REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q1 2024 Amdocs Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 06, 2024 / 10:00PM GMT

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

Ashwin Vassant Shirvaikar *Citigroup Inc., Research Division - MD & Lead Analyst*
George Charles Notter *Jefferies LLC, Research Division - MD & Equity Research Analyst*
Tal Liani *BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst*
Timothy Kelly Horan *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*
William Verity Power *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

PRESENTATION

Operator

Thank you for standing by, and welcome to the Amdocs Limited First Quarter 2024 Earnings Conference Call. (Operator Instructions) As a reminder, today's program is being recorded.

And now I'd like to introduce your host for today's program, Mr. Matt Smith, Head of Investor Relations. Please go ahead, sir.

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

Thanks, John. 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 first quarter of fiscal 2024 and will also update you on the continued progress we've made executing against our strategic growth framework, including generative 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 first 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. I'm pleased to report a solid start to the fiscal year, many thanks for which go to our amazing people around the world who work hard to deliver the innovation and value our customer needs on their journeys to cloud-based 5G, fixed wireless access and fiber networks; improve digital consumer and B2B experiences; and harness the power of generative AI.

The first fiscal quarter financial highlights appear on Slide 7. Record revenue of $1.25 billion was up 5% from a year ago and in line with the midpoint of our guidance. Non-GAAP operating margin increased by 40 basis year-over-year and 30 basis points sequentially as our initiative to accelerate profitability yield results.

Non-GAAP earnings per share was $1.56, consistent with the midpoint of our expectation. And we closed Q1 with a record 12-month backlog of $4.21 billion, up approximately 3% from a year ago and healthy acceleration of $60 million on a sequential basis.

Our 12 month -- our record 12-month backlog position reflects healthy first quarter sales momentum as highlighted on Slide 8. We deepened our relationship with key North American customers such as AT&T and T-Mobile and strengthened our international footprint by expanding existing activities at large operators such as Vodafone Germany, A1 Telekom Austria, Magyar Telekom in Hungary and etisalat by e& in the UAE.

Additionally, we added new logos like Finetwork in Spain and DELTA Fiber in the Netherlands and achieved another quarter of strong sales momentum in cloud with migration awards at operators in Canada, Southeast Asia and a new project with NTT Infranet in Japan.

Q1 also notable for Amdocs' consistent project execution. We successfully completed major implementation at several large-scale customer around the world, thereby creating foundation for future business expansion. Amdocs was instrumental in supporting the merger integration of T-Mobile and continue to support T-Mobile's modernization journey to offer an unparalleled consumer and B2B consumer experiences in the industry.

Elsewhere, Amdocs enabled seamless migration of 14 million customers to a new omnichannel platform at Three UK and the conversion of around 138 million subscribers to our latest cloud-based charging technology for a leading operator in Southeast Asia.

At Claro Puerto Rico, Amdocs' full digital transformation for prepaid offering was completed, covering 100% of stores. Amdocs also extended its software and maintenance agreement with Claro Brasil until 2026, supporting over 40 million subscribers. For Telcel Mexico, we upgraded and migrated an existing Amdocs campaign management solution to AWS, migrating in an on-premise architecture with a secure cloud-based solution.

From an operations perspective, we provide flawless global support to our customers under managed services engagement during the peak retail sales period of Black Friday and the holiday season. To remind you, our managed services business forms the bedrock of Amdocs' highly recurring revenue streams, in support of which we signed expanded long-term agreements with customers such as Charter in the U.S. and Claro in Chile and Puerto Rico in Q1.

Rounding out our operational highlights, Amdocs continued to bring cutting-edge technology and fresh innovation to market this quarter, reflecting our long-term commitment to deliver customer value through R&D and strategic M&A. Later this month, we'll introduce the newest version of Amdocs Customer Experience Suite and service offering at the Mobile World Congress, including our latest generative AI offering innovation. We expect to demonstrate our technology leadership across all domains, from customer experience to the network.

Now let me update you on the growth strategy, which is focused on delivering the market-leading innovation our customers need to simplify and accelerate industry adoption of generative AI; accelerate the journey to the cloud; create seamless digital experiences by transforming customer journeys for consumer and B2B; unlock future market potential of true 5G stand-alone network with next-generation solution; and deliver dynamic connected experiences with real-time, automated network.

Beginning on Slide 9, generative AI remains a strategic priority for Amdocs. As generative AI gradually moves to a carrier-grade implementation stage, service providers are looking to companies like Amdocs to do the on the ground work to deploy the technology and deliver the business benefits. We see this reflected in the great progress we have made across the 3 core pillars of our generative AI strategy over the last quarter.

First, powered by our generative AI framework amAIz, Amdocs' flagship CES24 suite now benefits from generative AI across BSS, OSS and network domains. Customers who adopt our latest products such as our Customer Engagement Platform, Amdocs CPQ Pro, Amdocs Catalog or Amdocs Intelligent Network Suite will therefore benefit from embedded, native generative AI-powered Copilot assistants.

Second, our gen AI use case factory continues to accelerate the introduction of new generative AI use cases that address the communication industry key business imperatives, a taste of which we gave in our generative AI investor webinar in December. The initial results are promising.

With Bill Inquirer, for instance, CSPs can better solve customer billing-related inquiries and recommend alternative products. This instantly transforms traditional care agents to super agents while increasing call deflection rates by up to 20% and reducing average handling time by almost 50%.

Third, we continue to evolve amAIz in strong collaboration with our web scale partners and industry leaders, including Microsoft and NVIDIA, to accelerate the development of generative AI application and services.

To summarize, we believe Amdocs has already established a leading role as the dominant industry technology enabler, capable of helping service providers to fully harness the power of generative AI by simplifying and accelerating the path to adoption. Amdocs' position is evidenced by our active engagement, including several pilots, and close collaboration with several of our large flagship customers for which we are enabling the important gen AI use cases of the future. We are laser-focused on delivering measurable business results.

Moving to cloud on Slide 10. The strong sales momentum of last fiscal year carried into Q1, reflecting growing market recognition of our telco industry expertise and ability to provide end-to-end, fully accountable cloud migration paths. During Q1, we won several new deals, including the start of a cloud migration program with a large Tier 1 operator in Canada and the upgrade of -- the move to the cloud of a legacy CES 9 platform for a leading service provider in Southeast Asia.

Additionally, we secured a cloud transformation and managed services agreement with NTT Infranet, a subsidiary of Japan's NTT Group, under which we will migrate NTT Infranet's legacy IT system to the cloud and deliver cloud security and operations services using Amdocs cloud management platform.

Moving to digital modernization on Slide 11. We further strengthened our existing relationship with North America's leading communications service providers, including continued support of T-Mobile modernization journey to offer exceptional customer -- sorry, consumer and B2B customer experience.

At Comcast, we achieved major migration milestones related to its multiyear B2B digital automation. In support of Charter's Spectrum services, we extended and expanded our managed services activities under new multiyear agreements, which include the Amdocs charging and mediation solution. And we are working with Altice to expand their mobile sales solution, allowing them to sell services to businesses, customers through mobile, e-commerce and point-of-sale channels.

Our digital expertise is also resonating in Europe and rest of the world where our products and services are highly relevant. A1 Telekom Austria recently selected Amdocs Subscription Marketplace to enable easy onboarding, integration and monetization of partner services. In Spain, we won our first project with Finetwork, which selected Amdocs' AI-based Digital Brands Suite as a Service to enable triple-play fiber, TV and mobile services.

We reached an agreement to embark on the BSS modernization journey of a leading service provider in Central Europe. And in the UAE, we strengthened our collaboration with etisalat by e& with a multiyear enterprise factory engagement to accelerate and modernize their entire testing life cycle across IT and user acceptance testing.

Turning to Slide 12. We continue to deliver flexible solutions service provider needs to launch and capture new revenue monetization opportunities such as fixed wireless access in the 5G stand-alone area. We are excited that AT&T is leveraging our cutting-edge BSS platform, part of Amdocs CES suite, to enable the successful commercial launch of AIA, AT&T's Internet Air broadband services that is now available in 59 locations across the country, and we are looking forward to the next successful phase of this program.

In Europe, Magyar Telekom, Hungary's leading service provider, elected to deploy Amdocs' policy and charging control function, and we reached an agreement with Magenta Telekom in Austria to upgrade Amdocs online charging system to support their 5G stand-alone modernization journey. Additionally, we extended our collaboration with a leading service provider in North Africa to enhance their 5G network capabilities with our cloud-native policy solution and deliver an improved user experience for their customers.

Amdocs was also chosen by DELTA Fiber, a leading fiber and cable network operator in the Netherlands, to provide ongoing development support and software maintenance for their monetization engine, empowering them to unlock new opportunities for sales growth.

Turning to network automation. We recently announced Amdocs' new end-to-end service orchestration solution, elements of which is already deployed at some customers. Service providers can now harness the power of virtualization, cloud, 5G slicing and edge technologies to streamline the orchestration of complex new services. The solution also integrates last year acquisition of TEOCO's service assurance business, which in the first quarter, won 2 deals with leading Western European operators, including the major expansion of TEOCO's system to transmission, mobile and core, RAN domains at one customer and an upgrade and move to the cloud at the other.

Turning to Slide 14. Let me say a few words about the state of the current operating environment. First, while macro uncertainty and industry pressure persists, the overall operating environment remains mostly unchanged as compared to our initial assumption at the start of the fiscal year. Second, we remain confident in our relatively resilient business model from which we generate highly recurring revenue streams resulting from our support of mission-critical system under long-term engagement, including managed services.

Third, we continue to see rich pipeline of opportunities to help our customers on their multiyear journeys to modernize for cloud-based 5G, fixed wireless access and fiber networks; improved digital consumer and B2B experiences; generative AI, where we believe Amdocs already has a dominant position as the industry-leading enabler. Fourth, we believe Amdocs is strongly positioned as the highly relevant and trusted partner to help our customers accelerate efficiency and productivity gains, enabling future long-term cost savings.

Wrapping everything together on Slide 15. We are reiterating our guidance for constant currency revenue growth of between 1.2% to 5.2% in fiscal 2024, which includes another year of expected healthy, double-digit growth in cloud activities. Additionally, ongoing efforts to achieve our expected pace of profitability improvement this year are yielding results as we implement automation, sophisticated tools and generative AI capabilities to improve efficiency across our business.

Overall, assuming the midpoint of our guidance, we are on track to deliver double-digit non-GAAP diluted earnings per share growth for the fourth straight year in fiscal 2024.

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

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

Thank you, Shuky, and hello, everyone. Thank you for joining us. I'm pleased with our solid financial performance in the first fiscal quarter, the highlights of which you can see on Slide 17. Record Q1 revenue of approximately $1.245 billion was up 4.8% year-over-year in constant currency. On a reported basis, revenue increased 5% and was at the midpoint of guidance, including an unfavorable impact from foreign currency movements of approximately $1 million compared to our guidance assumptions. On a sequential basis, revenue included an unfavorable impact from foreign currency movements of approximately $5 million. On a geographic basis, all 3 operating regions delivered year-over-year growth in Q1, including North America, which delivered a record quarter.

Moving down the income statement. Our non-GAAP operating margin of 18.1% was up 40 basis points from a year ago and up 30 basis points as compared with the prior quarter driven by the ongoing adoption of automation, artificial intelligence and other sophisticated tools. Interest and other expenses amounted to roughly $8 million in the first quarter mainly due to 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 15.3%, which was within our annual target range of 13% to 17%. Diluted GAAP EPS was $1.26 for the first fiscal quarter, which was at the high end of the guidance range of $1.18 to $1.26.

Moving to Slide 18. 12-month backlog was a record high at $4.21 billion, up approximately 3%. On a sequential basis, our 12-month backlog accelerated by a healthy amount of $60 million in Q1 as we continued to sign deals with new logos and existing customers. As a reminder, our 12-month backlog has roughly averaged around 80% of forward-looking 12-month revenue over the years and has, therefore, traditionally served as a good leading indicator of our business.

Turning to Slide 19. Managed services revenue was a record $722 million, equivalent to about 58% of total revenue. Our managed services engagements support the resiliency of our business and provide the bedrock of Amdocs' recurring revenue streams, near 100% renewal rates and multiyear engagements, such as the recently expanded agreement with Charter, which Shuky referenced earlier.

Among other highlights this quarter, Amdocs extended its managed services for Claro/VTR Chile. We signed a new managed services agreement for policy and charging at Claro Puerto Rico. And Amdocs signed a cloud transformation and managed services agreement with NTT Infranet.

Now turning to the balance sheet and cash flow highlights on Slide 20. DSO of 75 days decreased by 12 days year-over-year in Q1 and increased by 6 days sequentially. The sequential first quarter change in unbilled receivables net of deferred revenue was $79 million in Q1, aggregating the short-term and the 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.

Reflecting strong execution, we reported free cash flow of $139 million for the first quarter comprised of cash flow from operations of $182 million, less $44 million in net capital expenditures and other. Note that the reported free cash flow in the first fiscal quarter included restructuring payments of $16 million, adjusting for which reported free cash flow would have been $155 million.

Overall, we ended Q1 with a strong balance sheet and a healthy cash balance of approximately $601 million, including 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.

As a final point, Amdocs' strong financial position is reflected by our investment-grade rating at S&P and also Moody's, which upgraded Amdocs by one notch to Baa1 in November.

Turning to capital allocation on Slide 21. We repurchased $159 million of our shares in the first quarter and paid cash dividends of $51 million. Overall, we returned a total of $210 million to shareholders through share repurchases and dividends in the first quarter.

Looking ahead, we continue to expect free cash flow of approximately $750 million in fiscal 2024, excluding anticipated restructuring payments of approximately $24 million of which the majority was incurred in Q1. Additionally, we remind you that free cash flow in the second fiscal quarter is typically lower due to the timing of annual bonus payments.

Our free cash flow outlook of $750 million for the year equates to a conversion rate of approximately 100% relative to non-GAAP net income and represents a healthy free cash flow yield of roughly 7% relative to Amdocs' current market capitalization. Regarding our capital allocations in fiscal 2024, we expect to return the majority of our free cash flow to shareholders.

Now turning to our revenue outlook on Slide 22. To begin, we are continuing to closely monitor the prevailing level of macroeconomic, geopolitical, business and operational certainty, which remains elevated in the current business environment. Thus, the second quarter and full year fiscal 2024 financial guidance reflects what we consider to be the most likely outcomes based on the information we have today, but we cannot predict all possible scenarios.

Beginning with the top line, we are reiterating our revenue growth outlook of between 1.2% to 5.2% year-over-year on a constant currency basis in fiscal 2024, the 3.2% midpoint of which is roughly half organic. Consistent with our previous guidance, we continue to expect a stronger second half to the fiscal year based on our expected plan of execution for deals already in the 12-month backlog, plus new opportunities, which we anticipate will convert to signed deals and contribute to revenue this fiscal year.

Additionally, we remain firmly on track to deliver another year of double-digit growth in cloud activities, which to remind you, already represented more than 20% of total revenue in the prior fiscal year. Our annual outlook includes second fiscal quarter revenue with a range of $1.225 billion to $1.265 billion and assumes an immaterial sequential impact from foreign currency fluctuations as compared to Q1.

On a reported basis, we now expect full year revenue growth in the range of 1.1% to 5.1% year-over-year as compared with 1% to 5% previously, which incorporates an unfavorable impact from foreign currency fluctuations of approximately 0.1% year-over-year compared with unfavorable impact of approximately 0.2% year-over-year previously.

Moving down the income statement. We are on pace to achieve non-GAAP operating margins within our annual target range of 18.1% to 18.7%, shown on Slide 23. As we said last quarter, we anticipate a gradual improvement in non-GAAP operating margin through fiscal year 2024, reflecting ongoing efforts to optimize Amdocs' cost structure and the cumulative benefits of our continual initiatives to improve operational excellence. This includes the adoption of automation, other sophisticated tools and disciplined resource management, added to which we expect the implementation of gen AI to drive additional cost and efficiency improvements across our business.

Below the operating line, we anticipate that foreign currency fluctuations and cost of hedging will impact our non-GAAP net interest and other expense line in the range of several million dollars on a quarterly basis. We expect that our non-GAAP effective tax rate will remain within the unchanged annual target range of 13% to 17% for full fiscal year 2024.

Bringing everything together on Slide 26, we are reiterating our outlook for non-GAAP diluted earnings per share growth in the range of 8% to 12% for the full year fiscal 2024, the midpoint of which is expected to mark the fourth straight year of near double-digit growth. Moreover, we expect to deliver double-digit total shareholders return for the fourth year running in fiscal 2024, including our outlook for non-GAAP earnings per share growth plus a dividend yield of about 2%.

Before handing back to Shuky, I am proud to say that Amdocs was recently recognized for its commitment to sustainability and corporate responsibility by earning a place on the prestigious S&P Dow Jones Sustainability Index for North America for the fifth consecutive year. More specifically, Amdocs was ranked in the 93rd percentile of the top 20% of the companies surveyed in the S&P Global BMI based on long-term economic, environmental and social criteria. We believe such an achievement reflects the important steps we are taking in our sustainability journey as we continue to bring our customers valuable, reliable and sustainable products while ensuring our operations are held to the highest ethical standards.

In line with our emphasis on conserving the environment, last year, we set ourselves the long-term climate goal of becoming carbon neutral on Scope 1 and 2 emissions by 2040. Amdocs also continues to place people centricity at the heart of our focus. During Q1, we held numerous company-wide campaigns to drive awareness around gender diversity and people with disabilities, and we remained active in the communities we serve worldwide, leading dozens of events globally to support digital inclusion, STEM education, food for the needy and many other important initiatives.

With that, back to you, Shuky.

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

Thank you, Tamar. As I said in my opening remarks, we have started fiscal 2024 on a solid note, and we are on track to achieving our fourth consecutive year of double-digit non-GAAP earnings per share growth.

With that, I'm happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

And our first question comes from the line of George Notter from Jefferies.

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

I guess I wanted to start by asking about the headwind I think you guys have been talking about the last couple of quarters, customers looking to hold back on maintenance-type projects in lieu of bigger transformation projects. I see the guidance for the full year, of course, hasn't changed. But could you give us an update on what you're seeing in terms of that trade-off from larger customers?

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

As we've said, I mean, we don't see a big change in the environment. And given this is our first quarter, for our customer, this is our fourth quarter, usually, you don't see any changes in trend. This is the end of the fiscal year. So far, we did not see any change -- significant change to what we discussed in the previous quarter when we gave the fiscal year guidance.

For the most part, it's the same. Our customers continue to invest in all the next-generation and modernization program we are doing for them, both for consumer and B2B. Moving to the cloud, this is like we mentioned last quarter, we continue to see very strong momentum in all our cloud-related activities, and we see -- and we predict another year of double-digit growth in this domain.

As I said, we -- all the modernization program continues. The same headwind that we reported last quarter regarding mainly in the legacy platform, it did not change. This is the beginning of the year. We'll see what will go on moving forward. But as I said, this was our first quarter, for our customer, this was our fourth quarter. So we did not see any changes in the overall environment.

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

I just want to add a point of clarification here. What we said is that we've seen that pressure in enhancements of legacy systems where these customers are actually investing significantly in building the new stack and modernizing their systems. We do not see that happening in terms of the maintenance of the managed services. In fact, we're reporting in our first fiscal quarter, as you can see, a record high managed services revenue as evidenced both by the high renewal rates we're seeing as well as new customers that are signing up with managed services engagement.

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

Got it. That's great. And then the other question I wanted to ask was just on early feedback on the amAIz product. I think you guys have had it in the product set with customers for a quarter or so now. Also, I know you guys are not putting AI features in the older products. It's all in the new CES iterations. Can you just talk about, are you seeing more activity there with customers? Is there a possibility you could see some AI-driven revenue in this year? Any update on the outlook there would be great.

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

So George, first of all, we see a significant acceleration in engagement. Just to remind, as we've said on the prepared remarks, we have different layers of offering, different pillars of offering. Some of them are embedded in our products. Some of them are on top of our product. But the way we see Amdocs, at the end of the day, all our customers, when they need to implement generative AI, this is where exactly where Amdocs can enable it, meaning you're not just calling Microsoft and saying that I want generative AI.

There is a lot of activity, plumbing, whatever you can call it under the hood in data access. So for every simple question or use cases, there is a ton of data that you need to bring in a secure way, in an affordable way, in a way that it's a carrier-grade, I would say, operation to be able to implement it. So overall, as I said, we see -- and I can tell you that the number of engagement significantly accelerated during this quarter.

Now regarding revenue acceleration, I think we did not change our position in a way that -- on one hand, from productivity gains, we see a lot already happening in '24. In this -- so far, we did not calculate additional revenue uptake regarding generative AI. Also, I believe that some of these many proof of concepts that we are doing right now will yield to be projects this year.

Operator

And our next question comes from the line of Timothy Horan from Oppenheimer.

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

Just following up on the macro. Just to be clear, so in January and February, you haven't seen any real change in trends on the legacy spending upgrades of -- just to confirm that or were you referring to the fourth quarter? And then secondly, are you seeing an acceleration of the migration to the cloud? Or do your customers understand that they really need to migrate to the cloud more aggressively to use these new AI products?

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

First of all, definitely, we see acceleration. I mean all our customers are in different type of shape of different, I would say, phases of moving to the cloud. And most of the agreements that I mentioned today and before are related to moving and modernizing, moving the platform to the cloud. So definitely, we see acceleration. Regarding the headwind that we discussed last quarter...

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

That is the same 3% headwind we discussed when we gave the original guidance for the year. We don't see a change there. So it's baked into the guidance. We don't see a different view on that based on everything we have as of now.

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

One month into the year, yes.

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

Got it. Any sense when that might turn around? I mean, could that last for another year or 2? Like when you look at it historically, what had happened? And yes, any sense about that would be great.

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

As we said when we gave the original guidance for the year, we assumed for this specific year more or less the same level that we entered the year. We didn't want to take a different position before we see any specific signs that it's changing. So I think it's too early to say right now whether it will change in several quarters from now, but we'll definitely give an update as soon as we do see something.

I think more importantly is: a, we continue to see 100% renewals; b, we continue to sign new logos; and c, as Shuky said, we're very excited to see a growing pipeline of opportunities, some of which obviously signed already, as you can see from the $60 million sequential change in the 12-month backlog, which is quite significant, and some, of course, yet to be converted from the pipeline to deals.

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

And then just on the AI front, I know it was kind of asked, but do you have many examples of customers using it right now, like you have products or services in production right now? And how many more do you kind of expect to be able to deploy this year?

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

All the customers in this phase are still in the proof of concept, but we believe that we will move to production some of these POC in the next couple of quarters already. Early, I would say, results are showing results beyond imagination. I mean we see the technology is working. It gives huge benefit in -- especially in care and other areas that we are experiencing right now, and we are really, really bullish about the opportunity.

Operator

And our next question comes from the line of Tal Liani from Bank of America.

Tal Liani ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

I have 2 questions. First one, just to understand the EPS guidance. So when I compare your guidance for the year with the Street guidance, it's right in line, but your guidance for next quarter is about $0.04 below the Street. So that means that you expect that EPS will recover by $0.04 in the second half of the year. So what drives the $0.04 recovery in the second half to bring you back to kind of in line-ish EPS guidance? That's the first question.

And second question, I want to refer back to something you said last conference call and ask you just for an update. Last call, you said that when there are budget cuts, you see an immediate impact on legacy spending. But it takes more time to see ramping of modernization deals. That's just kind of a time difference. So when it comes to modernization deals, have you seen any update? Have you seen them coming versus previous expectations? Or do you expect to see them coming? And what about timing of when they're coming, just to get kind of an update on timing of cuts versus new projects.

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

So Tal, regarding the first part of the question, we have elevated the operating margin range significantly for this year, as we indicated already in the beginning of our fiscal year, to 18.1% to 18.7% and also said that we will see a gradual improvement as we go through the year. So we already jumped now 40 basis points in our Q1 numbers, and we continue to have the expectation that it will gradually improve. And with that comes also the EPS stronger performance in the second half of the year.

Regarding the second part of the question, you're right. We explained that if a customer decides to slow down on some legacy enhancements, that's pretty immediate, and we will see the revenue pressure pretty quickly. At the same time, when a new customer -- let's say, you're signing up for a modernization project or awarding us new managed services engagements, the ramp-up of revenue takes time. There's a setup phase, and then we start later on to enjoy the revenue pickup.

We do see a very nice momentum in terms of our sales, both in terms of the cloud activities as well as other modernization. We try to give a lot of examples of these new deals that support the $60 million sequential increase in the 12-month backlog. You can see that it's across our strategic pillars, digital transformation, the 5G, the whole network automation aspect, the cloud, and all of that will support our visibility into the acceleration we expect in the second half.

Of course, we still need to sign more deals. We didn't finish the sales. We need to sell more deals, and we predict as part of that acceleration also the continued conversion of our pipeline to additional signings.

Tal Liani ***BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst***

Great. And Tamar, you used to say -- I've been covering the stock as long as I've been an analyst. So you used to say many, many years ago that visibility entering a year is about 75%. What's the visibility entering 2024 versus kind of historical visibility you had?

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

Actually, for some years now, we are talking about more like roughly 80% visibility entering a year. It has to do with the fact that the company enhanced the managed services as a percentage of revenue, and we continue, of course, to focus on converting more existing customers to managed services as well as adding new logos. So looking into 2024, I would say roughly 80%. We shouldn't take it mathematically. So don't take 80% exactly and take the backlog and divide it by 0.8. But roughly speaking, that's a good indicator. And we think that looking into the 12-month backlog as a good indicator of the future is typically helpful.

Operator

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

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

I wanted to circle back to generative AI where I know there were already a couple of questions. I wondered if you could, I guess, first, just update us on the progress of the Microsoft and NVIDIA partnerships. And do any of the early pilots kind of include those partnerships? Just kind of curious how that's shaping up. And I guess kind of secondly, tied to that, it sounds like customer care is maybe one of the early pilots you're looking at. I just -- it'd be great to kind of hear thoughts on where you're looking at other kind of proof of concepts or pilots outside of customer care with generative AI.

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

So definitely, I think that in most of our POCs, we are engaging both with Microsoft and NVIDIA, obviously using OpenAI in some cases and then in some cases, leveraging the NVIDIA platform. So this is pretty much happening in almost every POC that we are engaging right now.

Regarding use cases, you are right that the low-hanging fruit use cases are mainly in the care, and they are in different domains from the one like, why my bill is so high, why my bill is different than last week, last month's bill, et cetera. We see many, many use cases like this. And at the same time, try to do what -- next best offer -- I mean, to try to offer a better offer to the customer based off a lot of information that we get from generative AI.

As I said in my prepared remarks, we see a lot of great results already in care, both for ability in improving the productivity of the -- what we call the super agent now with really great tools and at the same time, deflecting a lot of many calls, giving us capabilities eventually. The idea is to open a chatbot or something to consumer with much better services than the current chatbot.

So we see a lot of, I would say -- as you said, the low-hanging fruit use cases are mainly in care, and we are involved in all of them. But at the same time, we are implementing additional, I would say, generative AI capabilities like offer generation, catalog assist and many other capabilities that we have that are not necessarily on the care side but more on the monetization side. So -- but we see a lot of progress, and we are working very tight with both Microsoft and NVIDIA.

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

Okay. Maybe if I could slip in one more. I think in the prepared remarks, you referenced deepened relationships with both AT&T and T-Mobile, your 2 biggest customers already. Maybe any other color you can share on where you're seeing the continued growth opportunities? Is some of that generative AI? I know some of it is the broadband wireless, it sounds like, in AT&T. But anything else you could share on where you're seeing the added growth opportunities there would be great.

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

Not everything I can share. But I can tell you in a high level that we are -- in both customers, we are accelerating the modernization activities. So we were in a certain level of activities last year. And now we're seeing both of them -- more activities and more acceleration. As a reminder, we are still in the very early stages of modernization in both of them, and we see a pickup in these 2 customers in the acceleration of their modernization journey. I cannot share more detail beyond that.

Operator

And our next question comes from the line of Ashwin Shirvaikar from Citigroup.

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

So I guess I wanted to ask about gen AI. And you were -- just based on your prepared remarks and comments you've made and other stuff you put on your website, it's pretty clear that you're demonstrating more efficiency for your clients, better experience for their customers, things like that. I guess how does that translate or how does it translate to Amdocs' direct benefit in terms of does it help you with more revenue growth? Obviously, you're benefiting on the margin side and you're doing yourself with AI. But on the revenue side, are you able to monetize faster because of it?

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

The answer that this definitely will eventually contribute to our revenue acceleration. And then I want to expand, give more color about what does it mean to implement a use case in generative AI in something, let's say, in the care domain. This is not just trying to do some simple integration and see that it's working. You need to build mission-critical -- because at the end of the day, if a customer decides to reduce the number of his CSR reps by 20%, you need to make sure it's working all the time.

So it's building -- the plumbing around it is huge. You need to build infrastructure. At certain point, you are going to OpenAI. At certain point, when you want to load the data that comes from your own customer data, like last 12 months invoices, they are many, many information. We need to look at the catalog to see maybe the customer changed from one plan to the other, and what was the history of this customer. So you need to aggregate this data, apply telco taxonomy and teach the model in a way that it can give a real answer, which is correct, in a very short time.

So it's not that you can sit and wait 40 seconds to see until you will get an answer. Building this infrastructure, to be what we call telco-grade or carrier-grade, efficient, correct environment, which is highly secured and have all the relevant data, it's very complex.

And this is exactly what we said that we could be the real enabler because we have -- we know all the data. We built the right platform and made it can do this. And we know exactly what needs to be done to bring all this information from different sources in a way -- by the way, also in affordable way. I mean it costs a lot of money to access the different LLMs -- to do it also in an affordable way. This is a very, very heavy lifting. So it's not just you do like a simple API, and this is exactly where we said that Amdocs is perfectly located or positioned to do this.

Now this is going to be eventually relatively big projects to put this environment in place. And we believe that we have a lot of opportunities in this domain to be the main enabler of this technology.

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

Understood. The other question is with regards to that sort of look at split of revenues by geography. And there is the deceleration that we observe a little bit more so in EU versus North America. Do you mind going back and kind of reminding us with regards to kind of the specific thing that was leading you to the higher growth rate and is -- whether this is purely cyclical? Or was that kind of because of specific contracts?

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

So Europe for us for many years in the past was an underpenetrated region. And in the last several years as part of our intentional -- international expansion, we focused on Europe, including, let's call it, the classic part of Europe as well as East Europe in terms of penetrating into new logos and also solidifying our presence with some of our longer-term European customers and moving to managed services.

It was quite a challenge for us historically to convince the European customers, given different social demographic aspects, to move into managed services. And we kind of cracked the formula there as well as the fact that they have a stronger focus on building their margin, which helped us move also some European customers to managed services.

I would say it's both the fact that we are doing significant amount of modernization projects in the European market. Remember, most of the European carriers established their systems in the '90s. And we see a modernization wave with the shift to the cloud, with a lot of drivers that are moving that as well as shift to managed services of some existing customers that we have.

So I would say it's broad-based. It's not coming from one customer in particular. We are expanding into more countries. For example, several years back, we didn't have almost any business in Italy. Now we are serving the 3 leading carriers in Italy.

We are running a large-scale transformation project for Vodafone Germany. We're expanding into new logos in East Europe. So it's quite broad-based in terms of the customers that are driving that. Amazing success in penetrating and expanding a relationship with the Hutchison Group in Europe. We talked last quarter about expanding there even further the managed services engagement. We are making progress on the modernization there. So it's actually a very healthy and diversified growth story that we see in Europe.

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

Ashwin, with your permission, I want to go back to your first question. I think a way to explain, it's similar that remember that for some time, several years ago, we were talking about Amdocs' position in the cloud. And we believe that we have -- that we're going to be the industry leaders of taking the industry to the cloud. And we are the best positioned to do this. We have the technology, the consulting, the system to do it.

I think in a way, it's similar to where we are in generative AI. It's early days. Everyone is looking around to see what is the right thing to do. Everyone is experiencing different use case, et cetera. But if you really need it to be carrier-grade, heavy mission-critical systems that support your monetization, your care, this is where Amdocs' strength. And I think it's very similar to our -- when we talked several years ago, but we say we are perfectly positioned to take the industry to the cloud. So I think right now we are really in a good position actually to enable this technology to our customers.

Operator

(Operator Instructions) And this does conclude the question-and-answer session of today's program. I'd like to hand the program back to Matt Smith for any further remarks.

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

Yes. Thanks, John, and thanks, everyone, for joining the call this evening. As always, if you do 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 evening.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.