REFINITIV STREETEVENTS

EDITED TRANSCRIPT

DOX.OQ - Q2 2024 Amdocs Ltd Earnings Call

EVENT DATE/TIME: MAY 08, 2024 / 9:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

George Charles Notter *Jefferies LLC, Research Division - MD & Equity Research Analyst*

William Verity Power *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Second Quarter 2024 Amdocs Earnings Conference Call.

(Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Matt Smith, Head of Investor Relations. Please go ahead.

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

Thank you, operator. Before we begin, I need to call your attention to our disclaimer statement on Slide 2 of the presentation. It notes that some of our comments today may be forward-looking statements and are subject to risks and uncertainties, including as described in Amdocs' SEC filings, and that we will discuss certain financial information that is not prepared in accordance with GAAP. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release, which will also be furnished with the SEC on Form 6-K.

Participating on the call with me today are Shuky Sheffer, President and Chief Executive Officer of Amdocs Management Limited; and Tamar Rapaport-Dagim, Chief Financial and Operating Officer. To support today's earnings call, we are providing a presentation, which can be found on the Investor Relations section of our website. And as always, a copy of today's prepared remarks will also be posted immediately following the conclusion of this call.

On today's agenda, Shuky will recap our business and financial achievements for the second quarter of fiscal 2024, and we'll also update you on the continued progress we've made executing against our strategic growth framework, including gen AI and our continued sales momentum in cloud. Shuky will finish by discussing our financial outlook for the full fiscal year 2024, after which Tamar will provide additional details on our second quarter financial performance, our forward guidance and also our continued commitment to ESG.

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

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

Thanks, Matt, and good afternoon to everyone joining us on the call today. Let me begin by thanking our amazing employees around the world who every day work with our customer to deliver successful project execution and deployment, seamless mission-critical IT operation support and cutting-edge innovation build on Amdocs' unique blend of telco industry expertise, generative AI leadership and cloud-native agility. The collective effort of Amdocs talented people are reflected in our solid financial results for the second fiscal quarter.

The key highlights of which are shown on Slide 7. Within an environment of persistent macro uncertainty and industry pressure, we achieved record revenue of $1.25 billion, up 2.0% from a year ago in constant currency and slightly better than the midpoint of guidance. Non-GAAP operating margin improved by 60 basis points year-over-year and 30 basis points sequentially, driven by our ongoing initiatives to accelerate profitability.

Non-GAAP earnings per share was $1.56, consistent with the midpoint of our expectation and we closed Q2 with record 12 months backlog of $4.3 billion up approximately 3% from a year ago. I believe our record 12 months backlog reflects Amdocs market leadership and healthy sales momentum as we are repeatedly chosen as the technology partner best equipped to support our customers' next gen, multiyear modernization investments.

Slide 8 highlights some of the key achievements in Q2. In North America, during Q2, we continued to expand our product and services offering at AT&T. In addition, I'm very pleased to report that we just signed a significant 5-year deal at AT&T, which expands our activities in new cloud domain as well as extends our engagement with AT&T in the consumer domain throughout 2029.

At T-Mobile, we secured additional awards to support its ongoing modernization and strategy to provide market-leading consumer and B2B customer experiences. Charter signed a 5-year continuous modernization agreement to leverage Amdocs customer experience suite to unlock business enhancement and new revenue opportunities. And Comcast business continued to modernize and expand adoption of Amdocs B2B platform across their product offering.

Additionally, we expand our international footprint, winning a new digital transformation project with J:COM in Japan, an important connectivity and network automation-related deals at Colt in the U.K. and a major service provider in Southeast Asia. Amdocs subscription and content management offering also gained further worldwide traction in Q2. Under Subscription Marketplace was selected by Virgin Media O2 in the U.K. and various affiliates of CK Hutchison Group, the platform was recently deployed at Foxtel in Australia.

MTV Japan, a leading Japanese content service owned by Paramount selected Amdocs' Vubiquity to deliver future-ready entertainment experiences to customers by managing the end-to-end content life cycle from programming to broadcast. And StarHub, Singapore's leading telecommunication and digital TV service provider conducted migration of their TV services for set-top boxes, smart TVs, mobile and web utilizing Vubiquity's solution for their entire subscriber base.

Regarding project execution, Q2 was another quarter of successful milestone deployment, which includes a major upgrade for Verizon to the latest version of our CatalogONE. We also completed the Unified single BSS and OSS platform for a leading service provider in Ireland, which ensures the retirement of several IT legacy systems while delivering on the promise of a seamless customer experiences across both the BSS and OSS suites. And we enabled the post-immigration of approximately 55 million subscribers for True Corporation in Thailand.

Achievements out of (inaudible) Amdocs unmet reputation for consistent delivery and provide the foundation on which to further extend our market leadership by winning future project awards and by growing our managed services business with new logos and existing customers alike. For instance, we recently expanded our multiyear agreement with a major Southern Asian service provider to include full cloud managed services and operation and we signed expanded long-term managed services agreement to support the strategic objectives of Rogers in Canada, which recently merged with Shaw and Colt in the U.K. following its acquisition of Lumen's EMEA business last year.

Overall, I believe our Q2 performance demonstrates Amdocs' strong market position and the technological leadership we are bringing in strategic domain like generative AI, which we are incorporating into our platform. This was evident at Mobile World Congress in Barcelona this February where I was extremely encouraged by the high level of customer engagement and positive strategic feedback we received during the (inaudible) of C-level and senior management meetings, my team and I hosted during the week long show.

Now moving to Slide 9. I would like to review our growth strategy, which is designed to power service providers' delivery of seamless next-generation services by accelerating the journey to the cloud across all major cloud providers. Creating seamless digital experiences by transforming customer journeys for consumer and B2B. Monetizing the future market potential of 5G stand-alone network fixed wireless access and fiber with innovative services and delivering dynamic connected experiences by streamlining and automating complex network ecosystems.

Let me begin on Slide 10 with generative AI, which for the past 12 months has been a top strategic priority for Amdocs. During Q2, we continue to execute against the 3 pillars of our generative AI strategy. The first of which was to equip Amdocs flagship CES24 suite, with CES Copilot, a set of embedded gen AI Assistance powered by amAIz. This suite is soon to be deployed in production at several customers.

Second, we are focused on accelerating the introduction of new gen AI use cases to our amAIz app factory. The prioritization of which is based on the highest value opportunities. For example, working with several leading service provider, we are piloting billing care and conversational selling capabilities. Early results indicate promising improvements in both the customer and agent experiences. Driving meaningful reductions in time to address customer issues and improving NPS.

In the third pillar, we are pleased to see fruits of our work with NVIDIA. And to expand our collaboration with industry, including Microsoft and AWS. With NVIDIA, we unveiled meaningful progress towards carrier scale production imperatives including reducing token consumption by as much of 60%, reduced query latency by as much as 80% and improving response accuracy by up to 30%. And with AWS, we have partnered to integrate AWS gen AI tools into our amAIz platform to fuel innovation across telco domains from network operation to customer experience. Lastly, we continue to work with Microsoft and Open AI across our portfolio. To summarize, we believe Amdocs has a leading role to place a dominant industry technology enabler capable of helping service providers to fully harness the power of generative AI and deliver real-world value and savings.

Moving to Slide 11. Strong sales momentum continues in cloud, which is on track for double-digit revenue growth this year as we advance our customer cloud strategy with our unique end-to-end product and services and fully accountable migration model. A great example is AT&T Mexico, which has successfully transitioned its Amdocs customer experience suite systems to Oracle Cloud Infrastructure, OCI, thereby enabling flexibility and capacity grow, reduce operational cost and state-of-the-art cloud infrastructure that will allow it to provide superior services, security and customer experiences. Amdocs is also collaborating with Australia's Optus to modernize the Amdocs Customer Experience Suite, making a significant step in Optus -- marking a significant step in Optus modernization journey. As mentioned, we also just signed a significant 5-year deal to expand our cloud activities in AT&T to a new domain. In this program, we will leverage the technology capabilities of Astadia, which we acquired last November. As a reminder, Astadia technology supports highly sophisticated cloud migration.

Moving on to digital modernization on Slide 12. Amdocs has to be chosen as a key partner to modernize and accelerate the digital transformation of J:COM, a leading provider of communication and broadcasting services in the competitive Japanese market to drive operational efficiencies, elevate customer experiences and unlock new monetization opportunities. I can also report positive demand for connectX, Amdocs SaaS cloud-native platform that is powered by generative AI. These enable MVNOs or any company to seamlessly launch a digital connectivity brand on the cloud. Adding to existing customers like Finetwork in Spain and Melon in South Africa, connectX was recently selected by Winity in Brazil to provide the necessary BSS capabilities for a newly established MVNE providing digital services to its multiple MVNOs.

Similarly, we see growing customer appetite for Amdocs Subscription Marketplace, a SaaS-based scalable platform that seamlessly enables service providers to deliver OTT and digital consumer services straight to telco's customers. Recently, CK Hutchison selected Amdocs Subscription Marketplace to enable various group operating companies in Europe to launch additional entertainment and other digital services together with its core offering, providing an extremely aggregated and convenient experience for its customers as one-stop shop for digital subscription. Subscription Marketplace were also selected by Virgin Media O2 in the U.K. to launch next gen's streaming and gaming services for its mobile customer and was recently deployed for Foxtel in Australia. Thereby extending the customer leads, which already includes T-Mobile U.S. and AT&T Mexico.

Switching to advanced connectivity and the monetization of 5G and fiber network on Side 13. I am pleased to announce an expanded collaboration with Colt, a digital infrastructure company in the U.K. Colt will leverage Amdocs digital transformation and Inventory management services to streamline its inventory process, enhance agility and accelerate time to market for new services, bundle and upsell strategies to drive greater revenue generation and competitive advantage in the wholesale and enterprise B2B markets.

Turning to Slide 14. Amdocs is positioned for growth in the network automation, leveraging expertise and unique end-to-end offering. In South Africa, we are deploying Amdocs cloud native Helix Service Assurance suite to modernize CellC service assurance making a significant step in transformation this service provider fault and performance and management and driving streamlined assurance processes with the power of artificial intelligence and machine learning. Notably, this deal follows Amdocs acquisition of TEOCO Service Assurance business last year, providing another example of the way in which they use M&A as a tool to accelerate our growth strategies. Additionally, major service provider in Southeast Asia recently selected Amdocs to deliver our end-to-end service orchestration solution as an important component of its customer OSS and cloud modernization program.

And finally, through its collaboration with Amdocs, SES announced that O3b empower its second-generation Medium Earth Orbit software enabled satellite system is now operational and poised to deliver connectivity services worldwide. Amdocs provides support with its industry-leading OSS solution encompassing orchestration inventory and service assurance systems.

Now turning to Slide 15. Let me say a few words about our market position as we enter the fiscal second half. To begin, we continue to operate within a challenging environment of macro uncertainty and industry pressure. Having said that, as the preferred technology partner for modernization, we continue to see healthy market demand for Amdocs' innovative products and services around our strategic pillars -- with another -- with altogether should support another year of double-digit revenue growth in cloud this year. Amdocs' market win rate remains high, and I'm encouraged by the great progress advancing multiple gen AI use cases engagements, which we are supporting in collaboration with industry leaders such as NVIDIA, Microsoft and AWS and several flagship customers.

Altogether, we expect quarterly revenue growth to accelerate sequentially in the fiscal second half, albeit at a more moderate rate than we initially anticipated. Mainly due to a slower pace of pipeline to sales conversion.

Wrapping everything together on Slide 16. We now expect revenue growth of between 1.7% to 3.7% on a constant currency basis in fiscal '24. And we are on track to deliver accelerated profitability improvement in fiscal 2024, reflecting our constant focus on operational excellence initiatives to improve business efficiency.

Overall, we are now expecting full year non-GAAP diluted earnings per share growth of between 7% and 11%, which combined with our dividend yield of approximately 2% position us to deliver double-digit expected total shareholder returns for the fourth straight year in fiscal 2024.

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

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

Thank you, Shuky, and hello, everyone. Thank you for joining us. I'm pleased with our solid financial performance in the second fiscal quarter, the highlights of which you can see on Slide 18. Record Q2 revenue of approximately $1.246 billion was up 2% year-over-year in constant currency. And on a reported basis, revenue increased 1.8% year-over-year and are slightly above the midpoint of guidance, including an immaterial impact from foreign currency movements compared to our guidance assumptions. On a sequential basis, revenue included an impact from foreign currency movements of approximately $2 million.

From a geographical perspective, North America declined 0.7% from a year ago, primarily due to a slower pipeline to sales conversion. This was offset by a healthy growth of 8% year-over-year in Europe and a record quarter in Rest of the World, which increased 7% as projects in Managed Services activities ramped up with various customers.

Moving down the income statement, I'm proud to report a non-GAAP operating margin of 18.4% in the second quarter, the highest in many years. Non-GAAP operating margin rose 60 basis points from a year ago and 30 basis points sequentially, driven by our continued initiatives to improve operational excellence through disciplined resource management, the ongoing adoption of automation and sophisticated tools and the implementation of AI to drive additional cost and efficiency improvements across our business.

Interest and other expenses amounted to roughly $8 million in the second quarter as we continue to see some adverse foreign currency movements in the quarter. On the bottom line, non-GAAP diluted EPS of $1.56 was at the midpoint of guidance and included a non-GAAP effective tax rate of 17.2%, roughly in line with the high end of our annual target range of 13% to 17%. Diluted GAAP EPS was $1.01 for the second fiscal quarter. This included a restructuring charge of $33 million or $0.24 per share, without which diluted GAAP EPS would have been at the midpoint of our guidance range of $1.21 to $1.29. I'll provide more context around the restructuring charge when I discuss our financial outlook later.

Moving to Slide 19. 12 months backlog was a record of $4.23 billion, up approximately 3% from a year ago and $20 million sequentially. A 12-month backlog reflects healthy sales momentum, which I'm pleased to say included new deals spread around the globe and a positive mix of renewals and expansion with existing customers and new logos. To be clear, the significant new deal at AT&T that we just signed is not included yet in the Q2 12 months backlog. As a reminder, our 12-month backlog has roughly averaged around 80% of forward-looking 12 months revenue over the years and has, therefore, traditionally served as a good leading indicator of our business.

Turning to Slide 20. Managed services revenue was approximately $720 million, up slightly from a year ago as we gradually ramped up new and expanded customer engagements eroded in recent quarters. Accounting for roughly 58% of total revenue in Q2, managed services support the resiliency of our business with highly recurring revenue streams and a near 100% renewal rate on existing customer agreements.

As Shuky referenced earlier, Rogers in Canada has expanded its existing collaboration with Amdocs, signing a multiyear managed services extension agreement. Demonstrating Amdocs proven ability to support the market consolidation strategies of our customers, we also find an expanded multiyear managed services agreement with Colt in the U.K. under which Amdocs will provide migration services and consolidate inventory systems following its acquisition of Lumen's EMEA business.

I'm also happy to report that the major Southeast Asian service provider has extended and expanded its partnership with Amdocs through multiyear BSS managed services agreement, including full Cloud Managed Services and Operations. This expansion also includes managing over 100 multi-domain non-Amdocs apps across multiple public clouds, private clouds and on-prem.

Now turning to the balance sheet and cash flow highlights on Slide 21. DSO of 76 days increased by 2 days year-over-year in Q2, and on a sequential basis, DSO increased by 1 day. The sequential second quarter change in unbilled receivables net of deferred revenue was $70 million in Q2, aggregating the short-term and long-term balances. As a reminder, the net difference between unbilled receivables and deferred revenue fluctuates from quarter-to-quarter, in line with normal business activities as well as our progress on significant multiyear transformation programs we are currently running in North America.

We generated free cash flow of $113 million in Q2 comprised of cash flow from operations of approximately $133 million, less $20 million in net capital expenditures. Free cash flow reflects the seasonal timing of fiscal year 2023 bonus payments, which typically occur in the second fiscal quarter. Also note that adjusting for restructuring payments of approximately $7 million, reported free cash flow would have been $120 million in second quarter. Overall, we ended Q2 with a strong balance sheet, including a healthy cash balance of approximately $544 million and aggregate borrowings of roughly $650 million. We have ample liquidity to support our ongoing business needs while retaining the capacity to fund our future strategic growth.

Turning to the capital allocation on Slide 22. We repurchased $115 million of our shares in the second quarter and paid cash dividends of $51 million. Overall, fiscal year-to-date, we returned a total of $376 million to shareholders for share repurchases and dividends. For the full fiscal year 2024, we now expect free cash flow of approximately $700 million. Excluding recharge -- excluding restructuring payments of approximately $23 million made in the first fiscal half of the year, an additional payments we anticipate will be made in the second half as compared with our previous outlook of approximately $750 million. This change mainly reflects the timing of collections related to payment milestones of certain projects, which are program and deployment dependent.

Our free cash flow outlook equates to an expected conversion rate of over 90% relative to non-GAAP net income in fiscal 2024 and represent a healthy free cash flow yield of roughly 7% relative to Amdocs current market capitalization. Regarding our capital allocations in fiscal year 2024, we expect to return the majority of our free cash flow to shareholders.

Now turning to our revenue outlook on Slide 23. We are continuing to closely monitor the prevailing level of macroeconomic, geopolitical, business and operational uncertainty, which remain elevated in the current business environment. That's the third quarter and full year fiscal 2024 financial guidance reflects what we consider to be the most likely outcome based on this information we have today, but we cannot predict all possible scenarios.

To begin, we expect quarterly revenue growth to accelerate on a sequential basis in the second fiscal half of the year, albeit more moderately than we initially expected. This change primarily reflects lower-than-anticipated pipeline to sales conversion, mainly due to persistent macro uncertainty and industry pressure. As we are often asked about it, let me say that our change in revenue outlook is not the result of signed project cancellation nor have we seen further deterioration in spending related to legacy system enhancements. Headwinds from which we continue to estimate at roughly 3% in fiscal 2024.

Altogether, we now expect revenue growth of between 1.7% to 3.7% year-over-year on a constant currency basis in fiscal 2024, the midpoint of which is roughly 50 basis points lower than our previous outlook of 1.2% to 5.2%. Our annual outlook includes third fiscal quarter revenue within a range of $1.235 billion to $1.275 billion, and assumes an immaterial sequential impact from foreign currency fluctuations as compared to Q2. On a reported basis, we now expect full year revenue growth in the range of 1.6% to 3.6% year-over-year as compared with 1.1% to 5.1% previously. This outlook incorporates an unfavorable impact from foreign currency fluctuation of approximately 10 basis points year-over-year, unchanged on our previous assumptions.

Moving down the income statement. We are on pace to achieve non-GAAP operating margin within our annual target range of 18.1% to 18.7%, as shown on Slide 24. For your modeling purposes, we expect our non-GAAP operating margin to be stronger in the second fiscal half of the year than it was in the first 2 quarters. As to the long term, we are relentlessly focused on improving the company's cost structure and productivity. Leveraging our unique business model, we are utilizing operational excellence as well as technology to fulfill our commitment to profitable growth.

Gen AI presenting a new wave of innovation and capabilities, we are proactively assessing our investment priorities in strategic areas, rebalancing our workforce to the needs of the future in our site strategy and optimizing resources such as technology infrastructure and workspace. With that in mind, during Q2, we took some initial actions under a new restructuring plan resulting in the previously mentioned charge of $33 million, which was mainly comprised of employee severance and benefit arrangements. We expect to continue to execute on our restructuring plan over the next several quarters and further updates will be provided as we move along.

Bringing everything together on Slide 25, we now expect non-GAAP diluted earnings per share growth in the range of 7% to 11% for the full year fiscal 2024, the 9% midpoint of which is roughly 100 basis points lower than our previous outlook. The change in EPS outlook is primarily driven by slower top line growth and the impact of below the line items, including foreign currency fluctuations and hedging costs, which we anticipate will impact non-GAAP net interest and other expense in the range of several million dollars on a quarterly basis.

Additionally, we expect our non-GAAP effective tax rate to be within our unchanged annual target range of 13% to 17% for the full year fiscal 2024. For your modeling purposes, we expect to be at the high end of this range in Q3 and towards the low end in Q4. Overall, we are on track to deliver expected double-digit total shareholders' return for the fourth year running in fiscal 2024, including our outlook for non-GAAP earnings per share growth plus our dividend yield of approximately 2%.

Before handing back to Shuky, let me mention this year's Mobile World Congress at which we received great recognition from our customers and partners for Amdocs initiatives to positively impact the community -- the communications industry and the communities we serve. Among many highlights, Amdocs was named, TM Forum Moonshot Catalyst winner for our innovative carbon footprint catalog offering an AI-based product catalog, we've developed in collaboration with our partners to enable CSPs to understand the impact of Scope 3 emissions and to provide the same to their customers for informed decision-making.

I was also delighted by the positive feedback we received following our roundtable, elevating women in Gen AI, which brought together some of the industry's most visionary women leaders to discuss the challenging gender gap created by Gen AI. And to explore collaborative opportunities that will help shape the future of women in technology and society. These and other initiatives demonstrates Amdocs' ongoing commitment to being an ESG industry leader as reflected by our recent inclusion in the prestigious S&P Global Sustainability Yield Book for 2024 and our fourth consecutive Gold Rating award at EcoVadis for achieving an overall ESG score in the 95th percentile.

With that, back to you, Shuky.

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

Thank you, Tamar. As I said in my prepared remarks, I am pleased with our solid second quarter results. Meanwhile, the operating environment remains challenging, I believe our market leadership reach pipeline of opportunities, focused execution and commitment to operational excellence position us to deliver a fourth consecutive year of double-digit expected total shareholder return in fiscal '24.

With that, we are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of George Notter with Jefferies.

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

I guess I wanted to start by asking about the reduction in expectations for top line, I guess, 50 basis points at the midpoint. I think I heard you say it's not due to the trade-offs that customers are looking at between modernizations and legacy type upgrades but rather slower milestones associated with billing. Can you talk about this? Is this something that's more like execution related for Amdocs? Is it something maybe where customers are slowing down the progress on specific projects? Or any more detail there would be great.

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

George, let me correct you. We didn't say that the impact of the 50 basis points of the revenue growth is related to milestone. We said that we see in some cases that the time it takes to convert deal in the pipeline to sell and then to start to execute, take some longer. I think a good example is the significant AT&T that we just mentioned. This is something that in the work for a lot of time. We saw that we'd be able to close it early in Q2. Eventually, we just closed it in the last week. So this is a good example of a very good deal to Amdocs and definitely for AT&T, very significant that it took us more time.

So we're not -- it's not related to a project milestone. It's the fact that -- and by the way, there are some other very important and significant deals we are working right now. It takes us a bit more time than we anticipated at the beginning of the year to close this deal but we are not losing any deal and the pipeline is very rich. It's more like how we convert especially the large deal to -- from pipeline to sell.

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

Just to clarify the comment on the milestones was in the context of our free cash flow expectations for the year, where there some specific milestones moving a bit ahead, pushing forward our ability to collect that in the fourth quarter of the year and actually pushing that into next year. But again, I don't think it's a collectability issue. It's all a matter of a shift in time line.

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

Got it. Okay. And then as I think about your business, you're around 83% of next 12-month sales in backlog. I guess as I thought about your visibility as a company, I guess, I tended to think about your pipeline being pretty full for the subsequent 3 quarters and then 4 quarters out is really the revenue that you're chasing and projects that you're kind of filling out. So I guess I'm a little confused around why we're seeing shortfalls in the next quarter or 2 because of this pipeline effect?

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

In any given quarter, even in current quarter, we don't have 100% coverage by a backlog. It's a very nice visibility. And you're right that as we look closer on time line, the visibility is better. But still, there are specific deals that have to be signed in order to fulfill the rest of the revenue. I would say that on top of that, when we are talking about 12 months backlog, it's not just about having something signed already, it's about predicting exactly how this signed business is converting into revenue in the next 12 months.

This time, this is not the major change that happened. I'm just clarifying in general that as part of our prediction cycle, thinking about what we have signed already, we always have to also look on the plan of record on certain projects, et cetera. But to be more specific to the reason now, it was more about conversion of things that were still in the pipeline and the pace in which they are being signed and then from the point of filing, again, it's not an immediate recognition. Based on our business from the point of signing a deal, it's how you start to ramp up a new deal. So this has changed a bit the view that we have on the second half of the year. But the pattern that we expected of acceleration sequentially, both in Q3 and then in Q4 is still the case, it's just going to be a bit more moderate than we originally expected.

Operator

(Operator Instructions) Our next question comes from the line of William Power with Baird.

William Verity Power - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. I guess probably a question for Shuky. I'm just -- I'm interested in thoughts around generative AI. It feels like you put a lot of the pieces in place, whether it's CES24, the relationships with NVIDIA, Microsoft, et cetera, what's it going to take? I guess, or what are the next kind of catalyst to kind of turn the generative AI capabilities into revenue? Is it the telcos have to get their data organized catalog, to get the right quality in place? And how long does that take? What kind of needs to happen, I guess, to start actually generating revenue for you all here?

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

I mean this technology is evolving. I mean, you cannot even compare what we had a quarter ago with what we have today. But typically, since this is a completely new domain for our customers, usually, this type of engagement starting with proof-of-concept. So as we speak, we are engaged with many proof-of-concept with the customer trying to define the best use case, getting some traction we're convinced that we are getting the right accuracy. So this is where we are right now. We are in the process of converting some of these proof-of-concept to deal and sign them.

So it's moving nicely, but this is where we are right now. We have many proof-of-concepts because when you deploy this technology and let's say, you want to take some decision regarding your call center workforce, assuming that, let's say, this technology, this copilot can, let's say, give an impact of 10% of the workforce of the call center, you want to be really sure that this is mission-critical already that is provide the right accuracy and it's giving you the right the right accuracy, as I mentioned. So this is why, as I said, we have many, many proof-of-concept, buying with many different customers globally. And I'm sure that they will slowly convert to real deal.

William Verity Power - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Yes, that makes sense. And I guess for the second question, looking at North America, it was a bit weaker overall, I guess, underperformed the other geographies. Does that come back just to the prior kind of legacy spending comments? Anything else you call out there?

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

No, not at all. I mean, it's -- I will start and Tamar will add in. It's related to the same impact. I mean some of the significant deals that we are working right now, by the way, we talked about AT&T that was signed are in North America. So it's not -- we don't see any more deterioration in the legacy that we discussed at the beginning of the year. It's more of the same pattern that we see some slow conversion of pipeline to deals, mainly on the large deals.

Operator

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

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

Thanks, operator, and thanks, everyone, for joining today. As always, if you have any additional questions, just reach out to us here in the IR group, and we look forward to speaking with you soon. Have a great night.

Operator

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