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# EDITED TRANSCRIPT

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

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

And we are live. Hi. Good afternoon, everyone. I'm Tavy Rosner from Barclays Research. I'm here today with, Tamar Rapaport-Dagim, who is Amdocs's CFO and COO. Thanks for being with us, Tamar. Much appreciated.

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

Thanks, Tavy. Good to see you. Hello, everyone.

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

Before I jump in, I just want to remind investors that you can feel free to email me some questions by e-mail or to zoom their ID, I'll be taking a look from time to time, so don't hesitate.

But Tamar, Before we jump in, I thought perhaps for investors who are not familiar with the story, who are watching us this afternoon. If you could give like a 2, 3-minute brief overview of what is it that Amdocs do and then we'll go right through questions.

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

Sure, Tavy. We'll be happy to do that. So hi, everyone, Amdocs is providing software services in a very unique accountability model to our customers that are the communication and media service providers. We are providing the leading and cutting-edge cloud-native software products that are helping them monetize better their investments in 5G, in the cloud journey and in their interactions and creating the right customer experience with the customers, whether those are the consumers or the business segment as the customer. And we are doing that with combining the software products we provide as well as services to deploy the software and to bring it into successful production in their live environment, and also provide if the customer would like to have that full operational support under the Managed Services long-term engagements.

We are generating over \$4 billion revenue with North America comprising about 2/3 of our revenue and international 1/3, but a very growing part. And we are serving the leading names of the industry from the U.S. market, guys like T-Mobile, AT&T, Verizon, Comcast, Bell Canada and Rogers up in Canada, all the way from Europe with Vodafone, Sky, Three, Hutch Group, et cetera, and all the way to APAC with Singtel, Lexia Group and of course, LatAm with América Móvil, Telefonica and many other names. And on the media side, Warner Brothers and others.

So we have a very strong customer base. We've been accelerating growth during fiscal '21. We just reported our second fiscal quarter, where we have exceeded midpoint significantly of our guidance range and raised the guidance for the year, both on the revenue, earnings per share and the cash flow generation of the company. And we are targeting this year a growth on a pro forma basis of 6.5% and EPS midpoint of 9%.

Also very strong free cash flow with 130% earnings to cash conversion this year based on very strong collection and momentum in the business. So maybe I'll take a pause, Tavy, and we'll move to other questions.

## QUESTIONS AND ANSWERS

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

Yes. Thanks for that. So I thought that we could start by talking about the pandemic and implications it's had on voice over business and the end markets that you're serving. And perhaps if we could start with your overall level of execution on project milestones despite the workforce being at some point, working remotely and -- especially nowadays where we all have colleagues working in India that's affected. How is that impacted and is still impacting your overall performance?

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

Yes. So when we are looking on our delivery model, our execution model as a company, we have a global delivery model, which relies on many centers around the world. But of course, eventually highly dependent on some regions. We have actually decided to move into a hybrid working model even pre-COVID as early as January 2020. We, as a company, decided to move into a hybrid working model where 1 day a week, we will work from home and then actually by chance you may see in terms of timing, prepared already back then to that shift and then came COVID, of course. And initially, we moved all the workforce to work from home with no disruption to productivity. In fact, we continue to deliver very successfully. First of all, our Managed Services, where we support in a daily manner, many systems of our customers in production very successfully, and we continue to deliver dozens of key project milestones every quarter during the pandemic. By now, we see some difference where in some countries, in some areas of the world, things are becoming much more back to normal or towards back to normal.

In terms of vaccination, in terms of the health and safety of our employees and enabling us to go back to work at the offices. And of course, we are doing it selectively at the regions and places where this is safe for our employees. And on the other hand, as you mentioned, in some places in the world, the pandemic is going through some kind of a second wave. So we are obviously looking very carefully for the health and safety of our employees in India and Brazil, in Philippines, in some places where it's still more challenging. And balancing, of course, the situation that is happening there as much as we can by helping and supporting vaccination acceleration, mental health hot lines, supporting and getting access to medical equipment, et cetera, et cetera. And of course, not just with our employees but their families and the communities.

But I have to say that from -- or maybe I should say, I'm glad to say that from an execution point of view, we have no issue. We are monitoring the situation daily. We are continuing to support our customers all over the world without the disruption. And our employees have been extremely dedicated and I'm very thankful to all our employees in making sure that this is continuing while we are going through this kind of situations in different parts of the world.

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

That's great to hear. And I'm wondering if the pandemic has changed your priorities when it comes to R&D investment?

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

What we've seen is very interestingly, I would say an acceleration in some way of some of the things we identified already pre-pandemic. So we are focusing on several multiyear investment cycles of our customers. Primarily, I would say it's a 5G rollout. It's the journey to the cloud and the shift to the cloud and the digital transformation. And in all of those 3, I think everybody understands as we are consumers ourselves how the connectivity and communication became the backbone of society. I mean it was always true, but given the pandemic and the challenges and working from home, the connectivity has become so critical and the digital experience and having a very strong bandwidth to actually perform all the activities needed, whether it's work, education, et cetera, is definitely critical in all the societies around the world.

So we've seen acceleration to some extent in some of this realization. And we are seeing a very strong momentum in those investment cycles with a strong win rate that we have given the strength of our offering, where we enjoy a high win rate in all of those domains and therefore, have enjoyed acceleration of growth.

And also looking on a key leading indicator, which is our 12 months backlog that we report every quarter, reported very strong 3 quarters of sequential increases in the last second fiscal quarter, number of backlog is representing 9.3% year-over-year growth of our pro forma backlog. So we are definitely seeing -- as we expected an acceleration of growth, both in year 2021 and also within the year going into the second half of the year, we are seeing continued acceleration.

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

That actually leads to my next question, which is really about your guidance. You reported a week ago, if I'm not mistaken, your guidance implies a pickup of the activity in the second half. So can you run us through some of the assumption you're having. What's driving the growth? If there's a particular trend, a vertical or geography end market that's driving most of the growth I'm sure would like to hear about that?

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

So I think the good news about it is that beyond the fact we are strongly growing our revenue, it's spread in a very healthy way across all key 3 regions that we report North America, Europe and rest of the world. And we are seeing that the strategic drivers that we invested in, 5G, the journey to the cloud and digital transformations are being relevant, of course, in different paces in different regions. So for example in 5G, North American market is ahead of the rest of the world and maybe in digital transformation, it's more relevant to all regions.

So irrespective of which driver works stronger in which region, I think we are seeing all of them relevant for all regions, and it's just a matter of timing. And we are succeeding in growing the revenue in fiscal '21 in all regions.

Now we are seeing continued, I would say, renewed investment cycles in existing customers, such as, let's take an example, North America. So T-Mobile, when we signed the multiyear strategic agreement to build for them a new platform on which they will run both consumer and enterprise, including migration, and given the merger that we're going for -- of T-Mobile and Sprint, we will deal with the migration, we'll run it over the cloud operations afterwards, et cetera.

In AT&T, well AT&T has selected us for multiple modernization programs at the heart of their business in consumer mobile, in building the capabilities for 5G charging and policy or whether it's a newer customer like Verizon that selected us initially for the cloud catalog program and then more recently, another extension of the relationship into more of the network of SSI where we are going to do the service orchestration for them.

So these are just examples of both how existing customers and new customers are selecting Amdocs for their new journey of investment. And we are continuously focusing also outside North America on obviously serving our long-standing customers, some of the customers have been working with us for decades. And obviously, that's the ideal situation, and we want to be their partner of choice for the renewed investment cycle, which is clearly the case in many of these examples.

And also in expanding in new logos. We've been underpenetrated for many years in Europe. And for example, in Europe, we've been talking about the fact that we are continuously expanding into new logos and new countries in which we are seeing great opportunity.

For example, just in the recent year, We've won a lot of business in the U.K. Okay? You can say U.K. is not a new market by itself. But for Amdocs, we are underpenetrated in the U.K. market. And just recently, we won deals with Sky in the U.K., with Three in the U.K. and seeing opportunity to continue and expand. And same goes for newer countries even for us like Italy or for Spain and others.

And in the rest of the world market, we've been talking for a while about the fact we've been seeing wonderful trajectory in APAC, absent few months where the pandemic started immediately after several months of slowness back in the early days of the pandemic. APAC continued to emerge very strongly, investing and awarding new business to us. LatAm has been a bit lagging relative to the other regions during the past year. But recently, we've seen even there encouraging signs of going back to investments. We've signed an important deal with América Móvil where we are launching several new projects across the region with América Móvil. We signed a new deal with Telefonica Hispam. So we are starting to see -- I'm being careful because it takes some time until we will see that more meaningful in terms of the numbers. But to see even LATAM showing

those encouraging signs is obviously a good thing to talk about. So broad-based success, both region-wise as well as with existing and new logos. And obviously, we would like to continue to push that forward and the pipeline looks good as well. So it's not just the 12-month backlog that we secured already, also looking on the pipeline, we feel good about it.

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

Great. And just a last question, looking at the big picture. When you speak to investors, many of them know Amdocs has been around for over 30 years and now with the legacy OSS, BSS and people are not necessarily aware of all the digital transformation and so on, looking that you're putting. The question, I guess, is people trying to measure the percentage of your revenues are coming from call it this critical services, something that can never go away no matter the cycle, no matter the situation, things that your customer can't live with value. Is there -- is it still relevant to talk about what's typical and what's not in an era where most of your revenue comes from Managed Services or you have a lot of visibility around the circles, I guess. How would you answer the question? Would you talk about the percentage of recurring revenue instead? I'm just curious what you're thoughts about.

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

So I'll try to address it from a couple of angles. One is the recurring revenue base that we have is roughly 3/4 to 80% of our revenue depending on the year, and that is generated primarily by our long-term Managed Services engagement. Those are multiyear contracts in which we operate the systems for the customers and do incremental enhancements for the customers and many of those engagements will move into cloud operations as we transition the systems, the customers are running on to the cloud. And some of the recurring revenues coming on annually or even quarterly ad-hoc renewals.

But I'm saying "ad-hoc" renewals because those are mission critical systems, and I can hardly think of a customer to finally stop using those maintenance or support engagements. So this is very, I would say, high level and long-term recurring revenue.

Another way to look at it would be to look on the coverage that we have by our 12 months backlog relative to the revenue generated in those 12 months. Looking in retrospect, in many, many years, let's take a decade even. You can see that when we enter a fiscal year, we have visibility for the 12 months backlog of roughly 80% of the revenue. Obviously, it means we need to continue and sell more business in order to reach the revenue targets. But this is obviously a very good visibility that represents, on the one hand, the recurring revenue base. And on the other hand, securing new projects that are providing obviously a revenue opportunity for us.

Another aspect to look at is the type of systems and the type of software that we deploy with our customers. Those are indeed mission critical systems. Those are the kind of systems that customers usually do not operate without. If there is a problem in billing the customers the cash in is drying up or if there is a problem providing customer support to your customers, obviously, that's a problem that goes directly to the CEO level.

So the execution quality of what we do has to be extremely high. And obviously, we take pride in that. And at the same token, customers will not tend to replace those kind of systems unless there is a really critical reasons of someone failing to perform, which obviously we never do. Or there is a new investment cycle, which is where we have to rewin the bid.

And our renewal rate -- in our, I would say, rewin rate of modernizing the systems for our existing customers is extremely high. I just talked about 2 large customers as examples, in North America, T-Mobile and AT&T, same goes with Vodafone and many others. We are continuously investing in innovation. We are investing roughly 7% of our revenue in R&D and continuously bringing new innovation into the market on which both our existing customers as well as new potential customers can leverage and build their future. And the fact that our customers are selecting Amdocs in such a high rate is, I think, the best proof to the relevance of this innovation, both in terms of addressing the right themes of investment and needs and demand of our customers as well as the superiority of Amdocs offering relative to competition.

And when I say superiority of offering, it's both the software products we provide as well as the unique accountability model that provides also the deployment in operations that gives such a high success rate to the project to redeploy relative to the alternatives.

At the same time, it's important to say, we continuously need to delight our customers and bring value. We never look on the situation, okay, they're using us, so they have to continue to use us, absolutely not. We will continue all the time to focus on bringing new value to the customers and making sure that we enhance the offering, the capabilities by having our customers enjoy the innovation we invest in. If we enjoy R&D and bring new innovations but our existing customer base does not use it or it does not buy the new innovation, obviously, that's a problem. So we make a point, not just to continue and support in operations, the existing installed base of the software products our customers already deployed years ago, but obviously continuously push to investments and adoption of the new capabilities we bring, so every customer can move forward.

So for example, thinking about the cloud. We believe that all customers will move to the cloud in one point or another. Sometimes it will be a public cloud, sometimes private cloud, combination of such. And now it's a matter of the how, and we believe we can take every customer, including existing ones in this journey to the cloud in a tailored way. Some customers who want to deploy new products, new software products, discount by design as cloud native. But some have maybe an earlier version of Amdocs deployed, which was not cloud, it was actually deployed on-premise. Another want to take it to the cloud. So we will provide the migration. We'll provide the design of the journey, how to go about it. And we are best positioned, knowing obviously and having the software products to take this and move it into a cloud version of that installed capabilities.

So we are really looking on all our customer bases, one that should move forward into the cloud, and we see great potential in doing that. And obviously, there are many other examples, but I believe you have more questions, so maybe I'll take a rest here.

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

We have time. So actually, my next one is probably the one that investors are most interested about is really 5G. Because if you remember, we've been talking about 5G and MFG for years and 5 years ago is really more of a direction and then more of a project than we dream. In the last few years, you've really been announcing new contracts every quarter. And generally speaking, there's a lot of interest with carrier deploying 5G, obviously, around different speeds. So I have a few questions. Maybe I throw them -- like one since you're good at reorganizing my questions. And I guess one is really about what are the business models and the opportunity for Amdocs? I mean how do you capitalize around 5G, what's your value proposition to carriers?

And I guess third question. There was the acquisition of Openet that you did as a component to the strategy. So where does that fit? And for us, as an example, you mentioned Verizon, which bought the catalog one product from you. So if you could just elaborate on how this came around, that would be great.

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

Thank you, Tavy. So definitely, 5G is an opportunity for us. Now we are providing -- if I need to simplify, we are providing the capabilities to the service providers to monetize on the 5G investments. We are not providing the network element themselves. But we are enabling the service provider after they invested billions of dollars in establishing the network and buying the spectrum, et cetera, to really build the capabilities to monetize and to bring them with the right engines that will enable them that monetization.

And by engines, I mean the platform and the software capabilities that will give them flexibility. Nobody knows exactly what will be the winning service or the best use case. Whether we talk about consumers or enterprises, obviously, there are many, many thoughts out there in terms of how it will evolve and what kind of use cases will be launched. The strength of our offering is to provide them the flexibility to do everything. Thinking, for example, about the catalog, you mentioned Verizon. A win in Verizon last year was with the catalog product. The catalog is going to be kind of the overarching definition of all the service offerings, all the pricing of what they launch to market and its strength is in the flexibility to do whatever they want. Wherever the marketing organization will come, the execution can happen in a very fast manner and in a very consistent manner understanding all the offering that is out there.

So whether it's the catalog or whether it's about charging and policy that will be required to change in order to fulfill the 5G opportunities, we are there to provide monetization capabilities.

At the same time, we're also helping service providers with services of design of the rollout of the network, which is a smaller business for us based on an acquisition we've done couple of years back of TTS and this is also a business that is enjoying the 5G.

Now specifically on Openet. Openet is a great acquisition we've done in August 2020. Openet is providing a best-in-class charging and policy technology that enables the right solutions for 4G charging and policy and they were the best-in-class when we competed with them before. And we were looking at the market and we identified Openet as the best product out there.

And Openet's capabilities of both the product and the know how of the people together with Amdocs is an amazing solution because they brought that piece that was very, very much tailored to the 5G charging and policy. We have all the business support systems end to end and then NextGen OSS. So together, we have an amazing win rate in the market. With many great examples we provided since the acquisition from AT&T selecting Openet, all the way to APAC and A1.

And everything of course, with many other examples, we are seeing also the momentum now picking up in Europe in 5G. Now in terms of timing, it's pretty much as we expected, Tavy. When we spoke about 5G something that is coming up, we said that probably we've started to see RFIs and RFPs last year. So we said that probably the pickup in revenue will start for us in fiscal year 2021. And indeed, this is the momentum we are seeing. It's also very beneficial we've been selected by the leading market globally, Korea, 2 very important service providers in Korea. Korea Telecom and LGU have selected Amdocs for deployments. And I'm not sure if everybody is aware, but Korea is even ahead of the U.S. market in terms of 5G deployments, obviously, the learning that we have there is very helpful and very relevant as we move forward with other customers in the world around the 5G deployments.

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

That's very helpful. And I guess moving to the cloud, you announced a strategic collaboration with Azure, which adds on to the existing collaboration with AWS. So again, just looking at the theme of the cloud from the top, I guess, can you talk about the vision, the go-to-market, what are the products that are optimized to run on top of that? And perhaps help us quantify the addressable market that are likely to transition to the cloud. I mean, obviously, you mentioned before...

(technical difficulty)

Sorry. So I don't know where I cut off, but if you can help us quantify the addressable market in the foreseeable future that in the next 2 to 3 years, the likelihood of customer moving to the cloud faster than originally anticipated?

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

So when we look on the cloud, first of all, for some years now, everything we get out of the R&D shop is cloud native. So by design, every customer making a selection of deploying a software of Amdocs these days is already cloud-ready. Whether they have moved to the -- they are moving now to the cloud or whether they want it as obviously an option for the future, our products are cloud-ready and cloud native.

Looking into customers that have already an existing installed base, this is where the cloud migration and the design of the journey comes into play. And obviously, we are talking about relationship, first strategic relationship with AWS and Microsoft Azure. We are building those kinds of relationships with all the key hyperscale cloud providers as we want to serve all the communication media industry, and we cannot obviously select on behalf of our customers necessarily what will be done on which kind of cloud provider.

To some extent, in certain platforms, especially those that are run as Software as a Service, obviously, we'll make a specific selection to run on a specific cloud provider. But when we are talking about our core BSS/OSS products, we have to give also the flexibility to our customers to make that choice and obviously provide some advice what are the disadvantages and benefits of the different options.

We have also made recently an acquisition of a technology consultancy company called Sourced. Those are high-end consultants that are specializing in dealing with complex cloud transformations to high-end enterprises. They have over 100 top notch consultants primarily spread in APAC and in the North American market, which is very beneficial for us and obviously, we will scale it up. This is going to be kind of the seed of the consulting phase and the design phase for the cloud journey. We will provide our customers with the full breadth of the Amdocs services that can follow later on. So we're very excited with this acquisition just announced last week.

So with the cloud-native strong portfolio of software products, the experience in taking our customers to the cloud journey and now with the addition of stronger strategic relationship with Microsoft Azure and the acquisition of Sourced, a high-end consultancy group of experts, we believe we're well positioned to continue to push that journey and very excited and we are seeing good acceptance by our customers. For example, AT&T, everything they selected from our new software to deploy the next-gen consumer mobility system is obviously cloud native. On top of that, they selected us to help them with a cloud journey of other non-Amdocs applications and help them shift that into the Microsoft Azure cloud, and we are doing this kind of service in other customers as well.

So we are very ambitious in our attempts of market sizing and so it's in the billions. Depends on which analyst estimates you're looking at, but this is obviously a big investment cycle. It's a multiyear investment cycle that is driving both investment in new modernization project as well as in doing the migration services to the cloud. So we believe this is something that we're just starting to scratch the surface.

I'm getting sometimes the questions of, okay, cloud has been here for some years now. So what's new? Specifically for the communication media service providers in their mission-critical system, which is where we are relevant, the cycle begins now. This is a more complex transition roughly estimated that only 10% done by now. So the vast majority of the cloud journey on the mission-critical BSS and OSS domains are still ahead of us. Unlike maybe other simpler applications like e-mail, ERP, et cetera, that have been done to some extent a lot. Those are just the mission critical systems. It's just starting its cloud journey now. So we're very relevant in timing and also in relevance of our offering.

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

Is there any pushback from carrier saying, you know what, we understand, but there's no emergency. Our legacy solutions still work, even Amdocs legacy solution works, and we don't have to rush to the cloud. Is that still something that you hear? Or is that already quite irrelevant?

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

I don't think there's a question mark on the if we need to move to the cloud, it's more a matter of when and how. And yes, the urgency sort of stake is maybe different in terms of the timing or how to go about it. Some customers are taking this opportunity in getting ready to 5G and moving to the cloud and improving their customer experience in terms of digital touch points in deploying new software stack. And some we say, okay, for now, we are shifting to the cloud, the existing legacy software installed base that we have. Please help us do that, and we, as Amdocs, will provide that capability, and we will help them do that. And maybe several years down the road, they will decide it's the right compelling moment for them to make a bigger investment in deploying a new software stack.

So I think the great thing in our capabilities is that we don't count just on the customer deploying a new software stack in order to be cloud ready. We can help them go about it in different ways and different phases. And as you say, different customers may have a different appetite, but I don't think it's a matter of if they will do it, it's just a matter of how and when.

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

Great. That's very helpful. And I guess let's talk about AT&T a little bit. It's your largest customer. So any decision taken by AT&T has a big impact on your top line? And obviously, in the past, we've seen some slowdown, but -- and then with an inflection point late 2019, if I'm not mistaken, and then you've announced a few 5G contracts and additional contracts. I guess, can you run us through the dynamics of the relationship with AT&T and how you see the future with this key customer?



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

Absolutely. So AT&T has been #1 customer for many years and a great -- with a great partnership and relationship. We've been supporting AT&T along the years and also now in many of the strategic initiatives. We have been seeing some reduction in discretionary spend back in 2018/'19 none of which were about competitive losses, et cetera. It was just a matter of AT&T reducing some of the discretionary spend, which we've been influenced by as well. But as soon as late '19 and going into fiscal '20 was also -- was already a growth year for us in AT&T. Our revenue from AT&T in fiscal 2020 grew by 13%. And we, as you mentioned, secured the long-term Managed Services engagement with them late in 2019, which we run for several years. That includes a lot of the Managed Services engagements we have with AT&T. It includes some expansion around the data domain, security domains or some new activities as well.

And since securing that deal, which was like stabilizing the existing relationship, we won a lot of new business with AT&T. Starting with the cloud journey to Azure, that I mentioned before. AT&T selected us for building their next-gen platform consumer mobility, which is the core of their business. If you listen to John Stankey commentary, as of yesterday, again, he mentioned, given the indication of divesting the media assets, the core focus they have on broadband and on wireless in 5G, and we are at the heart of this investment cycle in AT&T. They also selected us specifically for charging and policy based on the Openet product set obviously expanding their initial decision to go with Amdocs and building their mobility and consumer offerings.

So we are very happy with the relationship and obviously, continue to look how we can bring more value to AT&T as we look forward.

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

And then moving into the media. Can you talk a little bit about the traction you've been seeing for the media? I mean, we talked a lot about the different things a little bit about media. I'm just wondering how big is the addressable market and what's your go-to-market in this -- in the media area?

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

So on the media, we've seen different trends that are happening and also varies between regions. In the North American market, I think it's clear, given the different strategic moves announced recently by Verizon and by AT&T, et cetera, that the whole notion of bundling together, the value proposition of media and connectivity is no longer the case for the North American market.

We've also seen interesting moves actually on the other hand by international players. For example, we've seen some smaller service providers around the world, adding to their capabilities of, let's call it, classic communication service providers, adding some entertainment capabilities. Sometimes they're doing it through over-the-top offering. Sometimes they're doing it through an M&A strategy or partnership. We are positioned to provide them the capabilities for any of these directions. For example, we launched a platform called MarketONE, which is enabling every service provider to easily onboard third parties and monetize their services. Any OTT partners can onboard to MarketONE very fast. It includes all the onboarding process, all the settlement and whatever model, it will be revenue share royalties, they have a lot of flexibility to define how they want to do it. And by that, once you adopt MarketONE, you can onboard many third-party partners, whether those are media companies, gaming companies and many other regions. We've sold MarketONE to several leading service providers already, for example, AT&T Mexico, T-Mobile and others. And we'll continue to push also the platform that enables service providers managing content in the distribution of content.

For example, we announced last week an expansion of the deal with Telefonica in LatAm. where we added several affiliates in Latin America of Telefonica that will onboard the Vubiquity platform of managing content and distributing the content. And we have sometimes models that are even more like a private label kind of offering, including the licensing agreement with the Hollywood Studios and settling for those licensing agreements through the Vubiquity offering.

So it really varies and can be adjusted to the desire of the service provider in terms of how they want to go about it. It's not a big piece of our business, but it is an interesting piece and something that has been complementary to communications in some parts of the world.

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

And just continuing to the non-communication world. I mean last year, you talked about an award with the North American banking group. What was that about? And people often ask you about new vertical that you can expand into? Is that something -- I mean, what's the opportunity in the banking and finance world?

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

So when we look on our capabilities, oftentimes, when we look at building capabilities, we look at it through the lens of how can we serve our communication service providers. But then we acquired capabilities that are relevant for other verticals as well. So the North American bank deal was actually initiated in the discussions of digital experience consultancy firm called projekt202 that we acquired a couple of years back and they provide this kind of consulting experience. Actually, when we acquired them, they were serving many verticals, actually very little in communication. And we have taken those capabilities into the communication service providers, but at the same time, continued to sell and maintain relationship in other verticals, and one of them is banking. And those discussions with this North American leading bank has actually expanded as they understood the full Amdocs capabilities of also providing deployment services and quality engineering, et cetera, which is much more than the digital consultancy capabilities. We expanded it into a bigger scope of a deal, which goes much beyond the projekt202 scope of activities.

Now when we acquired Sourced, the cloud consultancy firm, we see a similar phenomenon. We love the capabilities of Sourced. We would like to take the capabilities of Sourced into our communication service providers' customer base. But at the same time, they are serving also financial services customers, very distinguished and strong brand names. So we would like to keep those engagements and actually see how we can leverage that.

Now it's more of an opportunistic approach at this point. We would like to keep this customer base. So we're taking the financial services customer base that we have gathered through those different acquisitions and some historical presence and put that into a specific unit in order to create the competency and understanding of that segment, but it's still not yet a strategic decision to diversify into this. We still need to invest some time in considering that option. But it's definitely interesting and we see we have a lot of capabilities and know-how that is very relevant also in the financial services segment.

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

That's very interesting. And then just moving on to margins. I mean, it's something you've spoken about in the past but investors often ask me about the fact that you like Amdocs has had steady margin or as long as I remember, no matter what the cycle, no matter the lumpiness in the CapEx in sort of the end market, Amdocs always has been steady. And I guess, what's the secret sauce?

And then the second part of the question is really more about if there is a scenario where you can just keep your absolute level of OpEx flat? And then we could imagine that as the revenue grows, the margins would expand.

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

So I think that one of the focus areas of the company have been definitely on continuously growing the top line, keeping margins and improving it over time, slowly but surely. If you look on the last decade, we've been ticking up in a slow manner, but we have improved the operating margins and then convert that into a faster growth of the bottom earning per share result by the capital allocation. That has been kind of the investment thesis.

Now the nature of our business with such a high level of recurring revenue and long-standing relationship with customers provide us strong visibility that we discussed in the beginning of that session. And that strong visibility allows us to plan and allocate resources in a smart way and in a predictable way, relative maybe to other business models.

Having said that, yes, there are still changes. And I think the focus we have put over the years in improving the markets of the performing engines by automation, by improving methodologies, a smart global delivery model in which we can manage resources and allocate them based on locations, competencies and demand of our customers in a relatively fast mode in terms of changing -- all of these are capabilities. We are continuously improving in order to improve the margin of the performing engines.

At the same time, we are investing, investing in R&D. Actually, in the last year, we accelerated R&D as planned. So now it's -- in the second quarter, it was 7.1% of revenue. A year ago, it was 6.5% of revenue. We are pushing forward R&D as we see so many great opportunities given the right focus on the strategic growth pillars.

We are also penetrating new logos, new countries. Usually, such a penetration requires more of a setup cost relative to expansion in existing markets. So we are continuously seeing how to expand addressable markets, both geographically and in terms of the areas we support while improving the performing engines. And under the hood, it seems like it's moving very stable. Under the hood, there is a lot of moving parts that we manage and obviously try to push in the right way in order to manage that kind of margin performance. We are looking on different business monetization opportunities that may create a better outlook in terms of the margin.

Now for example, Software as a Service is a model in which you have more of a fixed cost and then as the revenue is ramping up, you can see a much nicer margin profile. In some of our offering, we are moving already with Software as a Service. I mentioned MarketONE platform. We have eSIM that is helping with the eSIM proposition and activation to our service providers. So there are some platforms that are already moving into SaaS, but it's relatively still a small share of the overall business. So I would not necessarily count tomorrow morning on an inflection point, our margin is moving from 17.5% to the 20s But we are continuously focus -- and you can see we are already -- we guided for the long-term range of 16.5% to 17.5%. We are already tracking at the high end of that range and even was 30 basis points better in Q2. And we will continue to see how we can expand and move upwards in terms of that margin profile.

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

Thank you. Thanks for that. And I think our time is up. So Tamar, I really want to thank you. I think we've covered some key topics. And yes. I invite investors to send me a follow-up questions that I'll direct to Tamar. And thanks, again.

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