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DOX - Q1 2014 Amdocs Earnings Conference Call

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OVERVIEW:

DOX reported 1Q14 revenue of $864m and diluted non-GAAP EPS of $0.76. Expects FY14 total revenue growth on constant currency and reported basis to be 5-8% and FY14 YoverY non-GAAP diluted EPS growth to be 6-9%. Expects 2Q14 revenue to be $880-910m and non-GAAP EPS to be $0.75-0.81.

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CORPORATE PARTICIPANTS

Elizabeth Grausam *Amdocs Limited - VP of Corporate Strategy and IR*

Eli Gelman *Amdocs Management Limited - President and CEO*

Tamar Rapaport-Dagim *Amdocs Management Limited - CFO*

CONFERENCE CALL PARTICIPANTS

Ashwin Shirvaikar *Citigroup - Analyst*

Jack Charles *- Analyst*

Amit Singh *Jefferies & Co. - Analyst*

Shaul Eyal *Oppenheimer & Co. - Analyst*

Tom Roderick *Stifel Nicolaus - Analyst*

Kiera Kilkowski *BofA Merrill Lynch - Analyst*

Andrew Fleece *Robert W. Baird & Co. - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to this Amdocs first-quarter 2014 earnings-release conference call. Today's conference is being recorded and webcast. At this time, I will turn the call over to Ms. Elizabeth Grausam. Please go ahead.

Elizabeth Grausam *- Amdocs Limited - VP of Corporate Strategy and IR*

Thank you, Shannon. 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 our 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, 2013, filed on December 9, 2013. 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 today with me are Eli Gelman, President and Chief Executive Officer of Amdocs Management Limited; and Tamar Rapaport-Dagim, Chief Financial Officer. Before I hand the call over to Eli, I would like to let our investors and analysts know that Matt Smith, our Director of Investor Relations, who most of you know very well, will assume primary leadership for the investor relations group following this quarter. I will be shifting more of my focus to the corporate strategy team, which I've had the pleasure of leading for the past three years, but look forward to still speaking with you frequently in that capacity. With that, I will turn it over to Eli.

Eli Gelman - *Amdocs Management Limited - President and CEO*

Thank you, Liz, and good afternoon to anyone joining us on the call today. We are pleased to report that we made a solid start to fiscal 2014, with revenues, profitability, and non-GAAP earnings per share consistent with our expectations. We delivered year-over-year growth across North America, Europe, and emerging markets. We maintained a keen focus on operating execution and efficiency, and we utilized our free cash flow to both close strategic acquisitions and return cash to shareholders. With this performance, we are on track to deliver on our guidance for diluted non-GAAP earnings-per-share growth of 6% to 9% year over year in fiscal 2014.

Let me now add some regional color to the Company activity during the first quarter. Beginning with North America, we are pleased to report another quarter of strong growth. Two quarters ago, we highlighted a renewed level of competition amongst North American wireless providers. This has continued to support demand for our products and services as we partner with our key accounts to refine and execute their strategic initiatives. With this (inaudible) outlook, we are still subject to lingering uncertainty in the North-American market on two fronts. First, we have consistently discussed the many moving parts resulting from the consolidation activity in the North American wireless market. This not only includes uncertainties arising from the M&A completed in (inaudible) 2013, but extend to the potential for additional acquisition activity among North-American carriers, the outcome of which are difficult to predict. We continue to work with our customers to help them in their post-measure integration planning, but we are still in a certain degree of uncertainty on how our [roles] of new business will progress due to these factors.

Taking this into consideration, our 2014 outlook reflects various scenarios, which we believe could play out in the coming quarters, but clearly we cannot account for all possible outcomes. Second, we are seeing early indication that the Pay TV industry in North America may be at the cusp of consolidation. Under -- until the outlook begins to resolve, this type of uncertainty can result in relatively cautious discretionary spending of these customers. This activity, however, does support our long-held view that the Pay TV industry is likely to transform as it respond to rapidly changing competitive dynamics in the video lineup industry. Our offering strategy in the multi-play and Pay TV is directly targeted at capturing the opportunities presented by these trends.

Moving to Europe, we delivered year-over-year growth for the first time since fourth quarter of fiscal 2012. Difficult macroeconomics and regulatory conditions persist in Europe and continue to present challenges to the region's carriers. It is therefore too early to say whether our strong Q1 performance represent the beginning of an improving trend. Although, we do see opportunities for long-term growth in Europe. Recent activities in the quarter included Vodafone Group, where we added another regional affiliate to the global managed services agreement during the quarter. And EE, a leading mobile operators in the UK, where we were selected to deploy our MVNE solution under a managed services contract.

Turning finally to the emerging markets, [importantly] revenue trends continued to exhibit lumpiness, [only] primarily to the project orientation of our customer engagements. We are confident in our ability to execute on this highly complex transformation project, and we focused on enhancing our competitive position in this region. Let me take a moment to briefly elaborate. First, we continued to strengthen our relationship at strategic accounts. During the first quarter, we formalized our partnership with one of Asia-Pacific leading Pay TV providers by signing a five-year, minute-services agreement that includes components of new development. At another (inaudible) account in the region, we further expanded our penetration by deploying Amdocs' MVNE solution as part of our long-term contract. Second, in the [color] region towards the end of the first fiscal quarter, we completed a niche, but strategic acquisition of a small Latin-American IT service company. This acquisition accelerates our existing workforce in North America -- in Latin America and helps to expand our penetration in the region. Overall, we believe the long-term drivers in this emerging markets region remains highly favorable, and Amdocs is strategically well-placed and -- to execute against the rich pipeline of opportunities we see ahead.

Looking forward, we believe we can deliver full-year total revenue growth of 5% to 8% in fiscal 2014, which is slightly ahead of our original guidance. The change is primarily due to the timing and performance of recently acquired assets. As noted in our press release, we completed the acquisition of Celcite on January 1, and the post-merger integration with Actix is underway. These acquisitions are a good illustration of our execution in a new strategic domain, which has been under review for over a year prior to announcing the deals. Both companies secured new customers wins during quarter one. We anticipate additional success over the longer-period term, as we realize the benefits and the synergies of an integrated network software effort under Amdocs.

With respect to our core business we would like to remind you of the many moving parts in our outlook, particularly in light of the increasing level in industry consolidation amongst North-American carriers. We believe we are executing well, but the current condition -- doing to introduce a level of uncertainties for our customers, and therefore, for Amdocs., I would like to reemphasize that we remain committed to returning cash to shareholders over the long term. During Q1, we executed on our share repurchase program at levels above the ones [existed] by our 50/50 framework. We will likely maintain a similar approach in the second fiscal quarter. Taking all these factors into consideration, we remain comfortable with our non-GAAP earnings per share growth outlook of 6% to 9% in TY14. Finally, I would like to remind you that our Board approved increasing our quarterly cash dividend payment by 19%, to $0.155 per quarter. This increased dividend, if it is approved at tomorrow's annual general meeting of shareholders, will be paid in April.

With that I will turn the call over to Tamar.

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

Thank you, Eli. First fiscal quarter revenue of $864 million was within our guidance range of $845 million $875 million, with a positive impact on foreign currency fluctuations of approximately $2 million relative to the fourth fiscal quarter of 2013. The revenue includes a negligible impact from the acquisition of the small Latin-American IT service provider, which closed within the last days of the quarter. Our first fiscal quarter non-GAAP operating margin was 16.8%, an increase of 10 basis points, compared with the fourth fiscal quarter of 2013, and within our target range of 16% to 17%. Below the operating line, net interest and other expense was $1 million in Q1. For forward-looking purposes, we continue to expect a net expense in the range of $2 million quarterly, due to foreign currency fluctuations. Diluted non-GAAP EPS was $0.76 in Q1, compared to our guidance range of $0.72 to $0.78.

The cash flow was robust at $160 million in Q1. This was comprised of cash flow from operations of approximately $187 million, less $27 million in net capital expenditures and other. As usual, we anticipate free cash flow in the second fiscal quarter will be lower due to the timing of annual bonus payments. DSO of 72 days decreased by one day quarter over quarter. Total unbilled receivables rose by $7 million as compared to the fourth fiscal quarter of 2013. Our total deferred revenue, both short-term and long-term, increased by $20 million sequentially in Q1. These changes are consistent with normal fluctuations in these items. Our cash balance at the end of the first fiscal quarter was approximately $1.2 billion. Please note that this balance does not reflect the acquisition of Celcite, which closed on January 1, for cash consideration of $141 million. Our 12-month backlog, which includes anticipated revenue related to contracts, estimated revenue from managed service contracts, letters of intent, maintenance, and estimated ongoing support activities, was $2.89 billion at the end of the first fiscal quarter, up $20 million sequentially. During the first fiscal quarter, we repurchased $84 million of our ordinary shares under our current $500 million authorization plan. We had $252 million remaining under this authorization as of December 31.

Now turning to our outlook, we expect revenue to be within a range of $880 million to $910 million for the second fiscal quarter of 2014. Our guidance incorporates a full quarter of revenue contribution from our recently completed acquisitions of Celcite and the Latin-American IT service provider. We anticipate minimal sequential impact from foreign currency fluctuations as compared to Q1. Translating our second quarter to the full fiscal year, we now expect total revenue growth in the range of 5% to 8% on a constant-currency and reported basis. This compares with our previously guided annual range of 4% to 8% growth. The difference is mostly attributable to the performance of recently acquired assets, as well as the timing of M&A deal closing. As reflected in our outlook, we anticipated our overall sequential revenue growth rates will moderate in the second half of the fiscal year.

Also within the full-year outlook, and consistent with our prior expectations, we still anticipate revenue from our directory business in fiscal 2014 to decrease in the double-digit percentage range, placing about a 1% drag on the total Company results. We anticipate our non-GAAP operating margin for fiscal 2014 to continue to be within our long-term target range of 16% to 17%. We also expect our non-GAAP effective tax rate to be in the range of 13% to 15% for fiscal 2014. We expect the second fiscal quarter non-GAAP EPS to be in a range of $0.75 to $0.81. Our second fiscal quarter non-GAAP EPS guidance also incorporates an expected average diluted share count of roughly 163 million shares and the likelihood of a negative impact from foreign exchange fluctuations in net interest and other expense. We excluded the impact of incremental future share buyback activity during the second fiscal quarter, as the level of activity will depend on market conditions. Factoring in our second-quarter outlook for the full fiscal year, we are on track to deliver on our guidance for non-GAAP EPS growth of 6% to 9% in FY14.

With that, we can turn it back to the operator to begin our question-and-answer session.

QUESTIONS AND ANSWERS

Elizabeth Grausam - *Amdocs Limited - VP of Corporate Strategy and IR*

Operator?

Operator

Yes, ma'am. Thank you.

(Operator Instructions)

Ashwin Shirvaikar, Citi.

Ashwin Shirvaikar - *Citigroup - Analyst*

Thank you, guys, and congratulations on the quarter and the sales momentum, which actually is where my question is. With regards to these new deals that you announced for mobile network optimization, could you provide some incremental information with regards to the nature of these deals, in terms of average size, duration, the license for services pick-up, things like that? And talk about the upcoming pipeline as well, if you could.

Eli Gelman - *Amdocs Management Limited - President and CEO*

Sure, Ashwin, thank you for the question. In terms of the -- some color around these deals, first of all, the topic or the space of RAN optimization, radio access network optimization, have been on the agenda for quite some time. It's just that eventually managed to find the right assets and we completed these deals. The nature of these deals are relatively different from the one you expect on BSS transformation, or even OSS transformation project. Usually, each one of the deals are relatively small, could be in the $1 million, $2 million, $3 million each. But usually the tendency is to augment it with additional projects. In some cases, you will see a company streamlining around an Actix product, for example, for 3G optimization, 3G optimization. And they will then pay a different or subsequent license for the 4G and then -- or LTE. That can be something different from small serve and different technologies. Same goes about the regions, it usually could be pure segment of markets or subset of markets. And that's the trend with the Actix product.

With Celcite, it is similar, but on the services side. So usually we provide optimization services around Celcite tools, and now we're combining with Actix infrastructure product, but we'll basically offer the services to a certain markets or sub-market for certain technology. Sometimes certain network or [even] providers. So it could be 3G of [Erikson] in market X versus 4G of [Allou] in market Y, and so on and so forth. So the nature of these deals are [designed incremental], but these companies have a tendency to do a very good job, and therefore, we believe that we can see subsequent sales once we get into a carrier or into a certain markets and it can repeat itself. That's to give you a feeling for the type of activity. The end result is that we are saving a lot of money to the operators in running more efficiently the networks.

Now what we are doing as we speak, in integrating these companies together and into Amdocs' BSS is we are connecting this network optimization software and services into the BSS and allowing a better customer experience, if you will, by providing a better network to -- in any given region or coverage or -- and even correcting it to the amount of money that is associated with good or bad or in-between networks, or not so good networks. You can estimate the effect of the impact on real customers. So this is to give you a glimpse of that. As we move forward, probably we will provide more data and more information so you would understand better the assets and how they work separately and with the rest of the Company.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay, great. That is very -- a clarification, now that the Celcite deal is closed, those numbers, they should be in the guidance right? What is the breakout of acquisition versus organic?

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

So the numbers for Q2 and for the year as a whole include the already full second quarter with Celcite and the small IT service provider we acquired in Latin America. In terms of the breakout, as we said in the beginning of the year, we expected around 2% to 3% coming from acquired assets. Now we are seeing a slightly better picture, especially given a, timing of the closing of such deals, and b, the fact that we see better performance in conjunction with the fact that the IT service provider in Latin America was not baked into the original guidance of the year. So you should expect a slightly better performance from the acquired assets relative to this 2% to 3%.

Ashwin Shirvaikar - *Citigroup - Analyst*

But it didn't [change] the full year? It didn't change the overall --

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

That is for the full year, yes. We are not guiding on a quarter-by-quarter basis now, breaking out the acquired assets. We start integration day one. We start moving forward and including that as part of our portfolio and suite of products moving forward.

Eli Gelman - *Amdocs Management Limited - President and CEO*

You can basically [do the provider] on the quarterly basis, but the one comment I would like to add is that I expect all these acquisitions, including the IT company in Latin America and Actix and Celcite, to be blended so quickly into the rest of the Company that it will be very hard for us even to -- within very few quarters to really identify where the old companies start and where and the rest of Amdocs continues.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. Thank you.

Eli Gelman - *Amdocs Management Limited - President and CEO*

Thank you, Ashwin.

Operator

David Kaplan, Barclays.

Unidentified Participant - - *Analyst*

Hi this is Chris on for David. The recent announcement by AT&T around both the connected car and Sponsored Data, seem to point to a pickup of two long-term themes that you've talking about, including M2M and monetization of data. Do you expect any -- or either of these to have an impact on revenues in FY14?

Eli Gelman - *Amdocs Management Limited - President and CEO*

Great, it's a very good question. Well first of all, we are part of this trend in the industry, in North America and elsewhere. And this deal in general are not huge in the beginning. We believe it will be a trend, it will grow. So it's -- this size of projects are baked into the overall numbers and are not changing, moving the needle that significantly. On the other hand, it is exciting because people were talking about the [teleco] getting into the connected cars and the connected homes and security and machine-to-machine general for quite some time, and how we could start seeing it, especially in North America, but not only. And it's in the US. AT&T announced it -- Rogers in Canada is doing something slightly different with their security as an offering. You can see different permutation of the same concepts. So we are part of it. Our products are very relevant, our services as well. In terms of the size of it, I wouldn't try to depict it to somebody that can change the guidance. It is basically baked in the overall numbers, and it is in there. For now, if it will accelerate (inaudible), maybe 2015 will be different.

Unidentified Participant - - *Analyst*

Okay, and if I could just -- another question on the spend in [cable vertical] do you those customers making the move to BSS, OSS solutions from vendors? And is this scenario that you consider for M&A activity?

Eli Gelman - *Amdocs Management Limited - President and CEO*

On the Pay TV, which is cable and satellite and IPTV or any permutation of that, I would imagine you will see all the different scenarios that we have known. I think that yes, they will go out to buy BSS system and OSS system and upgrade to legacy. They have not done it for a long time, but I can also see a lot of homegrown development or home sponsor development in some cases. I would imagine that every one of these MSOs will have a different view for that. Now that is on the space of BSS and OSS, and some of it will be delivery projects. Some of it will be [audical] projects. Some of it will be managed services. So again, you will see different scenarios in different places. What we are trying to depict in the script is that we just see the beginning of some of these activities.

Now in terms of our capabilities, in this space of BSS and OSS, most likely we don't need M&As, but we are looking also at extending our capabilities in the video space, into areas that might require some new technology, and then we may off to acquisition. We are not obviously referring to acquisitions that -- for expending market share, stuff like this. I am talking about acquisition that may augment our offering. Again, BSS, OSS we don't need any. If we'll move into additional components of the video space in general, we may need to or want to accelerate with M&A.

Unidentified Participant - - *Analyst*

Okay. Thank you very much.

Eli Gelman - *Amdocs Management Limited - President and CEO*

Thank you, Chris. Bye, bye.

Operator

Paul Thomas, Goldman Sachs.

Jack Charles - - *Analyst*

This is Jack Charles on behalf of Paul Thomas. Congratulations on the quarter. The first place I would like to dig into a little bit of your regional growth dynamics. With Europe, previously, you'd mentioned that you were in the process of getting by some large client resets. Can you give us an update on how that is progressing?

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

It wasn't necessarily a large client. We said at the time, it was a natural ramp-down of a transformation project that was running, part of the regular site and that once you pass the peak of the transformation project, you move forward and go to more of an ongoing support mode. But having said that, the pickup we are seeing right now is a combination of several factors. One would be the Vodafone activity around the meta-services deal that we announced. We are ramping up the responsibility we are having around that (inaudible). We already announced in the past, Germany and Netherlands, as well as the UK. We also talked now about an additional regional affiliate we are -- we have won as part of this [frame] agreement. And in addition to Vodafone, we had more activities around different examples we talked about, for example, Everything Everywhere adopting our MVNE solution --

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Eli Gelman - *Amdocs Management Limited - President and CEO*

Rebranded as EE.

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

EE, yes. Adopting our MVNE solution, and there were other things going on in the region as well.

Jack Charles - - *Analyst*

Okay.

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

The [factory] came more cautious about the sequential trends. Moving forward, this is still this region is facing some challenges from the overall macro-economic and regulatory pressures, as well as the fact that our own business in Europe is still heavily relying on project activity, which is a bit more lumpy in nature.

Jack Charles - - *Analyst*

Okay. Great. And then in the emerging markets, can you maybe give us some color on whether this blip in 1Q, should we expect you to make that up on the remainder of the year? Or is it going to maybe drag a little bit on the whole of FY14?

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

We continue to hold a positive view on our growth opportunities in emerging markets, both in terms of the different themes in the marketplace that drive investment with the service providers. Customer experience becoming a very major theme, for example, the whole notion of moving into triple-play, quadruple-play, different aspects that actually coincide with our philosophy and our portfolio of offerings into the market. At the same time, we are running several or many, I would say, projects in parallel in the regions of emerging markets, both in Latin America and Southeast APEC, which all have their own pattern in terms of execution, timings and deliverables according to the customers, appetite and program, which may create some fluctuations on a quarter-to-quarter basis. But the vector itself, in terms of how we see the business momentum both within FY14 and longer term, remains very healthy.

Jack Charles - - *Analyst*

Okay. Great. Finally, given that you raised sales guidance on acquisitions but not EPS guidance, could you discuss what you're seeing in terms of accretion from the deals and when you might expect to see more immediate accretion impact on the bottom line?

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

So as we said in the beginning of the year, the acquisitions are actually modestly accretive on the EPS. The fact we are more optimistic right now on top line and not translating it directly into the EPS growth expectations is primarily because of the share price change that is impacting the share count. The share price has gone up in the recent few months in a way that is impacting the calculations of the expected share count. And we're taking into consideration that this is a bit of a offset to the fundamentals looking better.

Eli Gelman - *Amdocs Management Limited - President and CEO*

To make sure it is clear, we don't have any complaints about the share price going up. Jack, I would like to add to what Tamar said about Europe. What you see in Europe is actually an interesting phenomena that we are making progress with a galaxy -- what we call a galaxy, like Vodafone. It is a long time to sign a contract with a Vodafone headquarter and corporate in England, and then you need to repeat the same process in winning the hearts and minds of Vodafone Germany, or Vodafone UK, or Vodafone Netherlands, or what have you. And we see progress with that -- this quarter, specifically, we signed another one, but that is one trend that you see.

We have similar trends with Deutsche Telekom on our policy product that we implemented. We signed the contract with the corporate and then we implemented in certain affiliates, and now I think it is about six or seven affiliates already of Deutsche Telekom all across Europe are using the same policy standardizing on Amdocs as a [server] component of the business. But not as encouraging is the fact that you see some business that we announced in Luxembourg or in Telekom Austria, A1 in Austria and other places. You see variety of different businesses and the combination of those are encouraging. And also the fact that some of them are minute services, some of them are very advanced technology, and some of them are Turbo Charging application. So you see a variety of solutions, which again, give some signs of better business in Europe. But we don't want to be carried away, not in Europe and not in any other region.

Operator

Jason Kupferberg with Jefferies.

Amit Singh - *Jefferies & Co. - Analyst*

This is Amit Singh for Jason. Going back to Europe real quick, this quarter the revenue growth was, of course, good. I wanted to check how much of that was benefited by -- how much did the recent acquisition benefit the growth in Europe? Also, the new deals that you talk about in Europe, how are they ramping up, so that we have a sense of how the revenue growth is going to be over the next few quarters?

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

So the (inaudible) on Q1 sequential performance in Europe was a combination of the core activity as well as some contribution coming from Actix. I would say the smaller part of the growth was the M&A; actually the larger part was the core activities of Amdocs. There was, as well, some positive impact quarter over quarter from currencies that impact that, but in a small amount. In general, we are seeing the ramp-up of the deals that we have in Europe, on plan, moving forward in terms of both on-boarding additional responsibilities we took over as part of the managed services. I think another proof point to the satisfaction overall of the group from the progress we are seeing in these execution is the fact we were awarded another regional affiliate this quarter. So we feel comfortable that we're moving on plan there.

Amit Singh - *Jefferies & Co. - Analyst*

Great. One more thing, AT&T recently rolled out the Vodafone [bet.] I wanted to check, how much of future growth, if this deal were to happen, how much of the future growth was incorporated into your views earlier? Do you see any hiccup in spending from AT&T because of this deal not going through?

Eli Gelman - *Amdocs Management Limited - President and CEO*

Amit, this is a very good question. I'm not sure we have a good answer for that. Everybody is trying to analyze this deal. I will start with the fact we do not bake any future growth in Vodafone, for example, because I know tailwind that we may potentially get from AT&T acquisition because it may happen or it may not happen. It is not in our FY14 numbers. We assume some kind of business as usual. The second thing I will tell you is that I think that what is happening is AT&T keep all its option open. They have to answer to the regulatory authorities in Europe, and that means that they would not do anything in the next 28 days, and it does mean that they would not have us -- they will not solicit in the next few months. But it does not mean that they cannot do it if they elect to do it. And obviously, they will do whatever they need to do for their own shareholders.

We don't think right now that it will affect AT&T activity in North America, per se. North America is very -- as we also alluded in the script, it is very dynamic. Some of it is creating uncertainties for us, and we are not crazy about it. But this is the nature of a lot of consolidations. But it also means that the North-American market is very competitive. I don't see AT&T, regardless if they do this move or not, losing their focus on North America. If they will do it, eventually it will have probably new activities in Vodafone, but as we said all along, we have a growing business with Vodafone as is right now. We don't plan on any of that. If it will happen, we will start analyzing it. It is one of those things that is so up in the air until it happens; when it happens it might be positive.

Operator

Shaul Eyal with Oppenheimer.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Thank you. Hello, good afternoon, everybody. Good quarter guidance. Apologies in advance if my question was asked already. Eli, how is the status within the Latin-American carrier, the wins from the past 18, 24 months? And thinking about those going forward, is there possibility of those becoming galaxy customers down the road?

Eli Gelman - *Amdocs Management Limited - President and CEO*

We don't provide information that might cause some of our customers some anxiety. You can understand that there are very few, very large galaxies in Latin America, namely two or three of them. If you follow all of our announcements, you will probably be able to connect the dots and see that we are fairly active with all of them in different levels and what we are doing and what stage, implementation, strategy and so on, so forth, it is actually very sensitive in this market. We cannot tell you that we are doing country X with carrier Y, because that is quite significant information for the competition there.

In general I would say that we are making significant progress, depends on the quarter. It is a little bit lumpy, but altogether the general direction in Latin America is very positive. Projects are sizable, complex, the stuff that we know how to do and others do not. And I will tell you that the acquisition of this little, small not little, small IT shop will help us to accelerate our growth therein terms of these are people were within our domain expertise. They are in the region, the speak the language, they have already basis there. And it also may help with some of their customers in the region. So altogether I am bullish on Latin America.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Thank you very much; that is very helpful.

Eli Gelman - *Amdocs Management Limited - President and CEO*

Thank you, Shaul.

Operator

Tom Roderick, Stifel.

Tom Roderick - *Stifel Nicolaus - Analyst*

Hello, guys, good afternoon. Eli, first question for you, in terms of -- a follow-up to Ashwin's question earlier about the recent acquisitions on the network optimization side. Can you talk a little bit more about what you're doing to integrate the respective salesforces as you do work the Actix and Celcite acquisitions into your business? Maybe more importantly around that, what is happening to their pipelines as you put your balance sheet and reputation and brand and customer set behind it? Is it accelerating any new opportunities, making opportunities that they might have otherwise had bigger? Talk a little bit about that process as it seems to be going perhaps even a little better than expected.

Eli Gelman - *Amdocs Management Limited - President and CEO*

Tom, thank you very much for the question. First of all, in terms of the way we're organizing it, I would share with you that by and large, we created a business unit that will deal with this type of business, especially the network optimization and derivatives of this space. It's slightly more complex than we explained today; maybe in the analyst day we can go to greater details. But the task of this business unit is actually combining tools from Celcite and know-how and services with Actix products, on one hand. That is on the product and offerings side. Then connecting this entire thing to Amdocs' BSS and OSS. That's on one aspect. The other component of integration is about the sales. We are actually trying to create eventually one sales force. It won't happen in the next couple of weeks, but it will probably happen in the next couple of quarters. We are careful there to make sure that we are not slowing down each one of these units, for sake of clarity and organization and stuff like this. We don't want to confuse activities with achievements.

So the third thing is that we think that we see already, but it's very short (inaudible) so we don't want to say (inaudible), but I think we see already the pipeline in general improving because of the presence of Amdocs. We have a very strong presence all around the world. We are a known brand, and it definitely helps this younger company to use our brand for their sake. On the other hand, you need to remember that in the beginning, you have all kind of adjustments you need to make, to give you an idea, Actix product was so good that some of the [nips] use them underneath the hood, selling them as a [white] label. Needless to say that some of these nips are not our friends, and we are not going to continue with that. So you may think about the fact that you may have some adjustments, but in general, I think that the pipeline will improve. And the response of the customers, which is the most important thing, is very, very positive to both acquisitions. And in the general direction of Amdocs, we're getting a lot of support from our customers who want to understand the acquisition and what we try to do with it and so on and so forth. So altogether, we think we are on track or a little bit better than on track.

Tom Roderick - *Stifel Nicolaus - Analyst*

Great, thank you, Eli. Tamar, a quick follow-up question for you in terms of the margin structure. Continuing to drift towards the high end of your 16% to 17% range, what would it take for the margins to break out above 17%? Is that something that you could see happening in the next few years? Is there something structural that would have to happen from a pricing standpoint or investment standpoint? Or do you think this is the appropriate range to think about it, not just for the immediate future, but the midterm as well?

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

So when we talked about this as a long-term range, we talked about '13 through FY15 at the time. We have not changed our view about this. I think the range is applicable. Having the combination on the one hand, the very good momentum we are seeing in terms of win rate and in terms of the acceptance of the market of our offering, and the same time, our expansion in so many new directions, both on a regional perspective, and as well as the type of offerings we come to the market with, we feel this is a good balance to be in. A very healthy range that can support both the healthy operational margins, as well as growth opportunities we see in front of us. Of course, under the hood, to generate this kind of performance, we go through many cost efficiency programs through the Company, continue to focus on how we are managing our cost of labor from a global perspective, as well as other elements that impact our core structure. Because, as we said in the past, we assume that over time customers continue to expect more for the same price. And we work out of this assumption moving forward as well.

Eli Gelman - *Amdocs Management Limited - President and CEO*

Tom, maybe I can add another angle to that. We don't really run the Company by this number. We are really running a very tight ship in terms of the operation and efficiency and so on and so forth. At the end of the day, we have to remember that we are still -- and probably more so today than a year ago, living in a very, very changing environment. We have competitors which are very, very big names. The fact they cannot catch up with us to the large extent does not mean that they are not very aggressive. Some of them are getting aggressive as aggressive as to the level of becoming non-rational competitors. That is on one hand. On the second hand, there are not that many transformational projects, and we are trying to win the larger parts of them. But obviously, we don't have a 100% win rate. We never promised that and probably will never have that. So we need to remember that we need to [fit] the sales machine, and I want to have this ability to win projects for the long-term. If I run the Company by -- only by this parameter, it might jeopardize some other activities.

And on top of it, don't forget that we are coming up with a lot of new offerings, a lot of activities in the Company, penetration into regions, countries, so on and so forth, and offering in terms of product and service. All of these cost money, and what we are trying to do, if you think about it, is we are trying to do all this and maintain a very good competitive win rate and good position against our competition, while protecting the investors from fluctuation in this profitability line. That is why we are keeping this range. That's why we are not getting so upset when it goes to 16.6 or whatever or 20 basis points higher. And if it will cross 17 at one quarter, I would not have a celebration. Within the fluctuation of the normal course of doing business, but the bigger picture is that we are trying to do all the -- what I mentioned before and compete in a very competitive landscape, while protecting the investors, meaning not allowing this profitability to [deflect] too much. That is the big picture you need to keep in mind. The answer is eventually, yes. There is nothing in the Company that prevents us to go to slightly higher number, but that should not be the number-one parameter, not even the number-two parameter that we run the Company by. I hope it is helpful.

Operator

Kiera Kilkowski with Bank of America Merrill Lynch.

Kiera Kilkowski - *BofA Merrill Lynch - Analyst*

Hello, thank you for taking my question. I have a few quick follow-ups and some questions on your prepared remarks. First, I wanted to speak a little bit more about the environment that you are seeing in North America. I think you mentioned last quarter you were expecting more moderate growth rates for the region in 2014. It seems like it is off to a strong start, and I'm wondering if this is -- I know you talked about it a little in your prepared remarks, but is this more a question of timing? Or is it -- are you seeing a real improvement in the activity levels in this region? And then to follow-up on the emerging markets, I understand it is a lumpy, project-oriented type of business, but should we look for acceleration in this region? Or should we think of 2014 as more of a year of investment and implementation? Thank you.

Eli Gelman - *Amdocs Management Limited - President and CEO*

So, Kiera, two great question. Let me see if we can shed some light on that. In terms of North America, the problem is that on one hand, almost contradicting vectors, on one hand, you see high competition. There is a higher need for our services and product and so on, so forth. That is within the -- that's a wireless, mainly, space. Now the consolidation in the market actually creating situations, we have fewer and fewer carriers. So we went from I think seven or eight carriers in North America to about four within two quarters, including Metro PCS bought by T-Mobile and Cricket bought by AT&T. Not all of them approved, but I assume they will be approved. And then you have Softbank getting into Sprint, and I can go on. And now we are talking about maybe start consolidation in the cable and satellite industry. You have seen the Time Warner and Charter, and you may see others.

So short term, all these activities creates some uncertainty. It may slow down some projects. People may say, I will save the money for after the integration, or get very creative about whatever they want to do with it. Longer-term, I think it is actually good for the business, good for Amdocs specifically. Not in all cases I would imagine, but I hope in many of them. So in North America, it really depends on the pace of these activities, and what would be the philosophy of the post-merger of these companies? Because companies can merge and stay, in terms of IT [back on] systems and service, they completely separate. Or they can go to what was executed perfectly throughout the years by AT&T, creating all the time one company. You have very different philosophies about IT consolidation of organizations, so on, so forth, after acquisitions. I'm just trying to give you the idea of why it is really hard to predict the growth rate in North America. We predicted that the second half of the year would be a little bit slower, because we had such a strong start of the year, but again, we don't really have a very clear crystal ball on that.

In terms of the emerging markets, we believe that as we said, that this can be a growth engine for double-digit growth in the years to come, not only this year or previous year or next year, but that's the half of the market. But it's lumpy, so some quarters it grows, and some quarters it slows down and then grows again dramatically. It is mainly due to the fact that projects are either being delayed or executed or the pace of conversion, stuff that are happening all the time, but in these regions, it is really fluctuating much more than you will see in North America and Europe. So I would imagine that we will keep seeing growth in emerging markets, both in Latin America and Southeast Asia and developing APEC. And it will be a little bit hard to depict each one -- or predict each one of the quarters, but on an annual basis, I think it will be double-digit this year and probably for the following couple of years.

Operator

We will take our final question from Andrew [Fleece] with Robert W Baird.

Andrew Fleece - *Robert W. Baird & Co. - Analyst*

Thank you for getting me in here at the last minute. Quickly on free cash flow, the quarter was really strong. It is really a third quite excellent quarter on free cash flow in a row. Is there anything --I know you don't want to guide of free cash flow. Is there anything later in the second half of this year that we should be thinking about in terms of capital expenditures or working capital that would be unusual or different compared to previous years?

Tamar Rapaport-Dagim - *Amdocs Management Limited - CFO*

So I would say in general, that we are tracking for -- the recent 12 months have been in earnings to cash conversion rate of about 130%. That is not a sustainable place to be at in a long-term basis. Right? We do see healthy opportunity to continue with the right collection from our customers. I don't expect any major CapEx expansion, unless we win any specific deal that requires some buildup of a data center that is meaningful enough.

And then we will come and explain it to you, and I'm sure you will be happy about it. But given what we see now, I don't expect any unusual changes in the pattern of capital usage for the business. At the same time, you may see fluctuations and will not necessarily continue. For example, we talked about the fact that Q2 is the annual bonus payment. That always has been the case. So there are changes from quarter to quarter.

Andrew Fleece - *Robert W. Baird & Co. - Analyst*

Great, thank you. Finally on Asia-PAC, I know you signed the five-year deal with Pay TV, and India and China have not historically been markets where you have penetrated. Is there anything about this new deal or your recent Pay TV deal that would make you think you could penetrate those markets either medium-term or longer-term?

Eli Gelman - *Amdocs Management Limited - President and CEO*

Andrew, it is a great question, but this one specifically is not in India or in China. So it is not really related per se. We can tell you that much. We would love to share the name, this is a strong company, but we have to respect the sensitivity. It is mainly strategic sensitivity; you need to understand that most carriers or MSOs see a major deal with Amdocs as a strategic vehicle in their competitiveness and their ability to grow the business and the market. That is why many times, I'm sensitive about the specific names.

In terms of -- in general, look China, we have decided not to be involved in. And we did not change our mind so far, because we didn't find a way until now to make money. The intellectual property exposure is outweigh any potential that we see in the near future. In terms of India, we have some projects in India, it's not a huge market for us today. It is under consideration today. We believe there is a chance that there is a need, fundamental need to the type of offering that Amdocs has, because again, even the Indian markets are moving more and more from [LAN-grabbing] pre-paid simple system to customer experience, more post-paid, more combination of pre-paid and post-paid, more data. Young generation wants data and smart phones all over the world, including India. So it may change our direction in India, but it is actually part of the strategic (inaudible) that we are having as we speak. We have some projects, and we have nothing against business in India, just that we want to be very cautious that we can make EBIT, make profit in these projects.

Operator

With no further questions in queue, I would like to turn the conference back over to Ms. Liz Grausam for any closing or additional remarks.

Elizabeth Grausam - *Amdocs Limited - VP of Corporate Strategy and IR*

Thank you. As always, thank you so much for joining us on the call this evening. We really appreciate your ongoing interest in the Company. We look forward to hearing from you in the next few days. Matt and I will both be available in the investor relations group. Thank you so much and have a great night.

Operator

That does conclude today's conference. We do thank you for your participation and have a great rest of your day.
