T, AT&T Mexico is one of them. This is a good example that we believe it's not good practice to do when you extend an agreement because we had an agreement there before. We don't do like-to-like extension or apples-to-apples because if you do that, in most cases, you're going to end up doing the same thing for less money. So what -- and you are not delivering value to the customer at the same time. So this is a good example of extending the agreement and actually doing a cloud journey bundled with this full agreement. So it's not just an extension of 5 years. During this extension, we bundled some a lot of other capabilities and more value to the customer that you bring, moving to the cloud, et cetera. So this is a good example of the practice that we do that we always try when we extend agreements, to bundle it with additional value to the customer rather than do a like-to-like extension.

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

Got it. Profitability has been a focus for investors. You guys raised your margin guidance for fiscal '23. Can you just talk about some of the drivers of that improved outlook and just some of the new tools that we should think of?

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

So if you look about the reason, as I said, that Amdocs has such a consistent and stable profitability is, first of all, because of visibility. So we need -- upfront, what type of skills do we need, where do we need them, et cetera, offshore, onshore or nearshore. So we have very good resource management that we can build based on the visibility. Another tool that we have is because of our unique position that we do both product and services, we -- some of R&D is actually automation. And so in Amdocs environment and end-to-end environment. So if the operational people find out there is an issue which is repeating and causing the load of work, they can call back to the product people and say, "Guys, we have this issue." And actually, they can fix the core. And obviously, so we can see the end-to-end environment with pretty, pretty unique.

Now we got many questions before if the revenue acceleration, which you mentioned before, Amdocs for many years were growing 2% to 3%. In 2021, we grew 7%; in 2022, 10%. And actually, we guided at the beginning of this year that for 3 years for 6% to 10%. So we -- more than doubled in the growth rate -- and we've got many questions if the margin -- if the growth acceleration can drive margin expansion. And the answer is yes. I can tell you that in the fiscal year that we finished in the end of September in 2022, 2022, most of the efficiency we've done, we used to deal with the headwinds from labor costs, foreign talent. Everyone remember that this is where we were about 6, 9 months ago. So it helps us to keep the stellar margin and not to reduce the margin. Now next year, what we see that the labor market is stabilizing more and we see less pressure from this demand we felt that we can actually improve the profitability and leverage all these things that we do actually to improve profitability.

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

Got it. Any questions from the audience?

Unidentified Analyst

I want to ask you on the -- you bought 3 companies which are on the small size. One in MYCOM OSI, head of group; and then you brought one in (inaudible) MYCOM OSI. And then I think you want to complete the Sourced group, which are basically in a number of areas, which are outside telecom. There are more in other areas of the cloud and so on. Can you comment on where are you taking this company in what strategic direction? And what does it did.

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

so It's a good question because it's related to the other question you asked me how we're diversifying from telco. So historically, if Amdocs bought a company, I'm talking, let's say, 10 years ago, and let's say, the company have 2 lines of business, telecom and financial services. The first thing we do is clear the financial services because we are a telco company. Now you're right. We bought these companies mainly for the cloud expertise and cloud consulting and DevOps expertise because we wanted to build our cloud consulting practice.

During this -- we found an acquisition that we got many financial services customers. By the way, the same, even a bit more earlier, we bought several companies in the domain of UI/UX design. Over there, we got a lot of customers which are not telco. So we said, let's look at it and see if it makes sense for us. By the way, we are still in the process because we have several banks as customers that we do for the UI/UX, consulting and other services. Now we are in the process of evaluating if it could be a diversification move for us. I think we'll be ready probably beginning of next fiscal year to share with you more detail when it become more substantial revenue. But definitely, we are looking at it as an opportunity to diverse from the telco market.

Unidentified Analyst

So basically what is happening now is that there are some companies now which are basically creating software layers to actually move customers between clouds transparently, right? And I suspect that in your own telecom practice, you basically have customers that basically have hybrid systems. So -- and this -- some of these guys do kind of -- they do other things. They do log analysis, they do basically cybersecurity. I mean, there are many areas where one can explore here. What will be your focus?

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

By the way, we have all the time looking to see what's next for us, things that you mentioned. But back to your point, because you mentioned the agnosy. Amdocs platform are cloud-native and agnostic. So actually, we gave our customers the opportunity that if they start relationship with one cloud and they feel that they are abused by the relationship, with 6 to 9 months, they can move to other cloud. So we are cloud-agnostic. By the way, we have a strategic partnership with AWS, with Microsoft, with everyone, but we are cloud-agnostic and giving this optionality. But we all the time trying to see -- and this is what I call bolt-on technology. What we can add to our portfolio in edge compute, in private enterprise network, in many, many areas, I mean, we can talk -- I mean, we have 2 minutes to finish. But we are looking for many domain, in the network domain that -- all the time.

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

And maybe just last question in our last kind of minute here. ESG is very important for Amdocs. Do you want to just take a moment to say kind of how it plays into your strategy?

Joshua Sheffer - Amdocs Limited - President, CEO & Director

So as you said, ESG is very important for different aspects. I mean, obviously, there is the environment that we do whatever we can to reduce the footprint of our activities, direct and indirect. I think that another important part is how we, as a company, contribute to the communities that we live in. This is a major thing for our employees. I'm extremely proud because it's mainly driven by employees, and we're doing amazing things all over the world, supporting the communities. And by the way, it's also important from -- we found out from a retention perspective, employees like to work from companies that have sales purpose. They believe they do more than just another good software.

And in governance and diversity, in general, we are pushing, obviously, gender diversity and entire diversity. By the way, we are very active in Board refreshment from this domain. We just announced yesterday that our veteran Board members of leaving the Board as part of the age limit, and we are getting another great -- I think that in the last 5 years, we replaced half of the Board. So diversity in general is very important. It's a main topic for us. We obviously -- we are putting a focus of the company on this. I mean we report to the Board, our success in this domain. But this is a very important item that we are dealing with all the time.

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

Perfect. All right. Well, thank you so much for being here today. Thank you. Thank you.

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