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DOX - Q2 2018 Amdocs Ltd Earnings Call

EVENT DATE/TIME: MAY 10, 2018 / 9:00PM GMT

OVERVIEW:

Co. reported 2Q18 total revenue, after adjusting for certain items, of $992m and diluted GAAP EPS of $0.70. Expects FY18 reported revenue growth to be 2.3-4.3%. Expects 3Q18 revenues to be $0.990-1.030b and diluted non-GAAP EPS to be $1.00-1.06.

CORPORATE PARTICIPANTS

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Matthew E. Smith *Amdocs Limited - Secretary*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Second Quarter 2018 Amdocs Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to turn the conference over to Matthew Smith, Head of Investor Relations. Sir, you may begin.

Matthew E. Smith - *Amdocs Limited - Secretary*

Thank you, operator. 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 effect of acquisitions and other significant items that may have a disproportionate effect in a particular period.

Accordingly, management believes that isolating the effects of such events enables management and investors to consistently analyze the critical components and results of operations of the company's business and to have a meaningful comparison to prior periods. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release which will also be furnished with the SEC on Form 6-K.

Also, this call includes information that constitutes forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations will not be material. Such statements involve risks and uncertainties that may cause future results to differ from those anticipated. These risks include, but are not limited to, the effects of general economic conditions and such other risks as discussed in our earnings release today and at greater length in the company's filings with the Securities and Exchange Commission, including in our annual report on Form 20-F for the fiscal year ended September 30, 2017, filed on December 11, 2017, and our Form 6-K furnished for the first quarter of fiscal 2018 on February 12, 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.

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 - Director, CEO, and President*

Thank you, Matt, and good afternoon to anyone joining us on the call today. We are pleased to report solid results for our second fiscal quarter during which we delivered strong double-digit growth in Europe, record revenue in Rest of the World and 12-month backlog at another new high. Additionally, we extended our technology leadership with the launch of AmdocsOne at Mobile World Conference in Barcelona, and we utilized our cash to complete the acquisitions of Vubiquity and UXP Systems, both of which should be accretive to non-GAAP earning per share in our next fiscal year. I'll come back to these more strategic topics later in the call. But first, let me provide you some regional color with respect to our business activities during the second quarter.

Beginning with North America. As expected, performance were impacted by slower spending at AT&T, but our broader customer activity was solid and included the successful go live of the B2B transformation project we announced with DISH last September and the delivery of radio access network optimization service for the a voice over LTE, VoLTE, deployed in a leading U.S. wireless carrier. Regarding the outlook in North America, we are encouraged by the number of opportunities we see to support the future requirements of AT&T, our largest customer. Over the last several years, we have helped to enable AT&T's successful expansion into prepaid wireless, Latin America and video, and we believe we have the acquired pedigree to bring continued value to this customer over the long term.

Having said that, our operating plans for the next few quarters does not assume a major shift in discretionary spending in AT&T, and we'd also like to remind you that any potential business opportunity with Time Warner are not reflected in our outlook. Outside of AT&T business activity, North America is relatively strong and -- as we offer our leading capabilities in 3 dimensions: improved consumer and enterprise customer experience with the digital modernization; support the convergence of traditional wireless and Pay TV providers; and enable next-generation infrastructure investment, such as network function virtualization, or NFV, and 5G.

As an additional point, let me touch on T-Mobile's proposed merger with Sprint. While it is a bit too early to assess the implication for this on Amdocs, we remind you that our view is that consolidation activity is often a source of near-term uncertainty before long-term opportunities present, and we think this proposed deal is no exception. We believe our relationships run deep in both T-Mobile and Sprint, mainly due to the many years of value we have provided of this companies across multiple dimensions of their business. As such, we look forward to demonstrating the additional long-term value we can bring to both customers as the merger approval process unfolds.

To summarize North America, we believe we are at or near a low point in North America, although the pace of recovery remains subject to many moving parts. And we may see some small near-term fluctuations in our sequential performance before stronger growth trajectory resumes.

Moving to Europe. We delivered strong double-digit growth as we focused on project execution and winning new awards. Recent progress in the region included the deployment of our artificial intelligence platform, aia, at the affiliate of one of Europe's largest operator and awards of new logos like KCOM in the United Kingdom where we have been selected to provide an orchestrated platform -- orchestration platform to enhance its next-generation service infrastructure. Additionally, I am pleased to report that 2 leading European operators initiated small paid NFV projects with Amdocs in quarter 2.

Regarding our outlook in Europe, we believe we are well positioned with the product and services offering that is highly relevant for the full service providers like Vodafone, which this week announced a deal to acquire some European assets from Liberty Global as another step in its integrated carrier strategy. Overall, Europe is on track to grow faster than the corporate average for the full fiscal year, although not necessarily at the pace of the second quarter. And we remind you that the sequential trends could fluctuate given the project orientation of our customer activities in the region.

Turning to the Rest of the World. We delivered a record quarter that includes the ramp up of the 7-year project and managed services agreement we signed with PLDT in the Philippines earlier in the quarter. Additionally, we made an important step in Africa where we was chosen to provide our end-to-end revenue assurance capabilities to Safaricom, a major mobile network operator in Kenya with nearly 30 million subscribers. Overall, Rest of the World is on track to grow in fiscal 2018 led by stronger trends in Southeast Asia as compared to Latin America. As a reminder, quarterly trends may also fluctuate in Rest of the World primarily due to the project orientation of our customers' engagements. With my regional comments complete, let me quickly update you on some of our recent strategic initiatives.

First, we closed the acquisition of Vubiquity for $224 million in cash earlier in the quarter. As we described last quarter, Vubiquity extends our move into the media and entertainment industry and positions us to support customers such as Turner, for which we were recently selected to be the premium content digital distributor for over-the-top platforms.

Second, we utilized another $80 million in cash to acquire UXP Systems, a leader in user lifecycle management. We strongly believe UXP brings innovative solutions that will reinforce our capabilities around the increasingly important theme of digital identity, user entitlement, personalization and privacy, including consent management. Both of which -- of these deals were designed to enhance our product and service capabilities in the area of digital and media and entertainment.

In parallel, we strengthened our core products leadership by launching our next-generation offering, AmdocsOne, at Mobile World Conference in Barcelona. AmdocsOne enables business-led DevOps development, deployment of cloud native and microservices capabilities, and is designed to accelerate the digital transformation of our customers with modular, functionality rich and with more predictable execution.

To conclude my remarks, I would like to leave you with 3 key messages: First, we continue to believe in our business -- unique business model which supports our reputation for dependable execution and which is also pivotal component in our highly recurring revenue stream. Second, we remain committed to building the new engines that will sustain our market leadership position well beyond this fiscal year. These engines include our investment in Pay TV and NFV as we have discussed with you over the last couple of years and which we are already augmenting with innovative solution in newer areas like media and entertainment and artificial intelligence.

Third, we are raising the midpoint of our full year revenue growth to 3.25% primarily due to our recent acquisitions. Moreover, we are reiterating our expectations for diluted non-GAAP earnings per share growth in the range of 4% to 8% in fiscal 2018, which once achieved, will mark the seventh consecutive year that we have delivered expected total shareholder return, including our dividend yield, in the mid- to high single digits.

With that, I'll turn the call over to Tamar.

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

Thank you, Eli. Second fiscal quarter revenue was within our guidance range of $960 million to $1 billion but slightly below the midpoint on a constant currency basis. After adjusting for the positive impact from foreign currency movements of approximately $5 million relative to the first fiscal quarter of 2018 and contributions from M&A consummated in Q2, we delivered total revenue of $992 million in the second fiscal quarter.

Our second fiscal quarter non-GAAP operating margin was 17.3%, an increase of 10 basis points year-over-year and in line with the higher end of our long-term target range of 16.5% to 17.5%. Below the operating line, non-GAAP net interest and other expense was $200,000 in Q2, primarily reflecting foreign exchange movements. For forward-looking purpose, we continue to expect 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 $0.95 in Q2, $0.01 above the midpoint of our guidance range of $0.91 to $0.97. As we anticipated, our non-GAAP effective tax rate of 19.9% in Q2 was above the high end of our expected annual range of 13% to 17%. Diluted GAAP EPS was $0.70 for the second fiscal quarter, above the midpoint of the guidance range of $0.65 to $0.73.

Free cash flow was $3 million in Q2. This was comprised of cash flow from operations of approximately $114 million, less $111 million in net capital expenditures and other, of which $81 million related to the multiyear development of our new campus in Israel. Adjusting for this capital expenditure, our normalized free cash flow was roughly $84 million in the second fiscal quarter. Additionally, our free cash flow in the second fiscal quarter includes an annual cash bonus payment for the prior fiscal year, consistent with our guidance last quarter.

DSO of 89 days increased by 3 days quarter-over-quarter mostly due to the consolidation of Vubiquity. We remind you that this item may fluctuate from quarter-to-quarter. Total unbilled receivables were increased by $12 million as compared to the first fiscal quarter of 2018. Our total deferred revenue, both short term and long term, increased by $41 million sequentially in Q2. The net movement in unbilled receivables and total deferred revenue reflects the impact of acquisitions completed in the quarter as well as a high level of transformational project activity and resulting timing differences between revenue recognition and the invoicing of customers during the second fiscal quarter.

Our 12-month backlog, which includes anticipated revenue related to contract, estimated revenue for managed services contract, letters of intent, maintenance and estimated ongoing support activities was $3.32 billion at the end of second fiscal quarter, which is up $60 million sequentially from the end of the prior quarter. Backlog for Q2 reflects acquisition activity which was completed during the quarter.

Our cash balance at the end of the second fiscal quarter was approximately $667 million. This balance is after payment for the acquisitions of Vubiquity and UXP Systems, both of which were completed during the quarter. We drew down $120 million on our credit facility during Q2 for short-term funding purposes, and the balance has since been fully repaid. During the second fiscal quarter, we also repurchased $120 million of our ordinary shares. In total, we have, as of March 31, more than $800 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.

Now turning to our outlook. We expect revenue to be within the range of $990 million to $1.030 billion for the third fiscal quarter of 2018. Embedded within this guidance, we anticipate a negligible sequential impact from foreign currency fluctuations as compared to Q2.

For the full fiscal year 2018, we now expect total revenue growth in the range of 2.3% to 4.3% on a reported basis compared with our previously guided annual range of 0 to 4% and revenue growth in the range of 1.3% to 3.3% on a constant currency basis compared with our previously guided annual range of negative 1% to plus 3%. The improved revenue outlook incorporates incremental revenue growth contribution of more than 1% from Vubiquity on both constant currency and reported basis.

Additionally, we continue to expect the positive impact from currency fluctuations of roughly 1% year-over-year for the full fiscal year 2018. Additionally, our fiscal 2018 revenue outlook continues to incorporates an expected drag of about 0.5% point from directory, which we anticipate will continue to decline in the full year.

We continue to expect our non-GAAP operating margins to be within the range of 16.5% to 17.5% in fiscal 2018. We expect our quarterly non-GAAP operating margin to fluctuate at the higher end of this range in fiscal 2018. We expect the third fiscal quarter diluted non-GAAP EPS to be in the range of $1 to $1.06. With respect to Q3, we expect our non-GAAP effective tax rate to be at around the low end of our annual target range of 13% to 17%.

Additionally, our third fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 144 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 third fiscal quarter, as the level of activity will depend on market conditions.

For the full fiscal year, we continue to expect to deliver diluted non-GAAP EPS growth of 4% to 8%. Our full year EPS outlook does factor in expected repurchase activity over the year. We expect the acquisitions of Vubiquity and UXP Systems to be neutral to our diluted non-GAAP earnings per share in fiscal 2018 and accretive thereafter. The impact on diluted GAAP EPS of the acquisition of Vubiquity and UXP Systems is subject to finalization of the purchase price allocation of the anticipated expense related to operating adjustments, restructuring charges and other acquisition-related costs.

To assist you in your modeling, we remain on track to generate free cash flow of roughly $400 million in fiscal 2018. This takes into account incremental capital expenditures in fiscal 2018 of around $100 million associated with the multiyear development of our new campus in Israel, the majority of which has already been deployed in our first 2 fiscal quarters. Adjusting for these capital expenditures, we continue to expect normalized free cash flow of roughly $500 million in fiscal 2018.

As a final point, our cash level exiting Q2 is now closer to the minimum gross amount of approximately $500 million that we have previously said we need in order to respond to business fluctuations and smoothly fund operations. With this in mind, we plan slightly to moderate our pace of quarterly share repurchases in the fiscal second half, while we still expect to retain an approximately 100% of normalized free cash flow to shareholders for the full fiscal year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Ashwin Shirvaikar with Citi.

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

Let me start, Eli, with you had the comment that when there's large M&A, it can have some near-term weakness although the longer term is good. But when I look at the rest of the comments, the prepared remarks that look at the metrics, it will suggest quite the contrary. That you're in actually a very confident position to offset any weakness that you might see. Am I reading that wrong? I mean, it kind of felt like this is a pretty strong quarter in many different ways.

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

So Ashwin, you [are looking at it] accurately. Look, we have a quite solid and positive view on our business all around the world, including North America, including other places. We don't know really the specifics on the M&A, especially the regulatory process. It's a horizontal integration. So the regulators may have a different view, and I don't know that they really opined on it yet and it may take some time. We believe that our relationship with both T-Mobile and Sprint is such that they know our capabilities. And they would need to decide, and depends on the time it will take them to get this deal approved, they will need to decide in what to invest in the meantime. And there are, in our opinion, certain areas that you would like to invest anyway regardless if the merger will go through, will go -- will not go through or maybe somewhere in between, maybe some concessions or whatever. And we will try to focus on those areas that will make a lot of sense for this company because I don't think they can really do nothing for the next, I don't know, year, maybe more than -- maybe [several], maybe more than that. In terms of the long term, let's assume the deal goes through, we believe that this is -- we are talking about them as a full scale integrated carrier because T-Mobile already announced that they are going after the video, the Layer3 acquisition and we know that they're investing in broadband, both companies. So we're talking about relatively sophisticated carriers. They're not just doing it for the sake of savings, I would imagine. So as such, we believe our capabilities would be very relevant. If I'll give you another example of Vodafone and LGI, it's the same thing. Vodafone has been known for a wireless company for many years and then basically follow our direction with the integrated carrier, the multi-play. And as such, they bought ONO in Spain and Kabel Deutschland in Germany and now LGI, and they had the project with Ziggo which we are providing the infrastructure for. So we believe that these M&As -- especially the M&As that are related to multi-play, again, can create some short-term challenges and maybe slowdown. But overall, I think the fact that these companies need a lot of help in integrating companies and take them forward. There are very few companies that can help them, and we believe that we are either the only one or very -- one of the very, very few that can do that. And other than these M&As, we see a lot of activities all around the world in all domains, in the MSOs and cable industry, in the NFV, in aia, in digital and that's before we start really gearing up on the content and media in all these companies. We are very happy with this extension and expansion of the relationship with Turner, just right after the acquisition. It means that people like Turner are not afraid that -- on the contrary, from the new ownership of Vubiquity, and that's before we went into other new areas. So that's kind of a long answer to your question, but the short and the gist of it is yes.

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

Okay. No, that's really useful to get all the details. Really appreciate that. The second question is -- and I don't mean to pick on just one particular press release out of many, but just looking at the KCOM partnership that you signed. Would that be an indication that sort of the nature of the NFV market is beginning to change and is kind of going from large carriers trying this out, to be on pilot phase and maybe smaller entities kind of picking up on the functionality? Is that fair as to how the NFV market is evolving?

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

So here, I need to control my optimism and tell you, but I believe that the answer is yes. I want to be careful because we said that we don't know how to predict the NFV rollout and pace and so forth. But it's in the same quarter we do KCOM, which is some sort of NFV project, and another unnamed but serious European operators are having project with us. And I'm -- I don't mind the fact that it starts small. It always starts small. And at the same time, we did not say it again but I will reiterate it, at the same time, everything that we started before is expanding, whether AT&T, Bell Canada, Comcast and other places. So again, it's hard to predict the size and the pace, but I think that your assessment that we see more people, and not only the big guys and not only the heavy carriers, the fact that people are having more project on NFV is a trend we see. And I hope that, that's the beginning of a trend that will be consistent. But the short of it is, yes, you are right.

Operator

Our next question comes from Tom Roderick with Stifel.

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

Matt Van Vliet on for Tom. I guess following up on the NFV theme. I was wondering if you could give us an update in terms of where you are on the ECOMP program with AT&T specifically and looking at the ONAP overall in the industry, and what may be your opinions are or what the carriers are thinking around standardizing on that side of technology. Or is it still sort of up in the air depending on the different carriers and what they want to do with the virtualization effort?

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

So Matt, it's a very good question. I believe that what we are seeing right now is a maturing of this process. And the way I would describe it is not everyone want to -- not everybody wants to be religiously following ONAP. But everybody understands that this open community is a good source for certain components. And so right now what we see at Amdocs is that we have 2 flavors: people that want to commit more thoroughly, almost religiously, to ONAP. Obviously, AT&T is a good example; Bell Canada, maybe to a large extent, is the case. But you have other people, I would refer to them that are loosely coupled or loosely following ONAP. So it's an ONAP-sponsored type projects, and we are very good with that as well because, A, we have offerings that are not necessarily part of ONAP. We have basically an orchestrator that is [not ONAP] but just a lighter version of it, that fits much smaller carriers and much less complex environment. And we have other components. Obviously, we have services. So right now what we see is that we can cater to the different option. We see it as an advantage. I think the customers see it as an advantage that we don't force them into one direction, and they have the freedom to choose more tightly in implementation of ONAP or more loosely implementation of ONAP. And we are just good with that. And then just the carrier that you just mentioned, actually, most of them are on the more loosely version of ONAP. And that's the trend more or less. And now we are adding services, as we speak, and not only the products which is also a very good component because we believe in product and services. So that's kind of the trend we see, and the use cases are expanding also. Each one of them has their own view of where to start, which we like a lot because we like to try many use cases and then obviously duplicate them as we move forward around the world and within the same customer.

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

And then looking at the Pay TV market, especially in North America where you sort of renewed your interest in investments in trying to build that business back up, and I know you've talked about some good wins at some of the larger carriers. You mentioned DISH again, and then I think in the past you talked about Charter. Just give us an update in terms of where you think that business is going as we see more consolidation around both the video and mobile now and where ultimately you think Amdocs sits in the market to offering a truly converged carrier.

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

So Matt, in terms of the MSO, we are very busy in execution as a matter of fact. We are executing at least 6 to 7 different projects in parallel, all across North America. The DISH B2B just got to a very important milestone so I'm mentioning it, but there are other milestones to follow. We do that in 4, 5 different MSOs. Some of it we announced more officially, some it less officially. But we are really, really active all around North America with MSOs, and it includes some area that are more focused on B2B and the enterprise angle. Some of them are more residential. Some of them are more digital-oriented. Some of them are more network and NFV because the big MSOs are going after NFV as well. And aia happening today. So we have a lot of domains, which is very encouraging to me not only for the short term. It means -- we're talking about really major, healthy provider of service and we've been really a tiny player in this space for many years. So I see it as an opportunity to build growth engines for the company for the many years to come. And that's a trend. We see many type of projects, different depths, sizes move and goes from small to very large. So we've got the entire thing. And on top of that, now we hope that we will have opportunities maybe with Vodafone and LGI because we have a very successful project with them and Ziggo, which is LGI entity in Holland that Vodafone could not buy per se so they created a joint venture. But the entire infrastructure underneath, the shared IT is Amdocs and we mentioned that before. I hope that we can maybe replicate it in some other markets because they bought like 4, 5 assets in different geographical -- geographies. And we see some movement in Latin America, in the MSO space in Asia, and that's before, again, as I said, a full introduction of Vubiquity and the value that we can bring to this company when we talk about the content. So altogether, we are bullish on the MSO.

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

I think just to help you quantify it in terms of the opportunity. We're talking about a business that's already today comprised of several hundred million dollars and can definitely generate double-digit growth over the years. So that's why we're so excited about it. That's why we see the depth of opportunities that Eli mentioned across regions, across different names of customer accounts, obviously enhanced by the fact we're seeing even a bigger shift of many telco players moving into more of an integrated carrier and Pay TV services.

Operator

Our next question comes from Jackson Ader with JPMorgan.

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

First question, if I could just actually follow up on something that you said, Eli, in regards to Matt's question. The lighter version of the NFV orchestration layer, is this -- I just want to clarify. Is that for smaller carriers that want to do projects? Or is it -- can it also be used for larger or, I think you said more serious carriers that are doing small projects?

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

Both. The product itself, it's just structured differently in trying to address different markets. We already have implementation of the life orchestrator in small carriers but we also have the same orchestrator in a very, call it, large carrier with just simpler requirements from the network. So I would say that volume is not something that worries us at all, not to mention it's all virtualized and it's all cloud native. So the hardware and the assets that you need to support this is quite elastic. But both. This is actually a very good product that we came up with and that was in parallel to the development of one app that we just -- we had a lot of design worries about it and we decided that it's something that we can -- that we shouldn't do and I think that now I can tell you that we were right.

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

And I assume it's relatively easy for, as the customer, if they choose to kind of ramp up, that they can go to the more enterprise-grade solution?

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

There is a migration path. But usually, when you -- if you'll get to the details, you'll understand that usually the people that go with this orchestrator would not necessarily move to the full-on app orchestrator in the near term, I mean, like in the next few years. It's just that they're trying to solve slightly different problem and this is a better solution. So I won't go into the details today, but I will be glad to explain it some other time. But usually, when people go into one direction, there is almost -- in almost all cases, we offer a migration path to a big and more deeper product. That's also true with our -- some of our BSS component. But in this specific case, it's probably would not be needed. So if we start with a large carrier with this orchestrator, we can beef it up as much as they need and based on stress test that we checked on many, many use cases that they would like to add in the future that are not in the production yet, but we can simulate it.

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

Okay. All right. That is helpful. And if I can just squeeze one more in for you, Tamar. I think during your prepared remarks, either you or Eli mentioned that North America, you expect this to be the bottom and see some growth going forward. Would that be the case even if we were to exclude the contributions from the recent M&A? Or they kind of both trending up our sequential growth here?

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

Yes, the second will be true also after the M&A and what we meant is now we think about it as a U shape. It's like we are at or close to the flattening and hopefully soon we will start to see the ramp up. Obviously, within the numbers, there are different moving parts but that's the message we wanted to convey.

Operator

(Operator Instructions) And our next question comes from Will Power with Baird.

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

I guess just a couple of questions. You also say a lot of different M&A activity. I guess on the European front where you had good growth, the question there now is, in some respects, Vodafone, Liberty Global. Is there any way to kind of help us frame both kind of near-term risk and longer-term opportunity? And I guess what I'm trying to figure out, I know Vodafone's been an important customer. But how much of Vodafone -- your Vodafone relationship would be impacted by this? And I'm not sure how much, if any, work you were doing at Liberty Global previously, so I'm trying to understand if that could be an upside opportunity. So any way to kind of frame the risk and opportunity of that merger.

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

Will, specifically, this specific merger is something that I would order, okay? If I could order a merger on Amazon, that's what I would do, and the reason is quite simple. We have very strong and very deep relationship with Vodafone. We strived for that and we are earning it. It's not like we were given this by the Queen or something. And we have this project behind us of -- several projects both in ONO, by the way, in Spain and in Holland with Ziggo. And they understand well the strategy, which is support 100% the way we build our CES platforms. And at the same time, we don't have a lot of business to LGI, for historical reasons, not for anything else. They were not in our focus for many years. And so we have some business with them with Comverse that we acquired a couple of years ago, and we have some -- and we support some of the mobility. But in general, at the heart of their business, we're not very strong, and therefore it's something that probably has, in this specific case, probably have less risk and more potential. But I have to tell you, it's way too early to bake into the numbers or whatever because these are your opinion and regulators, I'm sure that Vodafone made their homework and did not just buy that arbitrarily. And they picked up specific markets for a reason. But they have to go through the regulator, same story as you're obviously more familiar with in the U.S. But I believe that, that potentially could be a very interesting thing for us. And I believe it's a very good -- another very good vindication that when we bet -- bet is a strong word but when we went big-time into this multi-carrier, multi-dimension, end level hierarchies around CES 9, 4, 5 years ago and support the multi-play niche really was a very good decision. And these are the types of things that shows it. So I think in general, it's a good thing.

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

Yes, that's very helpful. And then I guess my second question just on the latest acquisition, I guess, UXP. Maybe I missed this, but any color on revenue contribution from that going forward? And I guess as part of that, backlog was up nicely. I guess I'm just curious how much of that was organic versus perhaps some coming from the 2 acquisitions?

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

So UXP is a great offering that is fitting right on spot with our strategy around the expansion of the importance of the identity of the individuals in the world of media consumption. And in terms of the numbers, it's less material so that's why we didn't refer to it. It's relatively a small company at this stage. But we believe that together with the breadth of the customers opportunity that we have that we acquired through Vubiquity now, the opportunity is significant moving forward to create those synergies. But it will take some time, naturally. Those kinds of opportunities usually have sales cycles, so therefore not necessarily will make an impact this fiscal year. In terms of the backlog, it included both the inclusion -- primarily coming from the inclusion for the first time of the Vubiquity backlog as well as the great momentum we've seen, such as the deal we signed with PLDT in APAC and others. So I would say it's both contributed by organic and nonorganic aspects.

Operator

I'm showing no further questions at this time. I would now like to turn the call back to Matthew Smith, Head of Investor Relations, for any further remarks.

Matthew E. Smith - *Amdocs Limited - Secretary*

Thank you very much for joining our call this evening and for your interest in Amdocs. We look forward to hearing from you in the coming days. If you have any more questions, please contact us here at the Investor Relations group. And with that, have a great evening. Thanks.

Operator

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