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Q4 2018 Amdocs Ltd Earnings Call

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CORPORATE PARTICIPANTS

Joshua Sheffer *Amdocs Limited - President of Amdocs Global Business*
Matthew E. Smith *Amdocs Limited - Secretary*
Tamar Rapaport-Dagim *Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd*

CONFERENCE CALL PARTICIPANTS

Ashwin Vassant Shirvaikar *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*
Jackson Edmund Ader *JP Morgan Chase & Co, Research Division - Analyst*
Matthew David Van Vliet *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*
Shaul Eyal *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*
William Verity Power *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Amdocs Fourth Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I'd now like to introduce your host for today's conference, Mr. Matt Smith, Head of Investor Relations. Sir, please go ahead.

Matthew E. Smith *Amdocs Limited - Secretary*

Thank you, Liz. Before we begin, I would like to point out that during this call, we'll be able to 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 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 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, 2017, filed on December 11, 2017, and our Form 6-K furnished for the first quarter of fiscal 2018 on February 12, 2018, for the second quarter of fiscal 2018 on May 21, '18, and the third quarter of fiscal 2018 on August 13, 2018.

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.

Additionally, we are pleased to mention that our analyst and investor briefing will be held on Tuesday, December 11, at the Nasdaq MarketSite in New York City. Please contact Investor Relations for further details and check our IR website several days in advance for details on how to access the live broadcast.

Participating on the call with me today are Shuky Sheffer, President and Chief Executive Officer of Amdocs Management Limited; and Tamar Rapaport-Dagim, Chief Financial and Operating Officer.

And with that, I'll turn the table to Shuky.

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Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

Thanks, Matt. And good afternoon to everyone joining us today. This is my first earnings call as the new Chief Executive Officer of Amdocs, and I would like to take this moment to thank Eli for his support in making this a smooth transition. I assumed the position of CEO, on October 1 and I'm very excited of -- by the opportunity to lead Amdocs forward in fiscal 2019 and beyond. I'll talk more about the outlook for the coming year later in my remarks, but let me begin with a brief recap of our performance in Q4 and fiscal year 2018, both of which were solid and in line with our expectations.

Q4 revenue was slightly above the midpoint of our guidance, and it was Europe's best quarter in more than a decade. Operating profitability was stable, and our sales momentum was healthy as we continue to win significant new projects and Managed Services awards.

Regarding fiscal 2018, I am pleased to say that we achieved our total revenue growth targets for the year. Our performance included a revenue decline of AT&T of 15%, as this large customer re-evaluated its spending priorities around Time Warner and the evolving requirements of its core business. Nevertheless, we more than offset this headwind as a result of our strong progress with new and existing customers in the broader North America, Europe and Rest of the World. Moreover, we grew total revenue for the year while maintaining consistent execution, closing several strategic acquisitions and meeting our commitments to return roughly 100% normalized free cash flow to shareholders.

All together, we delivered full year diluted non-GAAP earnings per share growth of 6.1% in fiscal 2018, in line with the midpoint of our guidance range of 4% to 8% that we published last November.

Now let me provide some color in regards to regional business activities in Q4 and the market dynamics we expect to see in the coming year.

Beginning in North America. Sequential revenue performance reflected normal fluctuations in customer activity. During the quarter, we won several new deals, including a digital transformation award at U.S. Cellular, which we will support under a 5-year Managed Services agreement. We have also made important delivery milestones at Altice USA relating to the launch of the new fiber to the home services under the multiyear modernization agreement we announced in September 2017.

And regarding the outlook in North America, we continue to experience contrasting business conditions between AT&T and the broader region. At AT&T, we remain confident in our ability support its future business requirements yet it remains premature to assess the size and timing of future awards. Our fiscal 2019 outlook therefore assumes no significant shift in AT&T's discretionary spending relative to the levels of Q4 and does not reflect, potentially, noteworthy business opportunities, which may come to fruition with Time Warner. By contrast, the outlook in broader North America remains relatively strong as we levered our position as the industry's leading partner to support the continuous digital transformation of the region's communications, Pay TV and media company.

To add to this, over the years, Amdocs has also tended to benefit from industry consolidation activity, since we are the only vendor with a rich and proven track record for post-merger integration, planning and execution. Along these lines, we are working hard to demonstrate the additional long-term value we can bring to T-Mobile's proposed merger with Sprint. At the moment, we continue to support the core activities of those customers, but since the merger is not yet approved it remains difficult to predict the long-term business outcome to Amdocs, and we remind you that consolidation activities like these can create additional near-term uncertainties, which is not necessarily reflected in our outlook.

To summarize North America, the long-term market fundamentals remain positive, but sequential trends may continue to fluctuate in the foreseeable future before growth resumes in a steadier way.

Moving to Europe. We delivered our best quarter in more than a decade to close a strong year of double-digit growth. During Q4, we made progress with new customers in key markets where we have traditionally been underrepresented. For instance, we won our first-ever transformation award with TIM, the largest communication provider in Italy. This then followed our previous awards with

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Vodafone Italy and Sky Italia, and demonstrate the way in which we can -- which competitive market dynamics often compel service providers to invest and modernize. Our broader win momentum was also strong in Q4 and included the extension of existing 5-year service -- Managed Services agreements at a leading service provider in Germany.

In Switzerland, Sunrise Communication extended their collaboration with Amdocs to deliver best-in-class customer service, while POST Luxemburg selected projekt202, an Amdocs company, to design their digital journey for customer registration across its quad-play, finance and courier business.

Regarding the outlook in Europe, the backdrop is favorable as the trends towards multiplay and convergence are intensifying. That said, we expect our growth in Europe to moderate significantly in the coming year, primarily due to the timing of new awards, the natural ramp down of existing projects and the macro, political and foreign currency environment of the region.

Turning to Rest of the World, we closed a record year with a solid quarter and includes a new 6-year deal to consolidate and modernize and manage the IT infrastructure of PLDT with Amdocs' Intelligent operations. This significant agreement with PLDT follows the 7-year, $300 million market transformation service agreement we signed with the customer in January 2018, is further proof of our ability to continuously grow our footprint in markets like the Philippines where We can leverage our existing local knowledge and sophisticated IT infrastructure.

Our media offerings are also proving relevant to Rest of the World. In its Argentinian division, Turner International recently selected Vindicia CashBox to power the subscription requirements of new cloud gaming service, GLOUD. This important deal is among the first of its kind for Amdocs and demonstrates the value that we can bring to groups like Turner and WarnerMedia as they look to expand globally in the emerging e-gaming and e-sports markets.

Looking forward to fiscal 2019, we believe our healthy backlog and the pipeline of opportunities support another year of growth in the Rest of the World, primarily led by Southeast Asia and surrounding regions, where activity remains stronger as compared to Latin America.

To summarize my regional comments, we are pleased with our recent win momentum and activity, the mix of which is well balanced across our various business lines, customers and geography. Moreover, we expect continued growth ahead as we extend our core leadership around the continuous digital transformation of service provider and accelerate the monetization of new business lines which are now production-proven and commercially ready. This primarily includes North American Pay TV modernization, media and entertainment and network software and related services, where we are positioned to capitalize on next-generation investments in NFV and 5G.

With this in mind, let me now turn to our financial outlook for fiscal 2019, and our priorities for revenue growth, margin performance and capital allocation in the year ahead. First, we expect total revenue growth within the range of roughly 2% to 6% on a constant currency basis, the midpoint of which is an improvement on the pace of the prior year. This outlook is supported by the visibility of our record 12 months backlog and the stability of our revenue stream, approximately 75% of which is recurring in nature; second, we expect non-GAAP operating margin to remain at the higher end of our current target range of 16.5% to 17.5% in fiscal 2019 as we continue to focus on transformation project delivery, automation, innovation and other investments necessary to sustainably accelerate our revenue growth for the long run -- long term; third, we remain committed to the proactive and disciplined allocation of capital. We have the capacity to return the majority of normalized free cash flow to shareholders in fiscal 2019, subject to factors such as M&A, financial markets and prevailing industry conditions. And I am pleased to say, this includes the proposed increase in the quarterly cash dividend for the sixth consecutive year, subject to shareholder approval in the Annual General Meeting in January 2019.

Additionally, we retain the optionality to execute on M&A as a strategic lever for long-term growth, possibly utilizing debt where appropriate. Overall, we expect to deliver total shareholder returns in the mid- to high single digits in fiscal 2019, including diluted non-GAAP earnings per share growth in the range of 3% to 7%, plus our dividend yield.

As a final point, I would like to highlight our next Analyst Investor Day, which will be held on December 11 in the Nasdaq MarketSite

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headquarters in New York City's midtown. We hope that you can join Tamar, myself and other members of our management team to hear more about the exciting dynamics we see across the global communication and media industry, our strategies for sustained growth and our new 3-year financial outlook.

With that, I will turn the call over to Tamar.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd***

Thank you, Shuky. Fourth fiscal quarter revenue of $1 billion was slightly above the midpoint of our guidance range and included, as anticipated, a negative impact from foreign currency movements of approximately $5 million relative to the third quarter of fiscal 2018.

Our fourth fiscal quarter non-GAAP operating margin was 17.2%, a decrease of 10 basis points compared to prior quarter, but consistent with our tracking at the higher end of our long-term target range of 16.5% to 17.5%.

Below the operating line, Non-GAAP net interest and other expense was $3.4 million in Q4, primarily reflecting foreign exchange movements. For forward-looking purpose, 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 was $0.99 in Q4, above the midpoint of our guidance range of $0.95 to $1.10. Our non-GAAP effective tax rate of 17.1% in Q4 was at the high end of our expected annual range of 13% to 17%, but still slightly better than expected.

Diluted GAAP EPS was $0.31 for the fourth fiscal quarter, below our guidance range of $0.71 to $0.79, primarily due to the onetime loss of $55 million incurred to settle a previously disclosed long-running legal dispute with Vesta Corporation in the US District Court in Orego. This amount includes the settlement of $50 million, plus legal fees and other associated costs of another $5 million.

While we expressly denied and continue to deny any and all wrongdoing with respect to this claim and we're ready to vigorously defend ourselves, in balance, and considering the relevant litigation risks and costs, we believe it made better business sense to settle this case. And mutually, release each party and its respective customers with no admission of liability or fault.

Normalized free cash flow was $89 million in Q4. This was comprised of cash flow from operations of approximately $115 million, less $35 million in net capital expenditures and other, and excluding payments of nonrecurring charges in the multiyear development of the new campus in the total amount of $8 million.

Normalized free cash flow generation for the full fiscal year 2018 was $428 million, which was below our expectations of about $500 million, primarily because of a shift of amounts due by several customers which have been collected in the first week of October.

DSO of 88 days declined by 1 day quarter-over-quarter. We remind you that this item may fluctuate from quarter-to-quarter. Total unbilled receivables increased by $11 million as compared to the first fiscal quarter of 2018. Our total deferred revenue, both short and long term, decreased by $14 million sequentially in Q4. The net balance of unbilled receivables and total deferred revenue reflects our high level of transformation projects activity and the resulting timing differences between revenue recognition and the invoicing of customers.

Our 12-month backlog was $3.36 billion at the end of the fourth fiscal quarter, which is up $30 million sequentially from the end of the prior quarter. We believe our 12-month backlog continues to serve as a good indicator of our solid book of business, and its year-over-year increase of over 3% supports our outlook for fiscal 2019. Our cash balance at the end of the fourth fiscal quarter was approximately $519 million.

During the fourth quarter, we repurchased $90 million of our ordinary shares. In total, we have, as of September 30, approximately $637 million of authorized capacity for share repurchases to be executed at the company's discretion going forward with no stated expiration date. As a reminder, we retain the flexibility to vary the level of share repurchase activity from quarter-to-quarter, depending on factors such as the outlook for M&A, financial markets and prevailing industry conditions.

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Now turning to our outlook. We expect revenue to be within the range of $990 million to $1.03 billion for the first fiscal quarter of 2019. Embedded within this guidance, we anticipate the negligible sequential impact from foreign currency fluctuations as compared to Q4.

For the full fiscal year 2019, we expect total revenue growth to be within a range of roughly 1% to 5% as reported and roughly 2% to 6% on a constant currency basis, after adjusting for negative impacts of foreign currency fluctuations of about 1%, relative to exchange rates prevailing at the end of our fourth quarter fiscal 2018.

We anticipate our non-GAAP operating margins to remain within the same target range of 16.5% to 17.5% in fiscal 2019. We expect our quarterly non-GAAP operating margin to fluctuate at the higher end of this range in fiscal 2019. We expect our non-GAAP effective tax rate to remain within the same target range of 13% to 17% for the full fiscal year 2019. We expect the first fiscal quarter's diluted non-GAAP EPS to be in the range of $0.95 to $1.01, and with respect to Q1, we expect our non-GAAP effective tax rate to be above the high end of our annual target range of 13% to 17%.

Our first fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 142 million shares and the likelihood of a negative impact from foreign currency 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 really depends on market conditions. For the full fiscal year, we expect to deliver diluted non-GAAP EPS growth of 3% to 7%, the midpoint of which is within the 3-year guidance we issued at our last analyst and investor briefing in December 2016.

Additionally, our full year EPS outlook incorporates our expected repurchase activity over the year. To assist in your modeling, we expect to generate free cash flow of roughly $500 million in fiscal 2019. However, we expect normalized free cash flow of roughly $600 million in fiscal 2019, the majority of which we plan to return to shareholders through our ongoing share repurchase and dividend program. Normalized free cash flow adjusts for special that are not typical of our ongoing activities, such as the capital expenditure of roughly $50 million associated with the multi-year development of our new campus in Israel and a cash payment of $55 million related to the settlement of the previously mentioned legal dispute.

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 pay of $0.285 per share, will be approved by shareholders at the Annual Meeting in January. And that would yield about 1.8% on the current share price. Therefore, we expect the sum of our diluted non-GAAP EPS growth, plus the dividend yield to equate to a total shareholder return in the mid- to high single digits in fiscal 2019.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Shaul Eyal with Oppenheimer.

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

A question on AT&T. You mentioned there the current inability to forecast the growth assumption within the U.S. region. You mentioned also AT&T in that respect. Is it because of changing dynamics, or is it because of the ongoing consolidation in a way similar to what we have seen back in 2015 on the heels of the AT&T-DIRECTV transaction? Is it anything along these lines? Just trying to get a better understanding with respect to the dynamics.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd***

Just, Shaul, just to maybe clear, we're seeing a clear contrast with the demand and the trends between AT&T and the rest of North America. So while we are actually seeing a very good momentum in many new business across the board in North America, we mentioned Pay TV as a growth driver. We just mentioned the new win with U.S. Cellular around digital organization. And there are others that we can look to provide by name. In AT&T, we are still not seeing the appetite coming back for major new investments, and therefore,

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we have been cautious in our view and talking about relatively saying we have no significant changes relative to our Q4 level, exiting 2018. Now I think some of it is definitely about prioritization and planning ahead of how they're going to move forward with Warner media. Some of it may have to do with other parts of the business and how they are realigning priorities. So it's important to indicate that, at the same time, because we are seeing and continuing to support many activities across AT&T, across many buying centers and this type of things, we're not seeing enough new indications coming along of investment decisions to refuel that growth that we would like to see in that account as well. But definitely, the overall North American fixture is a contrast between the dynamics in AT&T and the rest of the business doing that in a very positive momentum.

Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

I want to add, it's Shuky, that definitely, the partnership with AT&T remains strong, and we don't lose any business to competition. We are at the heart of the AT&T activity, so I want to echo Tamar. I mean, obviously, part of its rights to the Time Warner acquisition, but overall, still difficult to predict.

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

Got it. I'll just say this is extremely helpful color. And maybe, I know on Vubiquity, I don't know, Tamar, if you can, if you want to disclose the contribution or even if you're not disclosing, maybe just a word about the progress you see with Vubiquity over the course of the past few quarters.

Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

We don't disclose the number, but maybe Tamar will share some. But overall, what we've seen in Vubiquity is, let's say, traditionally, Vubiquity, they have a very strong success with many media customers. And we see it increase pipeline of all our traditional customers, from APAC to North America to Europe. And leveraging our existing partnership with a customer that, as I mentioned before, is a major convergence to Pay TV, both in Europe and in Latin and North America. So we can leverage this relationship, and doing this direct offering of Vubiquity, we see increasing pipeline. And these deals, sometimes, the cycle is down, but other ones look promising.

Operator

Our next question comes from Ashwin Shirvaikar with Citi.

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

Shuky, congratulations on your first Amdocs CEO call.

Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

Thank you.

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

I want to go back to the specific assumption that are in there on a full year basis. If I could, starting with revenue, I understand that 4Q, North America, you are assuming -- 1Q, you're assuming similar to 4Q. But on a full year basis, what sort of assumptions are you making on the revenue line? And then the margin expansion that we have seen a steady margin expansion over the last few years, would you expect that to continue? Is there some uncertainty about margins versus tax since you only provided tax for the third quarter?

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd***

So clarifications. The message around no significant change relative to Q4 is specific on our assumptions on AT&T. In general, in North America, we are seeing good momentum, as I mentioned, across the board. It's actually both in the U.S. and Canada. Pay TV, wireless, we're actually seeing a quite a nice level of activity. In terms of how we're looking on the margin, it's a combination between the factor of continuing to expand into many new logos and many new countries. We gave Italy as an example. We have continued to see very strong momentum as well in within APAC, et cetera. And retail, of course, many activities we are running to improve the margins of the performing engines of the company. We are not building a margin expansion per se as a driver this year. We would like to continue and push for growth, and we have accelerated it, we feel, on a constant currency basis, with [mix] being 4% relative to 2.3% on a constant currency growth that they've seen. We are putting the focus on acceleration of growth and grabbing the opportunities we're seeing around the world to bring new business and maintain, more or less, the margin profile around the higher end of the 16.5% to 17.5% that we've targeted. On a tax rate level, again, just to clarify, the annual basis projection is to remain at the range of 13% to 17%, which is

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consistent with what we've had in fiscal '18. Specifically in Q1, the note was that we are expecting to be at higher level, that is high end. But that's, as you know, we have seen volatility impact [it] quarters before, so I don't think it's nothing to worry about, it's just giving you additional color of how we got to this specific guidance on a non-GAAP basis in Q1.

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

Got it. And then as I think about -- you had the comment on Europe, the new signings and such. Would that imply that the strong European growth that we are seeing in this quarter should continue?

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd***

Europe is based on many project activities relative to the -- if I'm looking at recurring revenue versus project activity, specifically in the European region, we are sensing a high percentage of project activity. And therefore, when we are looking on the 17% year-over-year growth of Q4, we don't believe this is sustainable moving forward, given some natural fluctuations we're seeing with projects that are ramping down, just getting to the finish line and where new business is ramping up. But at the same time, the win rate is very healthy, we're continuing to see new wins in the backlog already, and we have also a solid pipeline. So we do believe Europe will continue to be a growth area for us. I just wanted to set expectations at the right level, so moderation relative to that strong double-digit growth we've seen in Q4.

Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

The trend in Europe, and so now in Europe, which is now both consolidation and convergence, so you see Vodafone is buying both Kabel Deutschland, now they bought LGI. The same in the U.K., between BT and Everything Everywhere. This consolidation and convergence activity, I think, is our sweet spot because this is where we've guided to modernize their support system together to offer these to the market. So this is why we decided we are optimistic about Europe.

Operator

Our next question comes from Jackson Ader with JPMorgan.

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

If we think about the sales efforts that when you're going after some of the emerging opportunities, let's say, like pay-TV or Vubiquity, relative to your traditional markets, what does the sales effort look like when you're trying to close one of those deals? Does it require more resources? Less resources? Sales cycles? What does it look like?

Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

Actually, what we do is when we are leveraging the existing sales or account management people that we have today already that are managing all our customers worldwide and we train them to identify if our customer, for example, many of our wireless customers want to go OTT So every opportunity that wireless customer is in the direction of getting a -- once you start to deliver or distribute the content, Vubiquity presents an opportunity for us. So what we use -- traditionally what we do is leverage the existing work that we have that have long-term relationship with the customer, and then we are doing all the extras from Vubiquity, which we can explain to the customer the relative position. But overall, they are very dependent, and it's working well for us in the existing workforce, salesforce.

Operator

Next question comes from Tom Roderick with Stifel.

Matthew David Van Vliet ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

Matt Van Vliet for Tom. I guess looking at some of the 5G trials and potential rollouts coming down the pike here, just curious at maybe what level of involvement or projects that you've been involved with here looking at that technology rollout and what part you could potentially play in line with some of the carriers?

Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

So on 5G, so everyone is trying to deploy 5G. We have 2 angles to 5G. One is to mobilize the network-related activities. When we started to grow, deploy 5G, you need to [pursue] the rollout, optimization planning, optimizaton] and many services that we have for several years that you need when you deploy 5G. So this is one area of growth that in 5G deployment identifying we see an opportunity. The

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other one and even more important, there is no rationale of deploying 5G if you cannot monetize it. The ability to monetize 5G is not only if you build a capacity or an ability in your IP system to get to levels of 5G, I can give some examples. If you don't have the right charging and writing capabilities to support all the new IoT, robotics, network slicing and all this new stuff that the 5G is offering, then we are not able to monetize it. So from our perspective, as I mentioned, there are 2 angles. One, we roll the 5G rollout to deployment, and the other one to help our customers to monetize the huge investment in their support system to be able to monetize this for the new services that 5G can offer.

Matthew David Van Vliet ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

And then as you're looking at other opportunities for next gen capabilities, has there been any or do you have any updates in terms of some of the ONAP projects that you had that you released before those production [well?] And what's maybe being altered or tweaked to make that a better program?

Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

So as it relates to NFV and I want to take a moment to explain because I think NFV is only one part of our network offering. But regarding specifically to NFV or Onap, and we have a lot of proof of concept. We mentioned some proof-of-concept return to project like in Comcast and Telstra. So while we see these proof of concepts start, it's very small engagements. When it turns into a project, it becomes more significant. There are many proof of concepts, and it takes a little bit more time than we anticipated to project as the industry is moving to NFV. But we do see some momentum and people are trying this more and more. NFV is one part of our border network offering. Just to remind everyone, that NFV is mainly around the virtualization of the network, but at the same time, we have a lot of services around virtualization of the inventory and [web optimization] and position to virtual network, hybrid network operation, service securing, [autonomous server et cetera,] so there are many services around the network that we are now developing and successfully selling in NFV and we are still waiting for the breakthrough although it's a momentum mainly right now in many customers that have signed this new technology than in previous years.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd***

Let me just add [some insights, because normally -- we know it's] early days [for this et cetera,] we are already making several tens millions of dollars around this and now continue to see growth in year-to-year of course what we are looking for is that inflection point that will make it a business of hundreds of millions of dollars, and that can take some time. But we are still very bullish about this opportunity and believe that, that, in conjunction with the other services that Shuky mentioned that are quite robust, we can get our network domain to be a very important part of the overall growth story.

Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

We plan to present it in much more detail, in the Analyst Day on December 11 to show the broader service that we do around NFV and all the other network-related services that we are offering today.

Operator

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

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

I wanted to come back to North America, just to make sure I'm clear. I guess, given the comments around AT&T, is it the expectation in North America can in fact grow year-over-year? Or does AT&T continue to pressure that? And if you expect it to grow, is that cable, what are the biggest drivers of potential North American growth outside of AT&T?

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd***

It can grow, but obviously, the different permutations that will be there in terms of the balance between the different accounts and the ramp up will define exactly what's the pace of the direction that you will see. I think that the good news here is that we are seeing a broad-based activity level that is healthy. Pay-TV continues to be a growth driver, definitely continuing to see second, third project within the same accounts we penetrated and we continue to see modernization happening. We mentioned also a new win with US cellular with digital modernization. So we are continuing to see also that is a driver of activity.

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Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

Another trend is that all the -- you see that all the pay-TV customers have now gone wireless. Obviously, we have good offering in this domain.

Tamar Rapaport-Dagim ***Amdocs Limited - CFO & Senior VP of Amdocs Management Ltd***

And also the business activities that we mentioned around the network software related and service-related activities, we can offer are very relevant. Those kinds of investments are happening across North America. So will it end up in a material growth? Yet to be seen in terms of how those drivers translate into pace of revenue recognition. But in terms of revenue just as an indication significant part, for example of the growth 12-month backlog, this quarter came from activity of signing new deals in North America.

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

Okay. And then, Shuky, just strategically, as you look longer term for Amdocs, what are the kind of the key areas you'd like to see the company invest in for future growth opportunities, both from an organic stand point, and I'd be curious if there's any color on how you're thinking about M&A, what are the areas you want to invest there? And maybe does the pipeline generally look like on that front?

Joshua Sheffer ***Amdocs Limited - President of Amdocs Global Business***

So generally speaking, I see 3 growth -- 3 main growth engines for Amdocs. And as I mentioned, we are going to talk much more broadly on this in the analyst day, but all our customer doing one shape or other digital transformation. And I think we are totally capable to deliver the best solution in the market in this regard and this is true by the way to all regions, North America, to Europe, to APAC, to Latin America, everyone is going digital, and I think that we have the right tools and offers. By the way, we augmented the last year a very important acquisition like UXP and others to support this digital transformation. So this is what is happening, and obviously, we are very well-positioned. The other one is when you talk about in media. So the acquisition of Vubiquity and also the acquisition of that we have in (inaudible) and Vubiquity, I think we have a good solution for the media and other customers, one way or the other, either through OTT or any other Pay TV offering need these services. So I believe, this will be another growth engine for us. And we saw, in general, in all the cable and pay-TV, and as Tamar mentioned, was very solid growth engine for us, and we believe it will continue to be solid. This is something that traditionally was in North America. We'll see if it will happen in Europe, too, because over there, we see a lot of consolidation [and the change] in the pay-TV and Comcast, [both] Sky, so there is some activity in this domain. But the main majority of that activity is in North America, and surprisingly, in APAC. So we see this continue to be a very solid growth engine for us. Network, in all network-related activities, accelerate by 5G would be another area that we believe we will see growth in the future. And although I'm only 4 weeks in the job, we are looking additional growth engines for the company, we're conducting in the company a very thorough review about what is going on in the industry and what's to be other areas for Amdocs to compete and to be relevant. M&A is always something that is a tool, as Tamar mentioned, is something that we will do if we think it's relevant to our offering or relevant to the market conditions. So we do this if necessary, sometimes with technology that we don't have or cloud service and whatever it will be. So at the time, we are looking what is relevant to us and what could be added value to our offering. This is, as I said, I'm going to share or the other management team is going to share much more detail on our strategy for 2019, and looking forward for the next 3 years in our analyst day.

Operator

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

Matthew E. Smith ***Amdocs Limited - Secretary***

Thank you, Melissa, and thank you, everyone, for joining us this evening. We look forward to hearing from you in the coming days. And if you do have any additional questions, please give us a call at the Investor Relations line. Have a great evening, and with that, we'll conclude the call. Thanks.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program, and you may now disconnect. Everyone, have a great day.

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