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DOX - Q4 2015 Amdocs Ltd Earnings Call

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OVERVIEW:

DOX reported 4Q15 revenue of $927m and non-GAAP diluted EPS of $0.84. Expects FY16 reported total revenue growth to be roughly 1-5% YoverY, 1Q16 revenue to be $905-945m and 1Q16 non-GAAP diluted EPS to be $0.82-0.88.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Amdocs Management Limited Q4 2015 earnings call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would like to introduce your host for today's conference, Mr. Matt Smith, Head of Investor Relations. Sir, please begin.

Matt Smith - *Amdocs Management Limited - Head of IR*

Thank you, Vince. 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 in its internal analysis in order to exclude the effects 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 more 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, 2014, filed on December 8, 2014, our Form 6-K furnished for the first quarter of FY15 on February 9, 2015, our Form 6-K furnished for the second fiscal quarter of FY15 on May 11, 2015, and for the third fiscal quarter of FY15, on August 10, 2015. 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 Eli Gelman, President and Chief Executive Officer of Amdocs Management Limited, and Tamar Rapaport-Dagim, Chief Financial Officer. And with that, I'll turn it over to Eli.

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

Thank you, Matt, and good afternoon to anyone joining us on the call today. FY15 was a good year for Amdocs, with continued progress across our various growth initiatives. We maintained a very strong win rate, securing several major transformation projects across the globe. We strengthened our market leading portfolio with the release of CES9.3, and brought additional functionality such as big data analytics, net op functioning utilization and mobile financial services, and we executed the acquisition of Comverse BSS assets, which significantly enlarged our customer base.

Overall, we closed FY15 with record backlog and non-GAAP earnings per share growth of 7%, consistent with the high end of our projections at the beginning of the year. Our free cash flow was exceptionally strong and we delivered on our commitment to accelerate our share repurchase activity in the fourth quarter. Furthermore, we achieved these results despite challenging market conditions in North America and more than expected volatility of foreign currency.

Now, let me provide some color on our regional activity in FY15, with the emphasis on our fourth quarter performance. Beginning with North America, market consolidation activity affected our ability to predict and execute as planned in FY15, but we used this year to strengthen longstanding customer relationships by leveraging the value proposition of our unique business model.

During quarter 4, we extended an existing managed services agreement with Bell Canada for an additional five years, through 2022. We also signed a new three-year service agreement with Rogers Communication in Canada to simplify its operations and increase efficiencies across multiple lines of business. This new arrangement followed the five-year managed services arrangement that we entered with US Cellular earlier in the year and provide a solid base off which we can bring additional products and services and operational benefits for those customers in the future.

In Europe, foreign currency movements negatively impacted revenue; however, we expanded our business with market leading service providers, such as Vodafone, which in the fourth quarter selected Amdocs for a major four-year managed BSS/OSS transformation project for its UK enterprise business. We believe that this award demonstrates our advanced position addressing this unique market need in the highly complex and increasingly important enterprise customer sector. Moreover, this win follows the recent delivery of a complex OSS consolidation project for Vodafone Netherlands and is the further evidence of our growing value to this highly strategic customer.

In rest of the world, we delivered strong double digit growth and record revenue in FY15. Our strategy to serve the world's largest and most influential service providers has resulted in sustained win momentum over the last few years. In the fourth quarter specifically, we won several deals.

In Southeast Asia, Singtel selected Amdocs to deliver a single platform for online care and commerce for its market in Singapore and Australia, which adds to the major BSS transformation project we announced a year ago. In Latin America, a major carrier has implemented Amdocs mobile network optimization solution to improve its customer network experience, thereby highlighting our ability to drive additional customer value with our new offering.

We are also pleased that KT Corporation, previously known at Korea Telecom, has selected Amdocs on their new multi-year service agreement for strategic charging projection transformation project to consolidate and modernize charging operations across its quad play line of business.

Moving to FY16, let me shed some more light in the various market dynamics we expect across regions, so you will have a better understanding of the environment in which we operate. Beginning with North America, we remain affected by the slower pace of certain discretionary programs at AT&T. As we discussed with you last quarter, we already see some new initiatives developing for which we believe we are best positioned to bring value and service to AT&T over the long term.

Having said that, new discretionary projects can take time to come to fruition. A good example of this is AT&T Mexico, where we were recently selected to deliver a new business platform to support AT&T investments in Iusacell and Nextel Mexico. These investments are a fundamental component of AT&T expansion in Mexico, where its strategy is to replicate the same 4G-LTE experience it provides in the United States.

Regarding AT&T plans for DIRECTV and other strategic initiatives, we believe we have relevant offerings and we are working diligently to prove that we are the right partner. Overall, we are encouraged by early signs of positive momentum with AT&T on various fronts but success is not assured and the timing of any of these new awards is difficult to predict. It is therefore hard to project the revenue implication of such new projects.

More broadly in North America, the long-term market dynamic is generally favorable, but our short-term outlook still contains many moving parts and unknowns. This extends to the consolidation activity currently in progress or which may be contemplated among wireless and pay TV operators as the political and regulatory environment hopefully begins to crystallize around next year's Presidential election.

In Europe, we are well positioned and, despite regional macro and regulatory conditions which we are closely watching, of course, we believe we can grow in this region farther in FY16. In the rest of the world, we see a rich pipeline for opportunities across product set and regions, and we are strengthening our market position through investments such as the operations center we are now establishing in Guadalajara to support our growing business in Mexico and the broader region.

We therefore believe double digit growth is sustainable this year, but not necessarily at the rate we enjoyed in FY16. Furthermore, we remind you that the sequential trend of lumpy given the projector orientation of the activities in this region.

Another dimension of global outlook is Comverse, where our first priority is to ensure business continuity and support for the customer relationships that we acquired. This includes Vimpelcom, as well as new Amdocs customers, such as M1 Limited in Singapore and Oi in Brazil, the latter of which I alluded to in my remarks last quarter. Amdocs has worked closely with M1 and Oi to successfully deploy solutions based on Comverse technology; and while building a pipeline of opportunities will take time, we look forward to gradually strengthening and expanding our relationship with Comverse customers such as these by bringing our superior range of offerings and world class services.

Overall, we believe our superior offering, operational discipline and unique business modeling position Amdocs for another successful year in 2016. Our starting backlog is strong and we expect to maintain our high win rate for major transformation project like those awarded to us last year at Telefonica, Singtel and Vodafone. The overall direction is therefore positive, but it may take a few more quarters before we have the potential of opportunities, such as those with AT&T and Comverse, begins to materialize and translate to revenue and growth.

With these factors in mind, we expect total revenue growth to be within the range of roughly 2% to 6% on a constant currency basis and roughly 1% to 5% on a reported basis, after including an anticipated drag from foreign currency fluctuation of about 1%. This outlook translates to a slow start of the year followed by a stronger second half and takes into consideration many macro and industry specific risks and unknowns; however, we cannot predict all possible outcomes.

To summarize, we expect to deliver total return to shareholders in the mid- to high single digits in FY16 and we plan to utilize the five levers we outlined at our Analyst and Investor Day last December to execute on this objective.

First, we are making the right R&D investments necessary to drive long-term growth without compromising our consistent operating profitability. Our activities in big data analytics are translating to commercial deployments, such those announced today with Telefonica Argentina, and we see similar potential in other promising domains, such as services 3.0, network function utilization and mobile financial services. While we are relatively small in size today, new offerings such as these contribute to our overall market position and create the layers of growth that we expect will benefit us in the future years.

Second, we are proud of our professionalism of our IP capabilities, which are continuing to improve -- which we continue to improve through the consistent execution of our world-class delivery group and the efficiency of our managed services organization.

Third, we remain committed to the disciplined and proactive allocation of cash, as demonstrated by our return of approximately 80% of free cash flow to shareholders over the past three years. This was achieved by executing on our share repurchase activity at levels well ahead of hat suggested by our 50/50 framework, as we felt we could do that while supporting our strategic initiatives. We plan to maintain a fairly similar philosophy in FY16, although we will, of course, exercise flexibility and vary the level of share repurchase activity both from quarter to quarter, depending on factors such as capital requirement and the size and timing of our many activities.

Fourth, we are pleased to announce that our Board has approved the increase of quarterly cash dividend for the third consecutive year. The new quarterly dividend represents an increase of nearly 15% to $0.195 per share and is subject to shareholders' approval at our Annual Meeting in February. The decision to raise the dividend demonstrates our confidence in the future success of Amdocs. As a reminder, future changes in the dividend will be subject to periodic review.

Finally, we retain significant capacity to drive long-term growth through additional M&A. We continue to see rich pipeline of M&A opportunities, but as we repeatedly demonstrated, we are disciplined in our approach and we will only act when we find the right target that fit our strategy at the right time and the right price. With that, let me turn the call over to Tamar.

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

Thank you, Eli. Fourth quarter revenue of $927 million was within our guidance range of $915 million to $955 million and included a negative impact from foreign currency fluctuation of approximately $9 million relative to the third fiscal quarter of FY15.

Our fourth quarter guidance range has included a minimal sequential impact from foreign currency fluctuation. The revenue performance was therefore slightly above the midpoint of our expectations, after adjusting for the foreign currency fluctuation. We remind you that a foreign currency hedging program is designed to protect our profitability and free cash flow generation rather than revenue, and we are pleased that this approach has proven effective through the volatile currency markets of FY15.

As expected, our fourth fiscal quarter non-GAAP operating margin was 16.9%, a decrease of 20 basis points compared to the third fiscal quarter of FY15 and towards the high end of our long-term target range of 16.2% to 17.2%.

Below the operating line, non-GAAP net interest and other expense was $1.4 million in Q4. For forward-looking purposes, we continue to expect a non-GAAP net interest and other expense in the range of a few million dollars quarterly, due to foreign currency fluctuations.

Diluted non-GAAP EPS as $0.84 in Q4, compared to a guidance range of $0.79 to $0.85. As anticipated, our non-GAAP effective tax rate was above the high end of our target range of 13% to 15% in Q4, but was within our expected annual range for the full year of FY15. Diluted non-GAAP EPS excludes $30 million of non-recurring restructuring charges associated with acquisition of the Comverse BSS assets.

Free cash flow was strong, at $180 million in Q4. This was comprised of cash from operations of approximately $207 million and $27 million in net capital expenditures and other.

Let me take a moment to elaborate on our free cash flow, which reflects exceptional conversion rates well ahead of non-GAAP net income over the last three fiscal years, including FY15. We remind you that this performance is not sustainable over the long term and we expect the free cash flow will convert at a rate more on par with our expected non-GAAP net income in FY16.

DSOs of 70 days decreased by 4 days quarter-over-quarter. This item may fluctuate from quarter to quarter over time.

Total non-GAAP receivables were down by $17 million as compared to the third fiscal quarter of FY15. Our total deferred revenue of short plus long term increased by $23 million sequentially in Q4. As we indicated in the past, both of these items may fluctuate from quarter to quarter.

Our cash balance at the end of the fourth fiscal quarter was approximately $1.4 billion, though net of short-term debt it was $1.1 billion. We drew down $220 million on our credit facility in Q4 for short-term funding purposes and the balance has since been fully repaid.

Our 12-month backlog, which includes anticipated revenue related to contracts, estimated revenue for managed services contracts, letters of intent, maintenance and estimated ongoing support activities, was $3.08 billion at the end of the fourth fiscal quarter, up $70 million sequentially. Backlog for Q4 reflects extension of Amdocs' core activities and the consolidation of the Comverse BSS assets, acquisition of which was completed in early Q4.

During the fourth fiscal quarter, we repurchased $182 million of our ordinary shares under our current $750 million authorization plan. We have $260 million remaining under this authorization as of September 30.

Now turning to our outlook. We expect revenue to be within a range of $905 million to $945 million for the first fiscal quarter of FY16. Embedded within this guidance, we anticipate a marginal sequential impact from foreign currency fluctuations as compared to Q4.

For the full FY16, we expect total revenue growth to be within the range of roughly 2% to 6% on constant currency basis and roughly 1% to 5% on a reported basis, after including an anticipated drag from foreign currency fluctuations of about 1% relative to the exchange rates prevailing at the end of our fourth fiscal quarter FY15. Incorporated within this outlook and consistent with our prior expectation, we anticipate revenue from our directory business in FY16 to decrease in the double digit percentage range, taking a drag of less than 1% of the total Company results.

We anticipate our non-GAAP operating margins for FY16 to be at the higher end of our long-term target range of 16.2% to 17.2%, which is fairly consistent with our full year performance in FY15. As a reminder, operating margins may fluctuate within our target range from quarter to quarter.

We expect our non-GAAP effective tax rate to be within a new target range of 13% to 16% for the full FY16. This range is wider on the high end compared with our previous guidance range of 13% to 15% and reflects growing economic and political pressure in many jurisdictions and from multi-national organizations, such as the OECD, to increase tax revenues.

We expect the first fiscal quarter diluted non-GAAP EPS to be in the range of $0.82 to $0.88. Our first fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 154 million shares. In the last few years, negative impact from foreign exchange fluctuations in non-GAAP net interest and other expense. We excluded the impact of incremental future share buyback activity during the first fiscal quarter, as the level of activity will depend on market conditions.

For the full fiscal year, we expect to deliver 3.5% to 7.5% diluted non-GAAP EPS growth. Our full year EPS outlook does factor in expected repurchase activity over the year. As Eli indicated earlier, we plan to execute on our share repurchase program at a level substantially above that suggested by our 50-50 (Indiscernible) in FY16.

Finally, we expect the total return we deliver to shareholders will be enhanced beyond the earnings growth outlook by our dividend program which, if the new quarterly dividend rate is approved the shareholders at the Annual Meeting in February, would yield about 1.3% on the current share price. Therefore, in FY16, we expect the sum of our diluted non-GAAP EPS growth plus the dividend yield to increase to a total shareholder return in the mid- to high single digits. With that, we can turn the call back to the operator to begin our question-and-answer session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from Ashwin Shirvaikar of Citigroup.

Ashwin Shirvaikar - *Citigroup - Analyst*

Hello and thank you. Hello, Eli. Hello, Tamar. My question is with regards to telcos and how they're thinking about their own strategic positioning nowadays, with seeing a lot of telcos clearly spend on initiatives outside the purview of their core communications market, whether it's in mobile money or internet-of-things or in the media market with regards to distribution and such. And how does your product meet the change and what investments do you need to make in order to go after these opportunities? I know you already have in mobile money, for example, but what needs to happen here to actually tap that opportunity?

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

So Ashwin, the answer that I mentioned several times that we usually have to have a crystal ball of 1.5 to 3 years down the road horizon. And up until now, especially in recent years, we did a good job in predicting where the market is going. And as such, we keep on investing in this type of initiative, but I believe that we are well positioned today into the needs of the carriers, including the initiative you just mentioned.

You know that we did an acquisition in accelerated R&D in the mobile financial services. We see it mainly as an emerging markets new business for carriers in Southeast Asia and in Brazil and Ecuador and other places like this. But obviously, it also expands to countries like America, if you're talking about corridors of money between Mexico and the US, or Turkey and Germany, and Philippines and everywhere in the world. So it's another component of mobile money. We're also talking about more and more sophisticated type of top box, which is a way to transfer money, as well. So that's all under this area. And I believe that our position is strong and we are getting momentum there.

We invested and we keep on investing in specific use cases of big data analytics, because carriers understand today more than ever that the intimacy of their customers could result in a much better usage of this data. And up until recently, they did not really use it per se. And we are again front and center of this topic and we work all around the world with this, and we have already eight or nine use cases today, from network use cases to peer to containing, now we're going to advertisement and media, because it becomes an important component of the carriers. So I would say that we will keep on investing in this direction, most likely ahead of the carriers, to be ready when they are there.

The one area I did not mention, which is again more likely the core, but it's a significant effort that I think will be relevant for the carriers is they are trained to go to NFV, network function virtualization, which basically means translating or transforming the network from boxes and cables and a lot of technicians into doing them to software. We are investing, again, ahead of the market in this domain. Only the early adopters are actually dealing with this right now, very few carriers around the world. But I believe it will be a major transformation of the carriers, as well.

So there are many dimensions of new initiatives and new paradigms that the carriers are going into, and we're usually either following up closely with them or ahead of time with them. The beauty of it, as I mentioned in my prepared remarks, is that we manage to do it so far in the last few years in such a way that we did all this R&D investment and all this service investment without compromising the overall operating margins of the Company, protecting you, the investors, in a way, from modest speculation of investments.

Ashwin Shirvaikar - *Citigroup - Analyst*

Got it. So it sounds like ongoing investment, nothing that would change in the near term to indicate an acceleration or anything like that. And so the second question, unrelated, is it was not clear -- maybe I just missed it -- the Comverse assumption that you're making with regards to next year's outlook?

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

So what we tried to say basically that we knew that when we are buying Comverse, Comverse was previously in the last many quarters actually repeated a trend of reduction of revenue, so we knew that we were actually getting a business that lost momentum. So what we are trying to say is that we are not magicians. We cannot turn around and stabilize the revenue and then grow it over a quarter or two. So what we are saying is that we see good stabilization process with existing customers, and we provide them additional services and better capabilities around the business, maintaining their business, but at the same time, we are building pipelines. So I would expect in the next following quarters to start announcing maybe new activities around Comverse and assets which will give us the feeling that we are doing the right thing and we are generating new business. We are just trying to depict the timing of it and so on and so forth. But the direction should be there. So we are assuming current revenue size for a couple of quarters and then increase of this business as we generate new pipeline around Comverse.

Ashwin Shirvaikar - *Citigroup - Analyst*

Understood. Thank you.

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

By the way, Ashwin, the strategy they are taking there is that we are developing enough openings, let's put it this way, or enough connectors within the asset, the Comverse assets, in such a way that we can leverage the CES component, such as our world leading product catalog, customer management, e-commerce, ordering, and you name it, to existing Comverse customers. So it doesn't have to be necessarily a full transformation (Indiscernible), could be gradual, as well, which is a very beautiful strategy and I think that we get a lot of credit for that from the current existing Comverse customers.

Ashwin Shirvaikar - *Citigroup - Analyst*

I understand, it's a policy of surrounding their product with a lot, because they're not a full fledged product, so surrounding that with a lot of the other modules that you have. That makes sense.

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

Exactly. And we would not exclude options, of course, to transform everything, but it's not the mandatory or the only way to do it, yes, exactly.

Ashwin Shirvaikar - *Citigroup - Analyst*

Great. Thank you.

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

Thank you.

Operator

Our next question is from S.K.Prasad Borra of Goldman Sachs.

S.K.Prasad Borra - *Goldman Sachs - Analyst*

Thanks for taking my question. Eli, if you could just elaborate on the revenue guidance for FY16, seems like a bit convoluted. Is that largely driven by your expectations around AT&T and the certainty of the revenue stream over the next few quarters, or is it largely related to the recent Bell Canada deal which you've signed a big contract renegotiation around it, because you're signing it ahead of the normal cycle? So just wanted to get your thoughts on that.

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

So maybe Tamar will add some color on the Bell Canada, but let's start from the end. The Bell Canada deal is something that we are very proud of, because I think it's a win-win. It's an extension, but also expansion into different buying centers and new projects in Bell, and it's a good demonstration of a good renewal and extension of our relationship with Bell Canada. It has nothing to do with the way we project revenues in 2016.

Look, when we usually project revenues as bottom up, we go account by account, activity by activity, probability of sales and we build it up. And there's a lot of moving parts underneath these things, but we don't want to bother you with all the small things. If you ask me, the two major things that shape that are slower beginning in accelerated growth in the second half, are AT&T discretionary expenses and the Comverse build up of the pipeline. Two different things happen to be more or less on the same timing.

The Comverse I mentioned already, it's a reduction of revenue for quite some time and we're stabilizing it now and we are building the pipeline, so we will see the growth in couple of quarters or so. On AT&T, it's not a token. It's not like the government says now we can do DirecTV, so everything goes immediately into 100% acceleration of activities. It takes time. The fact that we are now sharing with you that we have been selected to AT&T Mexico, or what they call the AT&T South of the Border strategy, is a very good example, because they announced a use of sale probably a year ago. So I can understand, they do the deal, they go through their closing feed, then they need to choose a strategy, how they're going to act there. Then they're going to choose a partner, then they start working. And in the beginning, you win something, but you don't get, you don't deploy all the people immediately. And we recognize revenue on percentage of completion. So until we really are in the midst of the project, even the design phase is not very significant in terms of revenue condition.

So it's a good example of something that is happening. It's a very positive thing, but it just takes time to get to fruition. So the almost puzzling situation that we saw AT&T for almost a year is going away slowly and we do not expect it to be overnight. So we shared some light about it last quarter and I think that we announced then the Cricket, which is one component of the strategy, the prepaid. Now we're announcing the AT&T Mexico, which is selling Nextel, which is the second component of the strategy. And there are two more components of the strategy that is still completely up in the air, which is DirecTV and what they call the Domain 2.0, which is their code name for, AT&T code name for the network function virtualization.

Again, we are working diligently on these two a few others. And we believe that we are very relevant, we invested in these areas ahead of time, but it takes time for them to choose their strategy and then their vendor fit and then for us to win it and sign it and then to go into recognition. So these two elements, for different reasons, both the Comverse acceleration of the business, as well as the AT&T new project, discretionary project, coming to fruition are the two elements that are really affecting the shape of the growth for 2016.

S.K.Prasad Borra - *Goldman Sachs - Analyst*

Thanks, Eli. Just to follow-up on your comments on Comverse. Could you specify or could you just probably elaborate on the pipeline expectations, is it now ahead of your expectations or is it partly in line what you're expecting with? And beyond Comverse, on the M&A pipeline, does it look too rich, are you comfortable the valuations out there and still M&A being a priority going forward?

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

So for the first question, I think we are about where we thought we will be, maybe slightly better in terms of the response of the customer, the dialogue that we are within. We are finding a lot of serious customers that need a lot of help, which can be translated eventually to revenue and growth. So the same goes with the people, the engineers and so on and so forth. So I think that we are at where we thought we will be at this stage, maybe slightly ahead of it, but it's marginal, so let's call it par.

In terms of the M & A pipeline, our pipeline is very rich, in terms of technology, consolidation, diversification, getting into new areas. Yes, we believe that M&A will be important for us in 2016, definitely. As we demonstrated, when we don't have the right target or when we negotiate better price, which have been the case in twice the last two or three years, and then we can afford to accelerate buyback and dividends, stuff like this. And it will be in terms of timing, it will be more active on M&A, it could be that it will slow down a bit, the buyback. But that was actually the 50/50 thesis from day one.

I'm pleased that it's working. I think that we are showing that we are disciplined. In other words, when we can, we accelerate buy back. We don't have any -- we don't need to feel the pressure or something. We just do it. And on the other hand, if 2016 and 2017, for sake of discussion, will be more acquisitive, then maybe we'll slow it down a little bit the buyback. But that was our message all along. And the pipeline is rich, and we're a good Company and we're in a good position, so companies come to us and they want to be part of us.

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

S.K., just to clarify, the guidance we've given for FY16 does not factor in any new M&A that may come along.

S.K.Prasad Borra - *Goldman Sachs - Analyst*

Okay. That's great. Thanks for taking my questions.

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

Thank you, S.K.

Operator

Thank you. Our next question is from Mark Sue of RBC Capital.

Mark Sue - *RBC Capital Markets - Analyst*

Thank you. If I look at Comverse as a contributing factor and I look at the new growth areas of mobile financial services, NFV, big data analytics, is there a way to quantify how big these things will be over the longer term, for example, as a percentage of revenue when they might reach 10% in the future? Just trying to see how the ramp might be, considering we're still in the very early days. But you do have very good examples of customers, such as Telefonica, that are starting to percolate, so we're just trying to see the trajectory there, please.

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

So Mark, it's a very good question. I'll try to give you an answer. I'm not sure it will be a full answer. Look, the Comverse deal we knew from day one were about, all about customer and reaching the customer list and the customer presence, and it was not about technology. It was accelerating partial or full transformation in the market by the fact that we own the legacy serial and the future. And if we will do a good job, we will see maybe a couple of new customers moving to new technologies every year, every few quarters, and that will be a proof point that we are doing the right things on the Comverse deal. It's all around the classical revenue management enhanced by customer management and so on and so forth.

When you're talking about the MFS and BDA and NFV, these are completely new topics. In BDA, we see already tens of millions of dollars coming in, generally. So it went from zero maybe a year ago to few tens of millions of dollars already. So this is the rate that we see. I don't see any reason why it would not keep on going this way. It's very intermingled in a way with the rest of the project, because BDA is now like an add-on. It could be an add-on to a customer management application or it could be an add-on to a network optimization application. But if you try to carve out, because we want also to know how much money we spend versus what we get, it's already in the tens of millions of dollars after a year or something, which is nice, which is nice, any time you can grow.

And this is a real project. This is real value to customers. And I'm glad that we did not go with a splashy M&A on big data analytics, because that could have cost us a lot of money and we chose to develop it on our own, own standard, too, in terms of big databases and data models and so on and so forth.

When it comes to mobile financial services, it's also in the tens of millions of dollars already, with some of it came from M&A, some of it came from new projects. To predict this growth is actually a little bit harder, because the receptiveness and the adoption rate in the emerging market of such ideas is really quite wild and some time government would push it and maybe (Indiscernible). So I think that their entire world is still waiting for a few use cases. It could be that international top-ups will be one of those use cases. It could be that transfer of money through corridors of natural transfer of money would be an interesting. It could be that micro loans would be the thing.

Application wise, we are ready. And can we translate the market and expand the market tomorrow morning? I don't know. This is one of the things that may be out there in a slow rate, relatively slow rate, and then all of a sudden become an overnight success.

NFV, again, is a completely different dynamics. NSV is one of these areas, if you invest quite heavily in the beginning, very, very complicated technology, very few people can do it. We believe we are one of those few that A, can do it, and B, has no conflicting interest in opposed to the Cisco of the world and those guys. We are the disruptor there. But it's a very, very different type of application that we are developing. So far, we are doing certain things that are really groundbreaking, in our opinion. It will translate to revenue and growth only later on in the year, maybe 2016 second half, maybe 2017.

The point, though, is that if it's successful, that could be also hundreds of millions of dollars in several years from now. These are large projects. These are very important trends. So participating in this mega trend could be quite sizeable. And in between, there are a lot of other things of media and advertisement and IOT and other thins that I don't think there's a point to discuss. But I hope that I gave you some kind of color. And each one of them is slightly different, so it took me longer to explain the dynamics on each one of them.

Mark Sue - *RBC Capital Markets - Analyst*

That's helpful, Eli. And then if I just look at the snapshot of your customers, the service providers who are going through quite a bit of change, pricing, churn, some are even going through transformative M&A and asset sales, in your discussions in terms of what their core competencies are, do you feel that people are, service provider customers are now more inclined to use solutions such as Amdocs or still debating the benefits and the cost of benefits of outsourcing their network? It is a segment that's changing rapidly, and I feel that we are at a tipping point in the industry.

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

So it's a good question again. I don't think that I can tell you there is a trend or there is a typical answer, because we work with carriers all around the world and they have very different opinions about this question. Some of them already maturing to this and some are really trying new ideas on how to outsource some of the operations. I don't think there's one answer to that, and I think it's a bit too early to talk about it as a trend.

The one thing I can mention is not on the network aspect, but everybody is now talking about digitizing their customer management. That is to say, there is a huge trend to push the traffic from the high end, high cost call centers, CSRs, and bump up to the sell service, including commerce, e-commerce and telecommerce is very complex. So all this care and commerce is going through a major transformation under the code name digitizing the customer management. This is a trend that we see all around.

We are well positioned for that, because we made all this investment a year ago, year and a half ago. The latest component, which is our e-commerce, is already six months in the market and we have some good reads. The one that we mentioned actually is Singtel, of this consolidation of their what they call Project Spring. But it's their consolidation of the customer, sales service customer management, digital customer management, including commerce is something that we are now going to do for them. So these are trends we see already. The other side of digitization is actually the network digitization, which the NFV, network function virtualization. And the business model that would come along with it is really hard to call it a trend yet.

Mark Sue - *RBC Capital Markets - Analyst*

Understood.

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

I hope that I gave you some color that will help you understand the dynamics.

Mark Sue - *RBC Capital Markets - Analyst*

Yes, the framework is helpful. Thank you.

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

Thank you very much, Mark.

Operator

Thank you our next question is from Tom Roderick of Stifel Nicolaus.

Tom Roderick - *Stifel Nicolaus - Analyst*

Hello, guys. Good afternoon. Thanks for taking my question. Eli, I wanted to ask you a little bit, particularly on the rest of world region for you, ROW was, I think, a new record and 27% growth, so really strong performance there. A lot in the news lately particularly revolving around emerging markets. So what are you seeing out there in realtime? Any evidence that that segment is slowing down for you? If I look at some of the new wins, particularly Singtel, it doesn't necessarily imply that, but kind of curious what you're seeing on the ground and how we ought to think about the construct of the ROW segment as you put that into your guidance for 2016?

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

So Tom, as a matter of fact, we don't see a slow down on -- the bottom line is we don't see a slow down. I don't know that we can really repeat 27% a year, okay? Let's be honest. And we had lumpiness in this number. It's always double digit, but we had different years. I think that what we are enjoying right now is all this foundation and all this wins that we won more than a year ago and we go to a good execution and we build the operational centers to support it and so on and so on. So what we see right now is actually the result of something that we've done in the last year, some time period.

As for the future, if you analyze the pipeline and the regions of the pipeline, it's actually everything. We have full transformation, gradual transformation, free end transformation. We have network optimization, we have digital and e-commerce there, we have OSS project. I mean, everything we have in the pipeline is a strong pipeline. So I think it's sustainable to have double digit growth also for 2016. Don't expect 27%. I'm not sure that I expect it, but it is strong growth.

In terms of the dynamics of the market, look, China is slowing down, but we are not in China. India is nobody knows how to analyze it, but we have relatively little business in India. So it's all potential for us. China, we will not go there any time soon. But India is a potential for us. But when you look at the other countries, now we are into Korea, and have more business in Indonesia and more in the Philippines and more in Brazil and more in Chile and more in Argentina and more in many other countries that we have never been before. And I think that these countries will continue to evolve.

We are the most relevant ones. Obviously, there are cheaper ones and provider than us. And our competitors are quite aggressive and they will try to offer everything more or less for free. But the quality wins. The fact that they know that they start with a project with Amdocs, they will finish it, which is not a common thing in the industry. This Korea Telecom, for an example, it's the second time Korea Telecom is trying to do this project. They announced a major failure with our competitor and they come back to us. By the way, four years ago, they came to us and said, guys, we cannot do this project in the way you're setting it up, good luck. And now they are coming back after losing a lot of money. So I think that overall, regions of the pipeline, our position in the market lead me to believe that we can keep on growing in double digit and it will be a strong segment for us in 2016, and probably beyond.

Tom Roderick - *Stifel Nicolaus - Analyst*

Great, very good. I wanted to ask one more question here around the Guadalajara, Mexico, the center you're opening up for development and operations down there. Anything you can share with us with respect to the types of positions you're looking to add there and how aggressively you want to step up the investment in that territory?

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

So as usual, we are careful. So we start with maybe 150 people or so. It's the type of delivery and ongoing support that we need at the right time zone and in the right language. We have people that work closely to our customers, some time on site with our customers, some time in the regional center, like the center that we have in Manila, for example, can support, and will support in the future, many more countries than the Philippines on operations. The one in Guadalajara will have the same function. It's not only for Mexico and the project in Mexico.

We have centers that support today that we established several years ago in Brazil, both in Sao Paulo and in San Carlos. But these are Portuguese speaking and it's very different, and they support the Brazilian growing business. And we needed another center that's Spanish speaking in the time zone there and in the right cost. And after analyzing all the different alternatives, we came across with Guadalajara, because of mainly universities and cost of living and other element.

And we will start already at a certain level and will grow as the business will grow. If we don't have to grow it, we won't grow it and we will just, we don't pour money first, we just do the initial things and that's it. And now it will follow with the business and the growth of the business.

Tom Roderick - *Stifel Nicolaus - Analyst*

Wonderful. Last quick one for me, Eli. Curious for your additional thoughts on the competitive landscape and the network optimization business. You mentioned, I think, obviously you guys have been the disruptor in that market. I know Cisco has made some moves competitively. Some of the other NEPs have, as well. What are they doing, what are the traditional network equipment providers doing to protect their position, whether it's through pricing or bundling or things of that nature and how, what are they doing as a response to your disruption in the market?

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

To be honest, the first thing they do is they try to use a lot of fear against us, because we are the new guys in this area. They will try to slow this thing as much as they can. They will not announce it necessarily, but we see from everywhere. It's not like a specific company I can tell you all the guys that are producing a lot of boxes are trying actively to slow down this trend. I don't think they can do it. Even if they slow it down, it would not take, let's say, five years to come to full fruition. Maybe it will take seven years. You can not slow this down.

And I'll tell you more than that. Carriers cannot afford not to do it, because otherwise, the big guys will do it themselves. Level 3 will do it. Amazon would do it. They will build their own networks. And if the carriers are not careful, both, by the way, MSOs, the Comcasts and the Charter of the world, and the AT&T and Verizon of the world, if they would not do it, other people will do it for them or to them. So they have to do it.

The providers will try to slow it as much as possible. They say that they are investing in it and all of that. I don't think so. And every time that they see that they are a buying company, we've seen in several cases like this, they kill the company. In other words, they buy companies that have some momentum in this area and especially to kill them and not to build them. And we have a very different opinion. We have a different opinion that we have infrastructure and new components and new theory and new approach to this entire thing. And we'll see. We'll have the best man win.

Operator

Thank you. Our next question is from Shaul Eyal of Oppenheimer.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Thank you. Hello. Good afternoon, Eli and Tamar, Matt, as well. Eli, you mentioned already ten use cases with respect to the big data activities. Do you think maybe there's room down the road to partner with some of the leaders also in the big data space?

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

So first of all, I mentioned eight or nine. And we count them one by one, so I don't want to round it to 10. We'll get to 10. We'll get to 20, too. But I'm an engineer, so I have to be accurate. But I'm teasing you. But in terms of the partnership, look, it's an ecosystem. We are partnering, in some cases already. So all this generic tools of the data leg, the big database, all that, we work with IBM, with EMC, we work with already some open source, which is an interesting angle to this space.

In terms of data models, we are working with three different universities. We are not trying to develop our own data model. A lot of it is available out there, but the new ones that we need to do we're actually working with some academia and academic research. So it is an area for collaboration. I'm not sure that necessarily it will be with the traditional people that are saying that they invest billions in data, in big data analytics. I actually think that the initial signs, at least, show that our approach is much more practical. We spend not a lot of money, very, very tailored, very targeted to specific things that we understand better than anyone else.

Don't forget, it all starts with data and trends of data. We understand the data element and how to look through them and how to sift through huge amounts of data, probably better than anyone else. So I do not exclude cooperation at all. We are doing some of it already. But I think that the magic powder would come from us in the next use case, as well.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Got it. Tamar, this quarter of backlog actually up nicely from a sequential basis, I think about $70 million. Prior quarter, I think it was about $20 million, $20-something million on a quarterly basis. Is that driven by some of the recent announcements you guys have made today through the additional press releases?

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

Yes, definitely. I mean, some of these projects we announced, whether it's the digital project to Vodafone, definitely strongly themselves within the next 12 months backlog. Some of the announcements we've had are more about increasing visibility into the longer term, like the Bell Canada renewal and Rogers. So I think we have a good mix of drivers of growth into the announcements we've had today, as well as protecting the long term and creating recurring base of years 2018, 2019, 2020, we want to see, of course, obviously this continue for the long term.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Got it. And if I may, just a final one, Eli. Your own thoughts on the Cisco and Ericsson strategic announcement. Do you view it as being done from a direction and point of strength or rather the other way around?

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

I'm not sure I'm the best person to opine on it. A, I'm not objective to start with. But I think it's a very complex deal. It has a lot of -- if you ask them how exactly they are going to do it and mix the internet and broadband equipment with the wireless and who exactly is going to -- but the point mainly, in my opinion, it's all about the history, not about the future. It's very complex to develop any of the applications. I'm telling you as someone doing it right now, as one company. You can do it with one of your customers, that's fine, too. But two companies, it's a very different approach to life. If that's about the future, I think it will be even more complex to execute some of it. Whether it comes from a strength or a weakness, I think you better ask these companies.

Operator

Thank you. Our next question is from Will Power of Robert W. Baird.

Will Power - *Robert W. Baird & Company, Inc. - Analyst*

Great. Thanks for taking the questions. Let me first maybe start on North America. You've provided some good color on AT&T. I wonder if you could give us any thoughts on Sprint, and in particular, because they've made a number of recent public comments about desiring to cut $2 billion in annual costs and they've singled out a number of areas, but including billing and IT. But could you maybe frame for us how you think about the risk and/or opportunity there as they try to turn around things?

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

So Will, listen, I think that we have been proving the point that we are part of the solutions of the future of Sprint, rather than being the problem, several times in the past and including change of ownership and the Japanese coming in and believing that they know everything and the Americans understand nothing, and to change of a CEO with new energy coming in. I can tell you that our base business with Sprint is very relevant. It's very solid. It's very strong. And discretionary is always the question. So actually in recent quarters, we had some very important milestones that we delivered to Sprint which we believe that will help them in the future business, including some sophisticated turbo charging and high speed turbo charging that they can put to the war right now, their war against the competitors. All kind of sales service application that would probably come with it in the future.

So nothing is guaranteed there. But so far, we are being called time and time again to strategize and help screen them, and we're doing it. Now there is a lot of investment in the network aspect that we are not part of today. So I think there is yes, there are some risks, because every company that goes through cost cutting may affect us, as well. But I think that our position is strong on the current business and the potential of new business I think that we proved to them that we are very relevant in many other areas. I hope that will translate to some new businesses, as well, with Sprint.

Will Power - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Thank you. That's helpful. And then maybe just to come back to Europe. You had nice growth sequentially year-over-year this quarter, announced a nice win with Vodafone. I guess the way the question is, do you think the trends you saw exiting the September quarter can continue and you can generate that type of growth? And then maybe if you could just update us on Vodafone overall, how you think about the opportunities, because it feels like that's been up and down over the years.

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

Yes, it's a very good question. I think overall, and I mentioned it in the prepared remarks, we think Europe can actually grow. But it will fluctuate. Not because of the nature of the projects, as we are saying rest of the world is lumpy because of the nature of the business and the nature of the project orientation. But Europe, European mood is lumpy. And modern days, when you look at the carriers, of the big carriers of Europe, Budget Telecom is doing very, very little. Telecom is doing very, very little, maybe even the asset that they have in Brazil will be sold eventually. Even in Spain, Telefonica in Spain is not as active as they are in Latin America.

So it's hard to predict when they are going to get into higher gear. Vodafone, on the other hand, is a company that is on a mission to change the world, okay? And they need help in this transformation. And as a result, we are translating it, because we convinced Vodafone that we are more relevant than any other partner. Obviously, we don't have 100% of the business there and we will never have, but we are expanding the wings that we are talking about are very different. They are between countries and between type of business. This new project we just announced on the enterprise is called Victor in Vodafone, and it's very important. It's actually consolidated in their other boxes that they bought from Cable Wireless and their previous assets.

And enterprise in general is highly complex topic, highly complex. It's a sweet spot all around the world, because when you have consumers that can churn easily between one carrier to the other, the big enterprise, like the government, they usually give the businesses two or three carriers and the speed to work between them, so that's the competition. But the medium size and the high size of the enterprise is a very lucrative business all around the world. And we see this demand is actually growing also in North America. Look at the cable companies that are going to enterprise. Look at the smaller carriers are going to enterprise.

So this win is very important. We see other wins, some of them we announced, some of them we did not. I think that we are more and more relevant to a lot of activity that Vodafone is doing all around the world. We are working with them in India. We are working with them across Europe. But there are many assets or operators that we are not in right now with Vodafone, so I hope that geographical expansion, so to speak, within the logical geography called Vodafone would also be relevant. But also in Europe, we have other activities with a few other carriers, in the traditional Europe, in what used to be Eastern Europe, Russia, there are many elements of Europe. Altogether we think 2016 will be a good, but lumpy year in Europe.

Operator

Thank you. Next question is from Sterling Auty of JPMorgan.

Sterling Auty - *JPMorgan - Analyst*

Yes. Thanks. Hello, guys. You talked about the building of the pipeline by Comverse business and assets, but just wanted to ask because I wasn't quite clear, have you seen any churn or any customer losses out of the target list of customers that you brought over to the deal?

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

No.

Sterling Auty - *JPMorgan - Analyst*

Okay. Great. And then can you help us in terms of, you talked about Bell Canada, but how would you characterize the pricing, scope and size of the deals, the other deals that you announced relative to other transactions that you've experienced over the last year in those regions? So in other words, just looking for more color around some of the pricing and size of deal trends that you saw with these recent round of deals outside of Bell Canada.

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

Outside of Bell Canada, in 2015, and if I can think about 2014, we've seen a wide range of size of deals, from typical $20 million, $30 million deals to large deals that could be $40 million, $50 million, all the way to mega deals that could be north of $100 million each. So the diversity of size of deals varies quite dramatically and we've seen all types. Obviously, Bell Canada because it's five years and it's Bell, it's a big company. It's hundreds of millions of dollars over the five years.

But in terms of pricing, look, there is the competitors are very aggressive, I hate to tell you, because we have such a wonderful win rate. And when you have a wonderful win rate, someone does not have a wonderful win rate. And it's against all of our competitors combined. It's not like against each one of them. It's against all of them combined. Of course, it's not 100%. It's not even close to 100%. But it's very high. So obviously, the way to fight it, if you cannot fight on quality and breadth of offerings and services and experience and finger licking type of service that we provide around the world, they fight on price.

Usually, we are not -- let me put it this way -- always we are the most expensive bid out there. But some aggressive scenarios will push the price down for awhile. Over time, it will fix itself. Because we will always, we are very always open with our customers, with what we can do and what we cannot do. So we have pressure of price always. I mean like, I don't think the last year or two have been different. Maybe since the specific countries or specific deals, it was more aggressive than others. Altogether, it sounded like we are fighting all the time.

Sterling Auty - *JPMorgan - Analyst*

Got it. Thank you, guys.

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

Thank you, Sterling.

Operator

Thank you. At this time, I'd like to turn the call back to Mr. Smith for any closing comments.

Matt Smith - *Amdocs Management Limited - Head of IR*

Thank you very much for joining our call this evening and for your continued interest in Amdocs. We look forward to hearing from you in the coming days. And if do you have any additional questions, please call the Investor Relations group. Have a great evening. And with that, we will conclude the call. Thanks.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your program. You may now disconnect.