THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DOX - Q2 2019 Amdocs Ltd Earnings Call

EVENT DATE/TIME: MAY 14, 2019 / 9:00PM GMT

OVERVIEW:

Co. reported 2Q19 revenues of $1.02b and GAAP EPS of $0.90. Expects FY19 total revenue growth to be 1.8-3.8%. Expects 3Q19 revenues to be $1.05-1.45b and diluted non-GAAP EPS to be $1.08-1.14.

CORPORATE PARTICIPANTS

Joshua Sheffer *Amdocs Limited - President & CEO*

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 - Director and U.S. Computer and Business Services Analyst*

Charles Erlikh *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Jackson Edmund Ader *JP Morgan Chase & Co, Research Division - Analyst*

Shaul Eyal *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Thomas Michael Roderick *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2019 Amdocs Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Matt Smith, Head of Investor Relations. Sir, you may begin.

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

Thank you, Justin. Before we begin, I would like to point out that during this call, we will discuss certain financial information that is not prepared in accordance with GAAP. The company's management uses this financial information and its internal analysis in order to exclude the effect of acquisitions and other significant items that may have a disproportionate effect in a particular period. Accordingly, management believes that isolating the effects of such events enables management and investors to consistently analyze the critical components and results of operations of the company's business and to have a meaningful comparison to prior periods.

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.

Also, this call includes information that constitutes forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations will not be material. Such statements involve risks and uncertainties that may cause future results to differ from those anticipated. These risks include, but are not limited to, the effects of general economic conditions and such other risks as discussed in our earnings release today and at greater length in the company's filings with the Securities and Exchange Commission, including in our annual report on Form 20-F for the fiscal year ended September 30, 2018, filed on December 10, 2018, and our Form 6-K furnished for the first quarter of fiscal 2019, filed on February 19, 2019.

Amdocs may elect to update these forward-looking statements at some point in the future. However, the company specifically disclaims any obligation to do so.

Participating on the call with me today are Shuky Sheffer, President and Chief Executive Officer of Amdocs Management Limited; and Tamar Rapaport-Dagim, Joint Chief Financial and Chief Operating Officer. And with that, I'll turn it over to Shuky.

Joshua Sheffer - *Amdocs Limited - President & CEO*

Thank you, Matt, and good afternoon to everyone joining us today. We are pleased to report a strong financial performance for our second fiscal quarter. Recognized revenue was above the midpoint guidance, growing 4.8% year-over-year in constant currency.

Our operating profitability was solid and consistent, and we delivered diluted non-GAAP earnings per share that was in line with the high-end of our expectation. As always, we are laser focused on execution in the second quarter. Our Managed Services business grew nicely as we ramped up several managed transformation agreements. Additionally, we continue to progress the many transformation projects that we are currently delivering for our customers. As we said last quarter, we believe our project activity is the function of our industry leadership and high greenlights. Moreover, we believe the project we delivered represent important footholds in the market with some strength through long-lasting customer relationship, recurring service revenues and a base for future growth across our strategic areas of focus.

Now let me proceed as usual with an update of our quarterly activities on a regional basis. Beginning with North America, where we are performing better than was originally expected, as most of our customers, as they push ahead with their strategic investments. Amdocs was recently selected to support the launch of a new entry in the wireless offering for a leading pay-TV provider in the U.S. and for the second phase of the next-generation customer experience platform for a large MSO in Canada. Additionally, we strengthened our (inaudible) partnership with an expansion and extension of our multiyear managed services modernization agreement and we extended our relationship with Rogers by executing an extended managed services agreement to support and enhance Rogers' business platforms. At T-Mobile and Sprint, we focused on demonstrating the value we can bring to the combined entity, assuming the planned merger proceeds. In the meantime, co-activity level remained healthy as both customers, as demonstrated by today's news that we are in the process of deploying the Amdocs DigitalONE platform to modernize and accelerate Sprint's digital transformation. Additionally, we are pleased to announce a multiyear agreement with the licensing and distribution of premium on-demand content for T-Mobile recently announced TVision Home, which we see as the further evidence of our continued traction in the media space.

Regarding AT&T. Our relationship remains strong as we continue to bring value to its communication business, which includes, for growth areas within AT&T Mobile, such as Cricket prepaid in Mexico. Moreover, we continue to see to see opportunities ahead to drive significant innovation, and efficiency improvement to support AT&T communication business.

As the (inaudible) media, we have seen a tick up in dialogue following the recent District Court decision in favor of the merger with AT&T and the subsequent changes in WarnerMedia's leadership. WarnerMedia is already a customer of Amdocs Media, which encompasses Vubiquity and Vindicia, and we believe we are well positioned to bring additional value and support of another of media and direct-to-consumer related opportunities. As a reminder, these virtual opportunities are not reflected in our fiscal 2019 outlook.

In the near term, however, AT&T remains focused on cost control and debt reduction, as the result of which, our quarterly revenue from AT&T is tracking below our initial expectation at the beginning of the fiscal year.

To summarize North America, quarterly trends remain likely to fluctuate for the foreseeable future but we are on track to deliver modest revenue growth for the full fiscal year with headwinds at AT&T, compensated by the healthy customer activity we are seeing in the broader region.

Moving to Europe. Quarterly revenue was in line with the multiyear high of Q4 '18 and includes the new project wins we referenced last quarter with Veon and a Tier 1 service provider in Spain. Additionally, in France, we won our first important modernization project for a major operator. We extended managed services agreements with several customers including Vodafone Hungary, and we partnered with Capita plc to provide digital business systems to support the rollout of transport for London's (inaudible) on emissions on regulation and standards. Overall, we see a rich pipeline of opportunities across Europe's communication and media industry, including with new logos. This supports a positive gross outlook in the region for the fiscal second half, although we are closely monitoring the macroeconomic climate of the region.

Turning to Rest of the World. We delivered a record quarter, which includes the ramp up of new activities in APAC country, such as the Philippines, Malaysia and Australia, as well as Latin America. During the quarter, we strengthened our relationship with Telefónica, where we were selected to support the launch of eSIM equipped smartphone and other devices for Vivo in Brazil. Additionally, we made (inaudible) progress in Africa, where we were chosen as a strategic partner to digitally transform the billing system and the processes of Safaricom enterprise billings division, based in Nairobi, Kenya. Safaricom is the largest mobile network operator in East Africa region.

Regarding media and Rest of the World, we continue to add new logos, which includes 3-year agreements with Digital TV in Bolivia, the nation's first commercial video on-demand service to be launched by a service provider and deal to support a new programming launch for [Box] , the largest independent programmer on Brazilian pay-TV.

Meanwhile, in Southeast Asia, we were selected to support the digital business requirements of Eros Now, a leading over-the-top entertainment platform with vast coded library in India. Overall, a work in progress, and the extending market opportunity in Rest of the World continue to support the positive long-term growth trajectory in the region. Although we remind you that revenue trends may fluctuate from 1 quarter to the next.

To summarize my original comments, we are pleased with our second quarter performance, which we believe reflects our ability to execute and the positive demand for our innovative solutions, which were on bid on the cloud-native and microservices capabilities. Recognition of our innovation was recently received from Gartner, who positioned Amdocs as the leading vendor in its Magic Quadrant for integrated revenue and customer management for the eighth consecutive year. This followed last quarter news, where Gartner positioned Amdocs as the clear market leader in its 2018 Magic Quadrant for operation support system. Meanwhile, Light Reading last week selected Amdocs as the company with the most innovative 5G strategy. We believe this award validates the new range of end-to-end 5G solution, which you will recall topic of the conversation in many of our meetings in Mobile World Congress in February.

Let me take a moment to comment on 5G. The CapEx cost and the complexity of which is higher than previous generation. This is starting to create demand for our range of independent network solution, such as the deployment optimization services we have already been chosen to provide support for the 5G rollout of several leading North American service providers. Over the long term, however, we believe that the motivation of 5G presents a greater opportunity for Amdocs, since 5G is enabling new services and use cases over and above services provided in traditional offering. Early example of such cases include fixed wireless access to the home, ease for streaming and virtual reality entertainment, and we believe our sophisticated engine, that includes altering and charging have the potential to be copies of the monetization model of our customer, which will require leveraged new revenue opportunities like this. As for opportunities for Amdocs, we believe 5G can provide entailment for growth over the next few years. I am pleased to report that the KT Corporation in South Korea recently launched one of the world's first 5G networks that is supported by the modernization solution we deployed into live production for this customer. Additionally, when involving a growing number of our fees with some of the world's leading service providers, and we believe we are well placed to secure formal 5G project awards over the course of the next year, given the commercial readiness of our market-leading solutions and our ability to execute what is co-competitive for Amdocs.

To wrap up. We are pleased with our performance for the fiscal year-to-date. Our market position is strong, our 12 months backlog remains at record levels and we see a solid pipeline of opportunities in front of us for the second half of the year. Moreover, we are on track to meet our full year targets for constant currency revenue growth and normalized free cash flow, and we are raising our guidance to a non-GAAP -- for non-GAAP earnings per share, gross in fiscal 2019 to a new range of 4.5% to 8.5%, which represents an improvement of 150 base points relative to our former outlook. With that, let me turn the call to Tamar for her remarks.

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

Thank you, Shuky. Second fiscal quarter revenue of $1,002,000,000 was above the midpoint of our guidance range and included the positive impact from foreign currency movements of approximately $2 million relative to first quarter of fiscal 2019 and approximately $4 million relative to guidance.

On a year-over-year basis, our second quarter revenue grew by 2.8% as reported and 4.8% after adjusting for foreign currency headwinds of approximately 200 basis points. Our second fiscal quarter non-GAAP operating margin was 17.4%, an increase of approximately 10 basis points compared to the prior quarter, and consistent with the higher end of our long-term target range of 16.5% to 17.5%.

Below the operating line, non-GAAP net interest and other expense was $1.9 million in Q2. For forward-looking purposes, we continue to expect the non-GAAP net interest and other expense in the range of few million dollars quarterly due to foreign currency fluctuations.

Diluted non-GAAP EPS was $1.06 in Q2, in line with the high end of our guidance range of $1 to $1.06. Consistent with guidance, our non-GAAP effective tax rate of 16.4% was within our annual target range of 13% to 17% in Q2. Diluted GAAP EPS was $0.90 for the second fiscal quarter, above our guidance range of $0.75 to $0.83.

Free cash flow was $148 million in Q2. This was comprised of cash flow from operations of approximately $169 million, less $21 million in net capital expenditures and other, and include an annual cash bonus payment for the prior fiscal year consistent with our guidance last quarter. Normalized free cash flow was $145 million in the second fiscal quarter, which is an improvement relative to $84 million a year ago. The difference between normalized and reported free cash flow was just a few million dollars this quarter, as this will be in the reconciliation table provided in our Q2 earnings release.

DSO of 86 days decreased by 5 days quarter-over-quarter. We remind you that DSO may fluctuate from quarter-to-quarter. I'm pleased to highlight that total unbilled receivables declined by $47 million as compared to the first fiscal quarter of 2019 and that our total deferred revenue, both short and long term, increased by $13 million sequentially in Q2. That resulted in an improvement of $60 million in the gap between unbilled receivables and deferred revenue, as we continue to meet contract specific milestones relating to the transformation projects we are delivering for our customers. Moving forward, you should still expect unbilled receivables and total (inaudible) revenue to fluctuate from quarter-to-quarter in line with normal business activity.

Moving on, our 12-month backlog was a record high at $3.39 billion at the end of the second fiscal quarter, up $20 million sequentially from the end of prior quarter. We believe our 12-month backlog continues to serve as a good indicator of our solid book of business.

During the second fiscal quarter, we repurchased $120 million of our ordinary shares. In total, we have, as of March 31, approximately $418 million of remaining authorized capacity for share repurchases, to be executed at the company's discretion going forward with no stated expiration date. As a reminder, we retain the flexibility to vary the level of share repurchase activity from quarter-to-quarter, depending on factors such as the outlook for M&A, financial markets and prevailing industry conditions.

Now turning to our outlook for the third fiscal quarter of 2019. We expect revenue to be within a range of $1.05 billion to $1.45 billion. Embedded within this Q3 revenue guidance, we anticipate a sequential negative impact from foreign currency fluctuation of approximately $2 million as compared to Q2.

For the full fiscal year 2019, we are narrowing our expected total revenue growth to a range of 1.8% to 3.8% on a reported basis compared with our previously guided annual range of 0.5% to 4.5%. This outlook includes an anticipated drag from foreign currency fluctuations of about 1.2% year-over-year as compared to an anticipated drag of about 1.5% previously.

On a constant currency basis, we expect revenue growth in the range of 3% to 5%. The midpoint of which is unchanged compared with our previously guided annual range of 2% to 6%. Additionally, we remind you that our second fiscal quarter included the one year anniversary of our acquisition of Vubiquity, meaning that our expected revenue growth in the second half of the fiscal year is organic in nature.

Moving on, we continue to expect our non-GAAP operating margin to remain within the range of 16.5% to 17.5% in fiscal 2019, and we expect our quarterly non-GAAP operating margin to fluctuate at the higher end of this range in fiscal 2019. We expect the third fiscal quarter diluted non-GAAP EPS to be in the range of $1.08 to $1.14. We expect our non-GAAP effective tax rate to be at the low-end of our annual target range of 13% to 17% in the third fiscal quarter.

Additionally, our third fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 138 million shares. We excluded the impact of incremental future share buyback activity during the third fiscal quarter as the level of activity will depend on market conditions.

For the full fiscal year, we now expect to deliver diluted non-GAAP EPS growth of 4.5% to 8.5%, which is an increase of 160 basis points as compared to a previous range of 3% to 7%. Once achieved, the 6.5% midpoint of the new range would mark the eighth consecutive year in which we have delivered non-GAAP diluted EPS growth of more than 5.5%. And with our dividend yield of approximately 2%, would equate to an expected total shareholder return in the high-single digit in fiscal 2019.

Now that our full year EPS outlook incorporates our expected repurchase activity over the year. We expect our non-GAAP effective tax rate to remain within the same target range of 13% to 17% for the full fiscal year 2019. We remain on track to generate normalized free cash flow for the fiscal year 2019 of approximately $600 million. This equates to an expected conversion rate of approximately 100% relative to full year non-GAAP net income, driven by normal business operations. We continue to expect reported free cash flow of close to $500 million in fiscal 2019.

Consistent with our previous guidance, we plan to return the majority of our normalized free cash flow to shareholders in fiscal 2019 by way of our quarterly dividend and share repurchase program.

With that, we can turn it back to the operator and we'll be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is going to come from Shaul Eyal from Oppenheimer.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Shuky, thank you for the commentary on AT&T and some of the other carriers out there. Specifically on AT&T, can you provide us with a little bit of more color as to what are you seeing on the one hand from AT&T. I know you've also mentioned some potential activity coming from the Warner side of the question, but whatever additional or incremental data you can share with us, that will be greatly appreciated.

Joshua Sheffer - *Amdocs Limited - President & CEO*

As we said before, I think that our relationship with AT&T is very strong. Obviously, AT&T, as we all know, is focusing on their production and cutting cost, which also impact us. I can say that, as you know we are operating in many years of AT&T. Obviously, we are behind their mobile business, U-verse, DirecTV, AT&T Mexico, the metro activities, Cricket and others. So we have a very wide portfolio of activities at AT&T. We have active dialogue with the executives about different opportunities, both in the area of cost-cutting and innovation that can support AT&T's strategy. And regarding the second half, we don't believe that the Q3 and Q4 level will be materially different as what we've seen in Q2. The good thing, as we reported, is we see a very healthy activity in North America. Very strong activity in North America, is helping us to offset this headwind from AT&T. We are not losing biddings to anyone in AT&T. Our relationship is strong as ever, and we continue to focus in delivering them value.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Understood. And maybe also, if I could ask about any progress that you can report to us on the NFV front. What has been happening over the course of the past quarter, specifically on that set of evolving product portfolio?

Joshua Sheffer - *Amdocs Limited - President & CEO*

So I think last time when we talked about this, we were talking about our overall network portfolio, which NFV is part of them. NFV is relevant also for the 4G environment and definitely for the 5G environment. So we see some pickup in NFV in many different places in the world. We reported a win last quarter and we had some active activities in different places of the world. But overall, when we look at the whole network space, which includes, as I mentioned, the 5G opportunities in different domains, in the domain of a network deployment, network monetization, so called the [fin network] and others, this is something which as we mentioned, we see this as a tailwind for us, starting this year and next year. And so NFV is part of the broader portfolio and as I mentioned, we see adoption. This is midsize projects and we continue to focus on this.

Operator

And our next question is going to come from Jackson Ader from JPMorgan.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

Looks like Tamar, your comments on free cash flow and unbilled receivables, that's excellent but it came down, I think, by $47 million. Was any of that due to factoring in the quarter?

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

Actually, we've done less factoring this quarter even than the prior quarters so that was a headwind on the cash flow, despite that you've seen the major improvements. So no, the bottom line is this is not going from factoring, coming from strong -- very strong collection, very high billings that we had this quarter. We met so many milestones of activities with customers. So we are very pleased with that result.

Jackson Edmund Ader - *JP Morgan Chase & Co, Research Division - Analyst*

Great. And then just a quick follow up on AT&T, Shuky again, are we positive or how confident are we, I guess, that this is the trough from AT&T (inaudible) ? Could we actually be kind of having a similar conversation 3 months from now?

Joshua Sheffer - *Amdocs Limited - President & CEO*

As I said before, we don't obviously, guide on a certain customer, but for this respect I can tell you that we don't see different, materially different activities of revenue in AT&T, in -- different to Q2, in Q3 and Q4.

Operator

And our next question comes from Ashwin Shirvaikar from Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

So let me start with, there seems to be obviously, a lot of client activity, which you alluded to also in your prepared remarks. I was wondering if it was possible to sort of break this down into more of the transformational type deals versus regular deals, because clearly, over the last couple of years, you've signed a lot of transformational deals, and it does have a flow-through, sort of impact on cash flow and so on.

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

We're actually being very important to pickup, which we like, which is what we call managed transformation, which includes the combination of transformation projects with the activity of managed services and in -- several of the customers we mentioned the pickup in activity in -- actually those include both project activity as well as managed services, which is a very important value proposition we can bring to the customers in terms of the full accountability, we can help them deliver to the new enhanced and modernized systems while we help them improve the operations and the service levels of their existing systems. And in terms of the different activities we're looking at, some of these are transformational projects, but I don't necessarily see any of them -- any one of these deals on its own creating, like a pressure on our cash flow. At the same time, as we always say, these kinds of trends, where we have project activity is coming with some gap between how we recognize revenue and how the billing license come along. But then at the end of the day, I don't see is there anything materially different, Ashwin, then things we've seen in the past. And also obviously these deals is a very good indication of the market leadership position we have in the market and the win rate that continue to see as tracking very nicely for us.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Got it. Understood. No doubt about the comment on market position. The -- I guess, a broader question or more or less a request is, is it possible for you guys to provide a cohort analysis to illustrate how say, 2-year old contracts versus 1-year old contracts are doing? So we get some idea of sort of the expected cash flow better? So I just wanted to put that out there as a request, because I know that's not necessarily something you can do right away. But the question on cash flow specifically for now is, I did see some fluctuation in year-over-year kind of real estate buildout spend. Can you discuss some of the puts and takes? And also, does the higher EPS translate to better full year free cash flow?

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

So on the earnings per share that we guided for an upward revision of the numbers, yes, we're very pleased with that. In terms of the overall picture on the free cash flow for the year, we reiterated the $600 million normalized free cash flow target, which is a roughly 100% earnings to cash conversion. So the metrics on that side are tracking as we expected and we're very happy to see a strong first half of the year that is obviously tracking in line with what we expect for the full year. Now back to the investment in the facilities, actually in Q2 specifically, the investment was limited as we are ramping up the buildout. We expect more of it to happen in the second half of the year. As we said also as of fiscal '19, it's not going to be more than $50 million. It's in line with the overall plan that we've had. And we are continuing to give full transparency on how much we invest every quarter in our tables in the press release of the earnings. So you can track and follow what's happening. So we don't have any major updates on the facility itself other than continue to give you quarter-by-quarter, how much we invest in the progress there.

Operator

Our next question is going to come from Tom Roderick from Stifel.

Thomas Michael Roderick - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Shuky, let me go back to you on just the topic of 5G. I think it's interesting you got a South Korean carrier here that's rolling out service monetization with you, really interesting early efforts there. And I think there's got to be a number of carriers globally that are starting to think about what 5G means for them. Can you just talk about sort of the broader level of conversations you're having, the activity related to 5G? And how do you want us to think about the potential impact to your model? Can that be an accelerator as we think about 2020 and 2021? Does that broadly replace a lot of the discretionary projects that you've been doing on, say LTE and other legacy networks so maybe not a huge impact to the model? Would love to understand as you think about a 2 year, 2-3 year time horizon relative to the conversations you're having with your customers today, how you think that can impact the top line?

Joshua Sheffer - *Amdocs Limited - President & CEO*

So first, I do think it's going to be a revenue accelerator. And when we talk about -- when we say 5G, we believe by the way it's a dead name because that a transformation from 3G to 4G, it's not like the transformation from 4G to 5G, because -- and this is, I want to explain with this, what is the angle for Amdocs? Because when we move to 5G, it's completely changed the variety of services that our customer can deliver to their consumer. It's not just speed and latency. And what it means that, when you do the investment in the network, and as you know, we are also a very -- a big activity in this domain of network deployment, so this is one uptake because everyone is deploying 5G. But I think, moreover, if all our customers wants to monetize 5G, they need to have a different charging system, they need to add some of the billing system, catalog and some ordering systems. So otherwise, they will not be able to monetize. So actually, 5G is not just pushing what the traditional network related activity. The deployment is actually pushing a new wave of charging and monetization activities in order for our customer to leverage the new services. So this is where we see the growth, not just from the network angle, which we see some growth there, but also for all the ability to prepare yourself to deliver the new services, which will require the ordering system or at least (inaudible) systems, sometimes catalogs, definitely the charging systems.

Thomas Michael Roderick - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Outstanding. That's excellent detail. I appreciate that. And then, sort of one other customer-thematic topic. So we've been wrestling with the impact of AT&T and Time Warner and what that merger and the holdup of that merger has meant for spend for a while. And certainly, it wasn't great for discretionary spend for you last year, maybe coming out of the bottom of that now. Can you just give us your thoughts as to how you think about a potential delay or a breaking up of Sprint and T-Mobile, both of those being good customers of yours? Would there be a positive element to that? Would there be a negative element? How do you think about that sort of evolving? Obviously, you can't predict what happens with that merger itself, but should things evolve in different directions, how do they impact you?

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

We're actually seeing the various, different behavior around the Sprint/T-Mobile merger in terms of the tool cycles that involve, in the sense that they are both very active in continuing to invest in their capabilities, in pushing and in modernizing and enhancing their offering. And we see, as we said, yes, for example, as we clearly said with the Sprint DigitalONE adoption, DigitalONE is our -- is the latest and greatest offering to help with customer experience. We are continuing to see very active level of business with the T-Mobile side. So it's a very different pattern to the -- another example you mentioned of how AT&T held up during the merger discussions. Now having said that, we are obviously in active dialogue with both of them, with different ideas, how we can continue and bring value to the merged company. But many of the things we talk to them about have merit and substance, even the stand-alone companies. So we are continuing to push forward a lot of these ideas and I think we have a very good feedback on the other side in terms of the clean offering that's booking to the table. Shuky, anything to add?

Joshua Sheffer - *Amdocs Limited - President & CEO*

No. I think I have nothing to add. As you said, very healthy activities in both customers.

Operator

(Operator Instructions) And our next question is going to come from Will Power from Baird.

Charles Erlikh - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

This is actually Charlie Erlikh on for Will. Congrats on the nice quarter, guys. I hope you could take a little bit more about the media trends in the quarter. Seems like a nice growth driver for you. Just any general comments you can make on how the media growth or pipeline or activity was in the quarter, and maybe your outlook on that would be great.

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

Yes, we're very pleased to see the media activity ramping up and on a global basis, if you recall we discussed that when we entered into the media space, it was more heavily based on North America and less so in the Rest of the World, and we are very happy to see the international momentum picking up, in parallel of course, the continuation in North America. So whether it's the OTT guys that want to launch to the market or the more traditional players that are coming with new pay TV services, the whole trend of the direct-to-consumer that is catching up around the world, with claims of benefit and the rich offering we bring to the Amdocs Media that includes some of the assets we acquired, including some of the more organic offering that we have with Amdocs, is definitely playing out well. So we're happy both in terms of the examples we've given of awards given already as well as the pipeline ahead. But obviously, this is just relatively the beginning for us. It's just been 1-year anniversary since we established Amdocs Media. Very happy about the trend so far and very encouraged to see it moving forward.

Charles Erlikh - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Great. Yes, no, it definitely seems like it. And just last question, a quick financial one. Just on ASC 606, what was the impact on revenue in the quarter relative to what you would had reported under ASC 605?

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

I don't report -- I don't remember from the top of my head the number right now, but it wasn't that significant, and obviously we took into consideration in the guidance. Just to be clear, when we started the year and we guided for the revenue, already we took into consideration the 606 impact. The overall impact of the adoption of 606 to the retained earnings in the beginning of the year, which is a cumulative basis impact, was about $14 million. So you can imagine if that was accumulated impact, so all the years through October 1, you can imagine that the overall impact is not supposed to be that significant than any given quarter. We definitely come up with this specific number in our 606 I'm sorry for not remembering right now.

Operator

And our next question comes from Peter [Sobesky] from Barclays.

Unidentified Analyst

This is Peter on for Tavy Rosner. Many of them have been answered. Couple of quick ones though, I'd just got a quick follow up on 5G. Saw that the announcement with KT Corporation, obviously, Korea is a bit ahead of the curve there. Do you have any sense of when other regions, probably most newly the U.S. catch up to that point, where those similar opportunities arise for you?

Joshua Sheffer - *Amdocs Limited - President & CEO*

So follow up carefully the announcement of our customer and the claim for deployment. I can tell you that obviously, it's also connected when all the 5G phones will be available, probably later this year or next year. So everyone is getting ready. And so I believe that the activities will start to pick up because if you want to implement a new catalog offering, a new charging system and to get ready to the opportunities that 5G represents, and it takes some time and if everyone is saying that they want by the end of next year to start to deploy these services, so I would assume that we start to see some pickup in this activity relatively so.

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

Yes, that what we said I mean we always receive to iron things out. I mean, as we speak, there are a pickup in our free activities in different places in the world and that's why we said, (inaudible) in the courts of the next year, we will start seeing some awards happening. From our point of view.

Joshua Sheffer - *Amdocs Limited - President & CEO*

And you're very right, Korea is probably the most advanced country in the world in deployment of 5G.

Unidentified Analyst

Okay, that's very helpful color. And then just one quick housekeeping item. Given the step-up in earnings guidance, any updates to your capital allocation outlook in terms of, in terms of share repurchases versus potential M&A?

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

So we continue to hold the view that our capital allocation supports both the return of cash to shareholders and we are continuing to guide for the majority of our normalized free cash flow being returned to shareholders in the form of buyback and dividend and still keeps assertive capacity from our point of view to pursue potential M&A. It's hard to predict with respect to M&A, exactly what will be closed when, et cetera, because the different moving parts would have to relax (inaudible) just as we define what's the right timing, et cetera, obviously, then to the alignment of price, et cetera. So we have a couple of activities. We cannot provide too many details, but you can imagine that the growth drivers of the company that around the network domain, the media domain, et cetera, are areas of focus for us as we look into M&A, as well as sometimes to the tack-on deals that help us accelerate our regional presence in some places that will be usually more smaller deals.

Operator

And I'm showing no further questions. I would now like to turn the call back to Matt Smith, Head of Investor Relations. Sir, you may begin.

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

Thank you very much for joining our call today and for your interest in Amdocs. We look forward to hearing from you in the coming days and if you do have any additional questions, please feel free to contact the Investor Relations group. Thanks a lot. And with that, we'll end the call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.
