AMDOCS Q1 2023 CONFERENCE CALL SCRIPT - FINAL
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5:00 pm

Matthew Smith, Head of Investor Relations

Slide 2: Disclaimer
Thank you, operator. Before we begin, I need to call your attention to our disclaimer statement on slide 2 of the presentation. It notes that some of our comments today may be forward-looking statements and are subject to risks and uncertainties, including as described in Amdocs' SEC filings, and that we will discuss certain financial information that is not prepared in accordance with GAAP. 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.

Slide 3: Today's Speakers
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.

Slide 4: Earnings Call Agenda
To support today's earnings call we are providing a presentation which can be found on the Investor Relations section of our website, and, as always, a copy of today's prepared remarks will also be posted immediately following the conclusion of this call.

On today's agenda, Shuky will recap our business and financial achievements for the first quarter fiscal 2023 and will update you on the continued progress we have made executing against our strategic growth framework.

Shuky will finish by commenting on our financial outlook for the full fiscal year 2023, after which Tamar will provide additional details on our first quarter financial performance and forward guidance.

And with that, I'll turn it over to Shuky.

Slide 5: Shuky Sheffer

Shuky Sheffer, Chief Executive Officer

Thanks, Matt, and good afternoon to everyone joining us on the call today.

Slide 6: Strong Start to Fiscal Year 2023

Starting on slide 6, I am pleased to report **strong** first quarter results, sincere thanks for which go to our incredible people around the world who everyday work to support our customers' multi-year journey toward digital modernization, 5G monetization, cloud migration, and network automation.

Slide 7: Positioned to deliver another year of consistent and profitable growth in fiscal 2023

- Q1 revenue was a **record** $1.19 billion, up 9.5% year-over-year in constant currency and **above** the midpoint of guidance
- Twelve-month backlog of $4.09 billion was also a **record-high**, up approximately 7% from a year ago on continued sales momentum, and
- We delivered non-GAAP diluted earnings per share of $1.45 which was **above** the guidance range, primarily due to better profitability on a higher revenue base and a lower-than-expected non-GAAP effective tax rate

Overall, our financial year is off to a strong start, positioning Amdocs to deliver **consistent** and **profitable** growth in fiscal 2023 within a global macroeconomic backdrop that remains **challenging** and **uncertain**.

Slide 8: FY2023 Operational Highlights

To provide context to our financial performance, let me review our quarterly operating achievements, as shown on slide 8.

To begin, we saw **continued** sales momentum and further **cultivated** strong value-driven partnerships with new and existing customers during Q1.

Notably, we deepened our long-standing relationships with customers like:

- **AT&T**, **T-Mobile**, **Verizon**, **Comcast**, **Dish** and **Claro Brazil** in the Americas
- **Vodafone** and **Three Group** in Europe,
- **Globe** in the **Philippines**, and
- a **Tier 1** operator in **Malaysia**

Additionally, we further **diversified** Amdocs' customer base by winning several new logos, including Colt Technology Services in the UK and **Telefónica Móviles El Salvador** in Latin America where Amdocs' online charging system will replace the existing vendor.

Amdocs **Vubiquity** has also continued to execute well on its strategy of **servicing** leading studios and Direct to Consumer platforms, winning several new projects and extensions over the past year including **Disney**, **Warner Brothers, Discovery, MGM,** and **Paramount.**

Turning to **<u>execution</u>**, Q1 was another **great** quarter which included **major** project milestone deliveries at **AT&T, T-Mobile, Verizon, Bell Canada, XL,** and many others.

- At **CLARO Brazil** we expanded our Policy platforms to allow for new use cases such as Voice over LTE and 5G standalone, in addition to which I am happy to share that nearly all the Brazilian postpaid customers CLARO acquired from Oi have already been successfully migrated to our monetization platform.

- I believe Amdocs' high rate of successful project execution is a direct outcome of our **highly skilled** workforce, unique global delivery model, methodologies, tools and automation, and our **regional site strategy** which is **constantly refined** as we **optimize** our global talent pool.

- I'd also like to highlight the competency of our managed services business, which this quarter delivered **flawless** execution for customers over the **peak** retail volume periods of Black Friday and the holiday season.

In addition to sales and execution, we maintained a **high level** of **R&D investment** during Q1 and **further extended** our technology and product leadership.

- The **most advanced** version of the Amdocs Customer Experience Suite and service offering will be presented at the **fast-approaching** Mobile World Congress, where we are planning a **significant** presence and meetings with **many** customers and partners. We will also be showcasing innovative solutions and exciting use cases, including those resulting from our collaborations with service providers, enterprises, and partners at our Dallas 5G Experience Lab.

- To **complement** our growth pillars, Amdocs remains **committed** to disciplined M&A as and when opportunities arise. Amdocs is **constantly** evaluating a broad pipeline of exciting M&A opportunities, and while the previously announced acquisition of MYCOM OSI did not move forward as planned, we continue to look for **suitable** deals that can **accelerate** our growth strategies.

<u>Slide 9: Striving for Excellence in Amdocs' Approach to CSR & ESG</u>

Before moving on, I want to **proudly** recognize our recent achievements in the ESG domain, as shown on slide 9.

- As previously announced, Amdocs was included in the **<u>S&P Dow Jones Sustainability Index</u>** for North America for the **fourth** consecutive year.

- Additionally, we are today pleased to announce that Amdocs has been included as a member of the **2023 Bloomberg Gender-Equality Index,** which we believe is a testament to Amdocs' progress towards achieving the various diversity goals to which we are committed.

Our **commitment** to sustainability and corporate responsibility has also earned several other recognitions this quarter.

- Amdocs India was recognized as one of the 'Most Preferred Workplaces in IT and Information Technology Enabled Services for 2022 – 23
- We **improved** our environmental disclosure rating at CDP from B to A-, and
- Our **new** state-of-the-art campus in Israel has been **<u>LEED Gold</u>** certified for its sustainable design and operations

- **Prestigious** ESG recognitions such as these reflect Amdocs' desire to make a positive impact on the environment and the communities in which we operate, and we'd like to thank our global base of talented and committed employees for their essential part in making achievements like these possible.

<u>Slide 10: Progress in Strategic Domains</u>

Now, let me provide a progress update in respect to our multi-pillar growth strategy, the aim of which is to bring market-leading innovation to help service providers:

- **Accelerate** migration to the cloud
- **Create** seamless digital experiences by **transforming** IT operations
- **Launch** and **monetize** new 5G services, and
- **Deliver** dynamic connected experiences with **real-time**, automated networks

Starting on slide 10**, we see a growing number of service providers** embarking on multi-year cloud migration journeys that Amdocs is supporting with our end-to-end suite of cloud platforms and services.

- I am happy to report that **T-Mobile** selected Amdocs' cloud-hosted Intelligent Networking Suite, a next generation platform to enable provisioning of advanced 5G services, and
- **Vodafone Ireland** recently chose Amdocs to modernize and **<u>migrate</u>** its Amdocs data and application workloads from on-premises to the cloud to enable greater flexibility and capacity, an improved customer experience and rapid adoption of the latest 5G innovations.
- Additionally, a **leading Tier 1 operator** in Southeast Asia has selected Amdocs to smartly migrate its existing Amdocs' BSS suite to a modern cloud infrastructure at **two** large regional affiliates, thereby enabling improved security and operability while defining the long-term journey towards a full cloud native environment.

Moving to **Digital Transformation on slide 11**, more service providers are recognizing the **power** of data to drive **personalized** customer experiences.

- Amdocs is working with **Comcast** on several new projects, including **upgrading** to the new Amdocs Data Hub for Mobile and B2B on the cloud.

- Under a multi-year managed services engagement, **Three UK** selected Amdocs to migrate to a modern, cloud-based data architecture to serve its customers **timely** recommendations **based** on data-driven decision making.

- Finally, Amdocs is providing **AI-driven data insights** to **Globe Telecom**, a leading operator in the Philippines with nearly 88 million mobile subscribers. Implemented on the public cloud, and delivered under a multi-year managed services agreement, the service will empower Globe to drive business growth, time-to-market agility, and operational efficiencies.

Turning to slide 12 and **5G monetization**, fixed wireless access is **rapidly** emerging as one of 5G's **first** meaningful success stories and Amdocs is already playing an **important** part.

- For instance, a leading Tier 1 operator in North America recently selected Amdocs' Home Operating System which utilizes **AI technology** to **simplify** internet and device management, **automate** customer support and **introduce** enhanced security features for fixed wireless broadband customers.

More broadly, Amdocs is helping service providers to **modernize** and **build agility** in the 5G era by enabling the rapid launch and monetization of new 5G products.

- Amdocs was recently commissioned by **CTM**, a leading telecom operator in Macau, to modify its online charging and billing infrastructure to support 5G standards

- We recently **extended** our managed services relationship with **Vodafone Romania**, which selected Amdocs to modernize its revenue management systems with a modular platform, enabling it to **launch** and **monetize** new products and services at speed.

Additionally:

- **Globe Telecom** recently selected Amdocs' **next generation** charging platform to enable the monetization of **new standalone 5G** services to consumers and businesses while **reducing** operating costs, and

- **KT Corporation** in South Korea signed a 3-year extension for ongoing support services and fast-track development for Amdocs's Turbo charging and Catalog platforms, which extends Amdocs and KT's cooperation until 2025

Turning to **network automation** on slide 13, global service providers are considering investments in cloud-native, fully digitalized processes to better manage massive scale and complexity across service ordering, activation, and provisioning for consumers and enterprise customers.

- Amdocs recently completed an operational support system modernization project for a **leading Australian operator, providing** it with **fully cloud-native** service design and **orchestration** capabilities running on **public cloud infrastructure** to enable **increased** performance, business **agility** and **cost-savings.**

- Along similar lines, in the UK, **Colt Technology Services** has signed a Letter of Agreement for Amdocs to deliver the Amdocs Resource Manager. The solution will be a **cornerstone** in Colt's **continuous modernization** journey, focused on delivering **digital infrastructure services** which **empower** its customers and employees around the world.

- We are also bringing value in respect to network deployment and optimization:

    - Amdocs is providing System Integration services for vRAN in **Verizon** to drive mass scale of automation and deployment efficiency as 5G rolls out nationwide.

    - Additionally, **Telefonica Germany** has chosen Amdocs' cloud-native network optimization suite, enabling the operator to **maximize** network performance and accessibility and to benefit from greater flexibility, scalability, and automation.

Rounding out my strategic review, let me quickly comment on an **interesting** project we recently implemented for **Bank Hapoalim**.

- As one of Israel's largest financial services institutions, Bank Hapoalim is using Amdocs' leading Catalog Management software to **rapidly** create and deploy customer-centric offers, products, and services, such as **digital lending,** through vastly improved time-to-market agility.

Slide 14: Looking Ahead: Reiterating FY2023 Revenue Growth Outlook of 6%-10% constant currency

- Now, moving to our fiscal year 2023 outlook, as presented on slides 14 and 15.

- To begin, let me remind you that Amdocs and our global customers are **not immune** to economic cycles, and we are continuing to **closely** monitor the current period of global macro uncertainty.

- Amdocs is **well-situated** at the heart of a multi-year 5G, network automation, digital and cloud-driven investment cycle with:

    - **Market leading** software and services, and
    - A **strong** reputation for successfully delivering mission critical systems transformation.

- From our **vantage point** as a **trusted** partner and **key technology enabler**, we continue to see an **attractive** pipeline of opportunity and **healthy** levels of customer **engagement** as we **collaborate** in respect to their **next-generation** software application and services requirements.

- In the current environment, Amdocs is also very well placed to help service providers improve customer experience, **accelerate** cost reduction, and **increase** efficiency, as demonstrated by the many customer activities highlighted today.

- We are **confident** in our unique business model which is **more resilient** due to the highly recurring revenue streams and strong business visibility resulting from our support of mission critical systems under multi-year engagements.

Slide 15: Looking Ahead: Raising FY2023 Non-GAAP EPS Growth Outlook

Wrapping everything together on slide 15:

- We are **reiterating** our guidance for full year revenue growth of between 6% to 10% on a constant currency basis in fiscal 2023, with **all three** operating regions contributing positively over the full year.

- On the bottom line, we are **raising** the midpoint of our outlook for non-GAAP diluted earnings per share growth by 100 basis points to a new range of roughly 9% to 13% in fiscal 2023.

    - This outlook reflects our **strong Q1** financial performance and our **commitment** to further **improve** profitability by **accelerating** automation, **driving** efficiency, and **tightly** managing costs.

    - Additionally, we are **on-track** to achieve our free cash flow guidance of approximately $700 million in fiscal 2023, the majority of which we plan to return shareholders.

With that, let me turn the call over to Tamar for her remarks.

<u>Slide 16: Tamar Rapaport-Dagim</u>
Tamar Rapaport-Dagim, Chief Financial Officer & Chief Operating Officer

Thank you, Shuky, and hello everyone. Thank you for joining us.

<u>Slide 17: Q1 FY2023 Financial Highlights</u>

Turning to our financial highlights on slide 17, I am happy to report solid first quarter financial results, kicking-off a strong start to fiscal year 2023.

Record Q1 revenue of approximately $1.186 billion, at the higher end of our guidance range, was up 9.5% year-over-year in constant currency.

On a reported basis, revenue increased 7.3% and was **<u>above</u>** the midpoint of guidance **<u>even</u>** if we **exclude** the favorable foreign currency movements of roughly $9 million compared to our guidance assumptions.

On a regional basis, North America delivered another **record** quarter, and Europe **accelerated** as we continued to execute on behalf of our customers. Rest of World declined during the first quarter, reflecting normal fluctuations in customer activity, but is on-track for full year growth as new projects awards ramp up. Altogether, we expect **all three** operating regions to grow on a constant currency basis for the full year fiscal 2023, as we anticipated at the beginning of year.

Moving down the income statement, our non-GAAP operating margin was 17.7% in Q1, up 20 basis points from a year ago and up 10 basis points sequentially as we began to leverage the benefits of efficiency improvements, automation and other sophisticated tools while maintaining a high level of R&D investment.

On the bottom-line, non-GAAP diluted EPS of $1.45 was above our guidance range, primarily due to improved profitability on a higher revenue base, and from a lower than anticipated non-GAAP effective tax rate of 13.7% resulting from internal structural changes in certain jurisdictions in which we operate.

Diluted GAAP EPS was $1.07 for the first fiscal quarter, which was toward the high end of the guidance range of $1.00 to $1.08. This was primarily due to a lower GAAP effective tax rate than anticipated in quarterly guidance, partially offset by restructuring charges of $25 million related to the alignment of our workforce around our global site strategy, as well as the optimization of our hybrid work model.

<u>Slide 18: Leading Indicators and Business Resiliency: 12-Month Backlog</u>

Moving to slide 18, 12-month backlog was a record-high $4.09 billion, up 6.8% from a year ago and consistent with our reported growth at the mid-point of our revenue guidance range. On a sequential basis, our 12-month backlog was up by $120 million reflecting continued sales momentum.

Our twelve-month backlog has traditionally served as a **good leading indicator** of our business, having consistently averaged around 80% of forward-looking 12-month revenue over the years.

Slide 19: Leading Indicators and Business Resiliency: Managed Services

Turning to slide 19, first quarter managed services revenue of $700 million was up 6.1% from a year ago and accounted for about 59% of total.

In addition to the **expanded** managed services deals Shuky already mentioned at **Three UK**, **Vodafone Romania,** and **Globe Telecom** this quarter, I am happy to report that **Dish** and Amdocs signed a new managed services agreement, which will offer an improved billing experience for **Dish** commercial TV customers.

To remind you, our managed services engagements underpin the **resiliency** of our business with **recurring** revenue streams, **near 100% renewal rates** and **expanded** activities under multi-year engagements and may sometimes include modernization projects which **deepen** our relationships even further.

Slide 20: Balance Sheet & Cash Flow

Now, turning to the balance sheet and cash flow highlights on slide 20.

DSOs of 87 days **increased** by 13 days sequentially in Q1, while the net difference of deferred revenue and unbilled receivables declined by $39 million sequentially.

We generated free cash flow of $50 million in Q1. This was comprised of cash flow from operations of approximately $83 million, less $34 million in net capital expenditures. Free cash flow and DSO was impacted by the timing of roughly $100 million in cash collections which were due for payment around the quarter-end holiday period, but which were **subsequently** received in January. We are reiterating our full year free cash flow outlook of roughly $700 million, with free cash flow in the first half of fiscal 2023 tracking **in line with our expectations** taking into consideration the normal seasonal timing of annual bonus payments in the second quarter.

Overall, we ended Q1 with a **strong** balance sheet and a healthy cash balance of approximately $0.7 billion, including aggregate borrowings of roughly $650 million.

Moreover, we have ample liquidity to support our ongoing business needs while retaining the capacity to fund strategic growth.

Slide 21: Disciplined Capital Allocation

Turning to capital allocation on slide 21, we repurchased $100 million of our shares in the first quarter and paid cash dividends of $48 million.

As I just mentioned, we remain on-track to generate free cash flow of approximately $700 million for the full fiscal year, which equates to a healthy free cash flow yield of about 6.3% relative to Amdocs' current market capitalization.

Our outlook assumes a conversion rate of roughly 100% relative to non-GAAP net income.

Regarding our capital allocations in fiscal year 2023, we expect to return the majority of our free cash flow to shareholders by way of our quarterly share repurchases and dividend payment programs.

Slide 22: Q2 & FY2023 Outlook
Now, turning to our outlook on slide 22.

As Shuky indicated earlier, we are closely monitoring the prevailing level of macro-economic, business, and operational uncertainty, which remains elevated in the current business environment. Thus, the second quarter and full year fiscal 2023 financial guidance reflects what we consider to be the most likely outcomes based on the information we have today, but we cannot predict all possible scenarios.

We are on-track to deliver revenue growth in line with the midpoint of our long-term guidance range of 6% to 10% year-over-year on a constant currency basis in fiscal 2023. Visibility to this outlook is supported by our solid Q1 performance, our record 12-month backlog and the strong pipeline we see ahead.

Our annual outlook includes second fiscal quarter revenue within a range of $1.2 billion to $1.24 billion.

On a reported basis, we expect full year revenue growth within an improved range of 5% to 9% year-over-year, as compared with 4% to 8% year-over-year previously. The new outlook anticipates an unfavorable foreign currency impact of approximately 1% year-over-year as compared with an unfavorable impact of 2% year-over-year previously.

Moving down the income statement, we anticipate quarterly non-GAAP operating margins to **fluctuate** **around** the **midpoint** of our annual target range of 17.5% to 18.1%.

Below the operating line, we anticipate that foreign currency fluctuations and cost of hedging will continue to impact our non-GAAP net interest and other expense line in the range of a few million dollars on a quarterly basis.

We expect that our non-GAAP effective tax rate will remain within an unchanged annual target range of 13% to 17% for the full fiscal year 2023.

Bringing everything together, we are raising our outlook for non-GAAP diluted earnings per share growth to a new range of 9% to 13% for the full year fiscal 2023, the midpoint of which represents an improvement of about 100 basis points compared with our prior guidance.

Overall, we are well on-track to deliver double-digit total shareholders returns for the **third** year running in fiscal 2023, including our outlook for non-GAAP earnings per share growth, plus our dividend yield of about 2%.

With that, back to you, Shuky

Slide 23: Q&A

Shuky Sheffer, Chief Executive Officer

Thank you, Tamar.

As you can probably tell from our remarks today, we are very pleased with the strong start we have made to fiscal 2023, putting us in a great position to deliver another year of steady and profitable growth. With that, we are happy to take your questions. Operator?