REFINITIV STREETEVENTS

EDITED TRANSCRIPT

DOX.OQ - Q4 2021 Amdocs Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 02, 2021 / 9:00PM GMT

OVERVIEW:

Co. reported 4Q21 revenue of $1.09b and diluted GAAP EPS of $0.97. Expects FY22 YoverY reported revenue growth to be 3.7-7.7% and YoverY pro forma constant-currency revenue growth to be approx. 6-10%. Expects 1Q22 revenue to be $1.08-1.12b.

CORPORATE PARTICIPANTS

Joshua Sheffer *Amdocs Limited - President, CEO & Director*

Matthew E. Smith *Amdocs Limited - Secretary & Head of IR*

Tamar Rapaport-Dagim *Amdocs Limited - CFO & COO*

CONFERENCE CALL PARTICIPANTS

Ashwin Vassant Shirvaikar *Citigroup Inc., Research Division - MD & Lead Analyst*

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

Maxwell Osnowitz *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

Tal Liani *BofA Securities, Research Division - MD and Head of Technology Supersector*

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Q4 2021 Amdocs Earnings Conference Call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to hand the conference over to your host, Mr. Matthew Smith, Head of Investor Relations for Amdocs. Mr. Smith, you may now begin.

Matthew E. Smith - *Amdocs Limited - Secretary & Head of IR*

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 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 and all 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, the duration and severity of O19 pandemic and its impact on the global economy 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, 2020, filed on December 14, 2020, and our Form 6-K furnished for the first quarter of fiscal '21 on February 16, '21 and for the second quarter of fiscal 2021 on May 24, '21 and for the third quarter of fiscal 2021 and August 16, 2021.

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 Shuky Sheffer, President and Chief Executive Officer of Amdocs Management Limited; and Tamar Rapaport-Dagim, Joint Chief Financial and Operating Officer. To support our earnings call today and in the future, 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 provide an update on our recent strategic process, progress and business performance. And Tamar will review our financial results and outlook for fiscal year 2022. And finally, we invite you to join us for our fiscal 2022 Analyst and Investor business update, which will be a virtual event, webcast live on Friday, November 5 at 9:30 Eastern Time. Please visit the Investor Relations section of our website for more information.

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

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

Thanks, Matt, and good afternoon to everyone joining us on the call today. As Matt mentioned, today, we are going -- today and going forward, we are providing an earnings presentation alongside our remarks. We hope you find this additional information helpful in understanding our company as investment opportunity.

I will start today's call by recapping our business and financial achievements for the full fiscal year 2021. Second, I will add it to you on the main pillar of strategic growth framework and the significant progress we've made with key others from the past quarter. Finally, I will wrap up by summarizing our expectation for another year of accelerated growth in fiscal 2022. After which, Tamar will provide the detail on our financial performance and outlook as well as perspective on the overall environment, 12-month backlog and capital deployment.

As a reminder, our comments today will refer to certain financial metrics on a pro forma basis where applicable to provide you with a sense of the underlying business trends, excluding the financial impact of the open market, which we divested on December 31, 2020.

I'm on Slide 7. Let me begin by saying that I could not be prouder of our achievement in fiscal 2021. This was a pivotal year in which we began to see the results of our strategy to drive accelerated revenue growth and much credit belongs to a global base of talented employees and experienced leadership team. Operating hybrid model amid the global pandemic, our people execute exceptionally well this year to meet the mission-critical requirements of our customers. And it is so while embracing our culture of continuous learning and upskilling.

I'm also proud we constantly found ways to demonstrate our corporate purpose and values, such as by providing support for the communities in which we live and work. As an example, in the Philippines, we recently ran a project to improve digital access and skill in peripheral communities, which included employees volunteering hundreds of hours to develop career planning, technology and upskilling webinar tailor-made to the needs of the thousands of students from more then 25 schools. This is just 1 inspiring story among the many others. I would like to take this opportunity to acknowledge and to take all our people and the commitment -- for the commitment, interactivity and dedication they've shown working together to serve our customers, partners, communities and one another over the last year. And I'm confident we have the talent, experience and values to achieve even more in the future.

Moving to Slide 8. Let me address the operational and financial highlights for fiscal year 2021. I believe Amdocs in an exciting inflation point of accelerated revenue growth and it's worth taking a moment to quickly recap some of the key factors which have led us to this point. First, we accelerated investment in research and development by more than 10% in fiscal year 2021 to further position us as the market leader with the best technology and most relevant offering to support our customer investments in industry mega trends, including digital modernization, journey to the cloud and 5G. Second, we divested a noncore asset, OpenMarket and execute on strategic acquisition of Openet in August 2020 and Sourced Group in March 2021 in further -- to further accelerate our technology capabilities and services particularly on 5G and the cloud.

Finally, we start our competitive advantage and established ourselves as the industry-leading transformation partner to build their next-gen platforms, greater (inaudible) reach include multiple project awards at AT&T, recent modernization wins at Three UK, and the bigger transformation win with nex-gen hybrid cloud operation, we are accelerating for T-Mobile under a multiyear managed service agreement. All in all, we finished the year 2021 in a strong business and financial position, you can see from the highlights on Slide 9.

We delivered excellent pro forma revenue growth of 7% in constant currency in fiscal year 2021, driven by healthy customer activity across North America, Europe and rest of the world. Our sales momentum continued through the fourth quarter which ended up with a record 12-month backlog of $3.7 billion, up 10.5% from a year ago on a pro forma basis. We improved non-GAAP operation margin by 30 basis points and achieved our highest ever number of customer milestone which we're converting to record cash collections and record normalized free cash flow generation of $869 million for the full year.

Moreover, we delivered on our target for double-digit total shareholder return in fiscal 2021, including accelerated pro forma non-GAAP earnings per share growth of nearly 10% plus our dividend yield.

Now turning to Slide 10. Let me update you on the recent progress against our strategic imperatives. As a reminder, we have a simple and clear growth strategy to bring market-leading innovation to support our customers' critical business needs and to provide an amazing experience to consumer and enterprises in, one, Journey to the Cloud to accelerate cloud adoption across all platforms of our customer base; two, 5G monetization to support exciting new 5G use cases; three, digital modernization to enhance customer experience and transform operation; four, network automation to the leader and automate dynamic real-time network-based services.

During Q4, we made significant progress across each of these pillars. In cloud, we are thrilled that AT&T has selected us for next-gen cloud operations of its business support system evolution, BSSe, under the long-term agreement. BSSe is a technology modernization and certification program focused on increasing speed-to-market, improve customer experience and long-term cost efficiency effectiveness. As previously announced, Amdocs is already in the process of modernizing AT&T Consumer Mobility domain. And this newer world expands its activity. Under the new BSSe agreement, Amdocs will provide its lead set of cloud-native products and next-gen cloud operation under a long-term agreement.

Moreover, the project will be run on a Microsoft Azure starting with AT&T's consumer basis units, which includes Mobility, broadband and IoT. Additionally, I am pleased to share that AT&T has extended through 2026, the managed services agreement signed in 2019 for the consumer domain.

Moving to 5G monetization. Amdocs remains at the forefront of the industry working with leading service providers to enable new and exciting 5G experiences. During Q4, we were selected by Orange to provide business support system for Europe’s first 5G Stand Alone experimental cloud network, launched in July in France. In 2021, Amdocs engaged in dozens of new 5G operational and modernization projects, across multiple countries and customers, including AT&T, T-Mobile, to U.K., Verizon, Korea Telecom operation, LG Uplus and others. A small 5G standalone are launched around the globe, we expect a growing number of service providers receive the benefit of Amdocs expertise for unlocking the monetization potential of 5G by curating new capabilities, unique business model and game-changing opportunities.

Turning to digital modernization. We continue to see strong business momentum with several new wins this quarter. We expanded our relationship with VM to ramp up new digital services for its consumers and customers in Uzbekistan and Kazakhstan under a 7-year agreement. We expanded our strategic collaboration with Globe Telecom in the Philippines to provide the Amdocs catalog and Commerce Suite to improve digital experience for its mobile and fixed line customers.

Finally, this quarter, we continue to build the growth momentum of our network automation offering by successfully providing an end-to-end service orchestration solution for SES, the world's leading global satellite operator that enable SES to support customer with service innovation and delivery agility for its satellite-based hybrid and open cloud network. In the further expansion of the industry-leading collaboration between the 2 companies, Amdocs has also been engaged by SES to provide the network service assurance solution. We have extended our strategic partnership with Globe Telecom to include Amdocs service and network automation suite to power Globe's cloud and digital to network automation journeys quickly and easily.

With that backdrop, let me turn to Slide 11 and our fiscal year 2022 outlook. We believe we are in the early innings of a multiyear 5G and cloud-driven investment and transformation cycle. We see a rich pipeline of opportunities across the communication industry to enable our customers to create amazing experiences for consumers and enterprises. We are laser focused on converting these opportunities to backlog growth in the coming quarters, leveraging our cutting-edge technology, which supports the future road map of our customers and further extends our competitive lead in the market.

Our execution track record and the highly skilled customer-centric talent base delivering value to our customers around the world. Tying everything together, we expect to deliver accreted revenue growth of roughly 8% assuming the midpoint of our guidance on a pro forma process with constant currency basis in fiscal 2022. Moreover, we are positioned to deliver a double-digit expected total shareholder return for the second year running in fiscal '22, including pro forma non-GAAP diluted earnings per share growth of 10%, assuming the midpoint of our guidance range, and our dividend yield of 2% based on the new quarterly rate of $0.395 per share, which proposed for the shareholder approval at our upcoming annual meeting in January.

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

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Thank you, Shuky, and hello, everyone. Thank you for joining us. As a reminder, my comments today will refer to certain financial metrics on a pro forma basis, which excludes the financial impact of OpenMarket, which we divested on December 31, 2020.

Turning to Slide 13. I would like to echo Shuky's comments that we are very proud of our financial performance for the fourth quarter and fiscal year 2021. Let me start with our fiscal fourth quarter performance. Q4 revenue of $1.09 billion was up 10.2% year-over-year on a pro forma constant currency basis and was led by our best-ever quarter in North America. Revenue was above the midpoint of guidance despite an unfavorable impact from foreign currency fluctuations of $5 million relative to guidance.

Moving down the income statement. Our Q4 non-GAAP operating margin of 17.5% was in line with the high end of our long-term target range and improved by 30 basis points from a year ago as accelerated R&D investments were more than offset by a focus on operational excellence and a divestiture of OpenMarket. On the bottom line, diluted non-GAAP EPS was $1.16 in Q4, which was consistent with the midpoint of our guidance range. As we have said in the past, our non-GAAP effective tax rate may fluctuate throughout the course of the fiscal year. In the fourth fiscal quarter, our non-GAAP effective tax rate was 20.2%, above the high end of our annual target range of 13% to 17%, but consistent with our expectations.

For the full fiscal year 2021, we reported an effective tax rate of 15.4%, which was within our annual target range. Diluted GAAP EPS was $0.97 for the fourth fiscal quarter above the midpoint of the guidance range of $0.91 to $0.99.

Summarizing fiscal year 2021, we delivered accelerated revenue growth of 7% on a pro forma constant currency basis, which was ahead of our original guidance for the year. This outperformance was primarily due to a stronger-than-expected performance in our core business as well as a small contribution from the acquisitions of Sourced, ADK and Clearbridge, which we executed during the year.

On the bottom line, non-GAAP diluted earnings per share growth accelerated to 9.8% on a pro forma basis in fiscal year 2021, driven by the faster pace of revenue growth and improved non-GAAP operating margin and the benefit of our share repurchase activity during the year.

Moving to Slide 14. The strong sales momentum of the last several quarters continued in Q4, resulting in record high 12-month backlog of $3.69 billion, which was up 7.5% from a year ago on a pro forma basis. On a sequential basis, 12 months backlog rose by $100 million as compared to June 30. 12-month backlog has traditionally serves as a good leading indicator of our business, having consistently averaged around 80% of forward-looking 12 months revenue over the years.

Q4 was also a healthy quarter for Managed Services, where revenue grew from a year ago, equating to roughly 59% of total revenue. Our multiyear managed services engagements underpin the resiliency of our business with recurring revenue streams, high renewal rates and expanded activities with existing customers, including into next-gen cloud operations.

For instance, in addition to the AT&T deal that Shuky discussed, this quarter, BT Group has renewed its relationship with Amdocs for a further 3 years to maintain, develop and enhance the BSS platform for BT's EE brand.

Turning to the balance sheet and cash flow. As you can see on Slide 15, we are pleased to say that our great progress in achieving product milestones for our customers is translating to invoicing and strong cash collections. This is reflected in DSO 73 days, which decreased by 2 days year-over-year and decreased by 6 days sequentially in Q4. Moreover, our deferred revenue remained in a healthy position for the fourth fiscal quarter. Altogether, we generated normalized free cash flow of $172 million in the fourth fiscal quarter. For the full fiscal year, normalized free cash flow of $869 million was significantly better than our prior guidance and equated to a conversion ratio relative to our non-GAAP net income of 140%, well above our long-term average of roughly 100%.

Overall, we ended the year with a strong cash balance of approximately $966 million, including aggregate borrowings of roughly $650 million. Our balance sheet is strong and with ample liquidity, we expect to be in a good position to continue to support our ongoing business needs while retaining the capacity to fund our future strategic growth investments as and when the right opportunities arise. Additionally, we remain committed to maintaining our investment-grade credit rating.

Turning to capital allocation on Slide 16. For the fiscal 2021, we returned $857 million to shareholders, including $177 million in annual cash dividend payments. For the year, we deployed $680 million towards share repurchases, which included the net profits received from the divestiture of OpenMarket, and we also accelerated our buyback program in Q4 repurchasing $140 million during the quarter.

Looking ahead to fiscal 2022, we expect normalized free cash flow of approximately $650 million. Our outlook roughly assumes a 100% conversion rate of non-GAAP net income and excludes anticipated CapEx of about $131 million as we complete the development of our new Israel campus.

Regarding our capital allocation in fiscal year 2022, we expect to return the majority of our normalized free cash flow to shareholders. This includes dividends, for which we are pleased to announce a proposed increase of roughly 10% in our quarterly dividend to a new rate of $0.395 per share, subject to shareholder approval at the annual meeting in January.

Now turning to the outlook on Slide 17. The presenting level of macroeconomic business and operational uncertainty surrounding the magnitude of the duration of COVID-19 pandemic, including its novel strains remains elevated. The midpoint of our first quarter and full year fiscal 2022 revenue 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.

With that said, we believe the business acceleration of last year will continue in fiscal 2022 with revenue expected to grow by approximately 6% to 10% year-over-year on a pro forma constant currency basis. We also expect to generate growth across all 3 of our key geographical regions. Our annual outlook includes first fiscal quarter revenue within the range of $1.08 billion to $1.12 billion. On a reported basis, we expect full year revenue growth in the range of 3.7% to 7.7% year-over-year, which anticipates an unfavorable foreign currency impact of approximately 30 basis points year-over-year.

Moving down the income statement. We anticipate quarterly non-GAAP operating margins to track roughly in line with the midpoint of a new annual target range of 17.2% to 17.8%. This outlook continues to assume an accelerated pace of R&D investment to support our customers, in line with our strategy balanced with our constant focus on achieving operational excellence.

Below the operating line, we anticipate that foreign currency fluctuations will continue to impact our non-GAAP net interest and other expense 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 2022 but above the high end of that range for Q1.

Bringing everything together, we expect non-GAAP diluted earnings per share growth in the range of 8% to 12% on a pro forma basis for the full year of fiscal 2022. On a reported basis, we expect to deliver full year diluted GAAP -- full year diluted non-GAAP EPS growth of 6.3% to 10.3% year-over-year.

Overall, we expect to deliver double-digit total shareholders' returns for the second year running in fiscal 2022, including the 10% midpoint of our pro forma non-GAAP earnings per share growth guidance, plus a dividend yield of roughly 2% based on the newly proposed quarterly cash payment of $0.395 per share.

With that, back to you, Shuky.

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

Thank you, Tamar.

Before we go to Q&A, let me take a moment to say I'm excited to invite you all to join us for the virtual business update this coming Friday, which we are hosting to provide investors and analysts with an appreciation of the strong foundation we have built over the past several years and have positioned Amdocs for continued success in an increasingly digital world. We look forward to discussing Amdocs strategy and our unique competitive advantage that will support accelerated growth and the continued success into the future.

With that, we are happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Jackson Ader of JPMorgan.

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

First one, any additional comments you can provide on the either adjusted or reported cash flow? And just given the kind of the strength in revenue combined with maybe cash flow performance double-clicking on that would be great?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Sure. So as we've always said, the business model we have is robust in its ability to generate first of all, healthy earnings, but then convert over time, earnings to cash roughly on par. And starting this year, we did expect that to be a stronger year. And if you recall, we started the year and then we raised the numbers twice. It started with a very strong first quarter where part of the story there was the signing of a multiyear strategic deal with T-Mobile that also contributed to monetization and some upfront payments as part of this signed deal.

And then during the year, we continue to see a record high from quarter-to-quarter and definitely for the year as whole in terms of the number of deployments we achieved our customers that translates into achieving many invoicing milestones and, in turn, of course, turning that invoices into collection in the bank. So I'm pleased to say that it's a result of a lot of focus that we have over many years on the cycle we call deal to cash. That has to do with many things we do as a company and very strong execution and deliverables to our customers.

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

Okay. Great. And then maybe, Shuky, as we think about the very largest customers that you have, right, the kind of -- very large carriers in telecom. How should we expect maybe growth from those customers and specifically North America should look like in fiscal '22 maybe relative to either the rest of the world or some of your customers that are just a little bit smaller?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

As I think we said in the prepared remarks, we see growth in all geographies. Obviously, the size of the customer of North America, if T-Mobile and AT&T, these guys are, as we mentioned before, are in the mid or the beginning of investment cycle, definitely, the numbers here can be more, but

I think some of the deals that we've signed across the world and into U.K., in other large operators in Europe in Vodafone and others are not that far, but we are pleased to see the megatrends that we discussed, which are the 5G, Journey to the Cloud, utilization is pretty similar across the world, and you see very great momentum, which is reflected also another very strong backlog quarter, increase in backlog. So I think definitely, because of the size of the operator in North America, which are probably the biggest in the world. The projects are bigger, but we see a lot of big projects around the world.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Maybe just to add color, if you look on the $100 million sequential improvement in 12 months backlog in Q4, it's pretty much in line with the split of revenue we see within -- between North America and internationally. So it's broad-based. It's healthy. Naturally, as Shuky said, very happy to see that all over the place and not concentrated just in 1 region.

Operator

Your next question comes from the line of Tom Roderick of Stifel.

Maxwell Osnowitz - *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

It's Max Osnowitz on for Tom. I just want to start, I guess, by getting back on the cash flows, thinking about how strong they have been in going forward the forecast for next year. Can you just talk a little bit more about the kind of steep decline given the guide for full year '22?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Could you just repeat the last sentence?

Maxwell Osnowitz - *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

The decline going for the projected ...

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

So unfortunately, I have not found yet the patent to convert over time, more cash than earnings. And seriously, I think that over time, you should expect us to convert at par, meaning 100%. Now we had a very strong year and very happy about that with 140% conversion rate.

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

We always said it's not sustainable.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Yes, but we always say it's not sustainable to be in that performance. I think that 100% conversion rate we are projecting for 2022, while being at the highest growth rate, I can remember for over a decade while continuing to protect margins, while continuing to deliver double-digit earnings per share growth. I think this is a very balanced package in terms of how we: a, continue to invest in growth, I mentioned continuing to investment R&D, et cetera, while obviously protecting the margins and continuing to see that growth acceleration.

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

But I agree with Tamar, we did not find yet the magic to convert more cash than earnings. And this really was an exceptional year from this prospect.

Maxwell Osnowitz - *Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst*

Got it. And then speaking of growth, Shuky, talking about the strategic domain, those growth pillars of 5G and digital and cloud, et cetera. Do you see like in the current environment that enough carriers are embracing those to generate that 3.7% to 7.7% revenue growth for next year? Or do more of these carriers need to embrace the movement and get on board to kind of reach that goal?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

I think that what's nice about these megatrends that I don't think there is some type of discretion. Every customer of Amdocs in the world in order to be successful in this new era, has to transition to 5G, has to be digital and have to do -- to go to the cloud. So this is -- and by the way, we see that all the budgets of our customers are actually funneled to these domains because they are key critical factors to their success in the future. And by the way, this is broadly. This is not just -- it's true that the U.S. is a little bit ahead for 5G deployment comparing Europe is following and APAC is following, is a very close follower, but we see this aggressive across the world.

And second, this is not like a one-off year. These megatrends are used to say for several years because it will take a lot of time until the industry will be able to convert to 5G, completed digitalization journey and definitely, the move to the cloud, which is really, really at the beginning.

Operator

(Operator Instructions)

Your next question comes from Tal Liani of BofA.

Tal Liani - *BofA Securities, Research Division - MD and Head of Technology Supersector*

The growth acceleration we're seeing this year, we're seeing growth acceleration across companies who sell to carriers and cloud and I want to understand the longevity, the sustainability of the growth acceleration, meaning can you discuss whether this is -- these are just projects that maybe were on hold during COVID or anything that was delayed and now being deployed versus projects who are starting on long-term cyclings you have done and translate into long-term growth? Can you give us a little bit color on the growth acceleration?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

Definitely, these megatrends are here to stay for several years. And by the way, all these projects are like a multiyear projects. I mean to transform companies in the size of T-Mobile, AT&T, Vodafone, it takes years. And it will take a lot of time until all the new 5G use cases and opportunities are going to -- have been developed as we speak. So the short answer to your question, these megatrends are here to stay for several years. And these projects are not one-year project. They're a long-term project that will take some time to deploy them. It doesn't matter if it's a medium-sized telco or very big, this project takes time. And as I mentioned before, we are just starting. So it's not that -- so the investment cycle is really in the early -- we said early innings today.

Tal Liani - *BofA Securities, Research Division - MD and Head of Technology Supersector*

Got it. And last quarter, Shuky, in your remarks, you spoke a lot about cloud. And in the meantime, since then, we've seen cloud companies announcing on big spending plans. Can you talk about the cloud and your participation there and whether the investment in the network that we are seeing and we've seen other telecom names, telecom equipment names talking about big cloud investments? So how do you participate in these big projects that we're seeing?

Joshua Sheffer - *Amdocs Limited - President, CEO & Director*

We are participating in this, what we call cloud journey in different aspects. The first one is all this transformational deal that we do, building a new consumer stack for AT&T, it's being done on our cloud-native CES21, which is the latest and greatest platform for monetization. And as I mentioned, this was built from the ground up as a cloud native and all our deployments are on the cloud. Some of them are (inaudible) some of them are on Azure.

So we are working with all the cloud partners. So this is the first angle to the cloud. Secondly, we are involved in several customers in activity of taking application. It could be Amdocs legacy application or non-Amdocs application and lift and shift into the cloud. So this is another activity that we do, which is growing all the time. So in this case, it's not full modernization, but taking the application, [repass] from them and moving and leave them to the cloud. The sales activity on the cloud is cloud ops.

As we announced this quarter, if you think what happened in AT&T, initially, we won and we awarded to do the consumer domain on our next-generation suite for 5G. And this quarter, we announced which is the third pillar of doing CloudOps, doing old operation in a cloud environment. So I think that we have a lot of -- we are the market leader, by the way, in all these 3 domains. And I think that the journey to the cloud represents for us a very nice tailwind.

Operator

Your next question comes from Ashwin Shirvaikar of Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc., Research Division - MD & Lead Analyst*

My question is with regards to the supply of talent, obviously, many IT services companies have been talking about an even broader than IT services companies. Many companies have been talking about particularly high-end technology talent being short supply. Any commentary from you guys, is this affecting you guys or you somehow protected because you have a wider net to cast? Any thoughts there would be great.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

Thanks, Ashwin. So yes, naturally, as a company that see the people in the center of what we do, we are very focused on our talent. And we are looking at it from several directions. First of all, as the company itself went in the last couple of years into a major replatforming of our products into cloud native devops, et cetera, we definitely invested in risk scaling and continuously do so, risk scaling and creating new opportunities for our employees. And that comes on top of the fact that our unique business model where we both develop products, deploy them and then operate them in the IT environment of our customers, provide multiple career opportunities for people that are very unique relative to companies that just certain niches or certain kind of capabilities. Put on top of that, of course, the global scale, the ability to make an impact on an industry that sits at the heart of connectivity of society that gets into the sense of purpose that is so important to our employees.

I would say that in addition to that, we are continuing to think in the sense that how do we attract new employees because that's obviously important, how do we make our existing employees, rechoose every day to come to work whether virtually or physically into the office and see the opportunity to make an impact and to enjoy their career development in Amdocs. And we do a lot of things around that. On top of that, of course, there are the regular things how to onboard effectively employees all over the world, have to do it. And by the way, we've won awards on that how we effectively onboard employees into the company, how do we create learning platforms, et cetera, et cetera.

So yes, it's a topic that we are very well engaged in -- To remind you, we have a global delivery model. We have access to talent markets all over the world, and we are leveraging that capability as well, of course. And on top of all of that, being a technology company we're continuously focusing on how to create automation and tools to move into automated flows or what's called no-touch activities, whatever does not have to be done by people and focus the people's efforts on the new innovation and the new capabilities that are being built.

Ashwin Vassant Shirvaikar - *Citigroup Inc., Research Division - MD & Lead Analyst*

Got it. And then the other question is as you talk about sort of early innings of multiyear 5G and cloud-based transformation cycle. The way I think of that is it comes through as mainly project-driven work, is that going to kind of affect your project-driven versus managed services mix? And does that have an impact on the overall financial model then?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO & COO*

So we are very happy to see this cycle where many customers are adopting our new products on new technology and deploying it through the form of what you call the project. But at the same time, we just announced today an example of a customer that selected us -- AT&T selected us for this deployment cycle and building all their next-gen stack for consumer mobility on the Amdocs product and at the same time now selecting us to run the cloud ops of these applications in their environment. So we are continuously seeing that pull-through, Ashwin, that we like so much of entering a new cycle of investments with project and then moving fast and adding to it the recurring revenue stream that comes with the Managed Services.

I believe that we will continue to see that model of what we are proud about, what you call it the accountability model of Amdocs, so we can do both. We can bring the best products, cutting-edge technology having our customers building their future on Amdocs, and at the same time, enable them to rely on Amdocs to run it for them in case they would like, of course, to choose us for Managed Services. And we continue to see also a very high close to 100% renewal rate on the existing managed services engagement. So it's hard to predict exactly the ratio to our specific financial question. What's the ratio between project revenue and managed services engagement, how to predict as we see both growing and that's great.

Operator

(Operator Instructions)

I am showing no further questions at this time. I would now like to turn the conference back to Mr. Smith. You may proceed.

Matthew E. Smith - *Amdocs Limited - Secretary & Head of IR*

Thank you very much for joining us this evening and for your interest in Amdocs. We look forward to hearing from you in the coming days, and of course, seeing you at our analyst event on Friday. With that, have a great evening, and we'll conclude the call.

Operator

This concludes today's conference call. Thank you for your participation, and have a wonderful day. You may now disconnect.
