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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the 2023 Amdocs Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Matt Smith, Head of Investor Relations for Amdocs. Please go ahead.

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

Thank you, operator. Before we begin, I need to call your attention to our disclaimer statement on Slide 2 of the presentation. We note 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.

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.

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 second quarter of fiscal 2023 and will also 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 second quarter financial performance and forward guidance.

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. I'm pleased with our second fiscal quarter performance as we progress on our strategy to deliver the next-generation cloud-based software and services as global communication service providers needs to unlock the potential of 5G and broadband networks, data-driven intelligence and improve customer experience for the consumer and B2B. This quarter, we had deepened our relationship and expanded our footprint with existing customers, added 4 new customer logos, sustained a high rate of successful project deployment, delivered a record quarter in Managed Services, expand our strategic partnership with Microsoft, signed an M&A agreement to enhance the execution of our network strategy and launched CES23, our most advanced Customer Experience Suite yet, bringing fresh innovation across BSS, OSS and network while sharpening our focus on the B2B domain.

This achievement will not be possible without the amazing passion, agility and collaborative spirit of all our talented employees, people to whom I would like to say thanks for their consistent quarterly execution while also demonstrating the strategic vision necessary to drive Amdocs forward over the long term.

Reviewing the financial highlights on Slide 7. Record revenue of $1.22 billion was above the midpoint of our guidance and up 8.2% year-over-year in constant currency. On the bottom line, non-GAAP diluted earnings per share of $1.47 was consistent with the midpoint of guidance as we delivered ongoing margin improvement and strong free cash flow generation in the quarter. 12-month backlog was a record high of $4.11 billion, up roughly 7% from a year ago in constant currency.

Turning to our operational highlights on Slide 8. We delivered continued sales momentum in Q2, which included a significant new digital modernization award at T-Mobile USA. Deal activity was strong in Europe, which, as we have said before, is a region of significant growth potential for Amdocs. Our multiyear investment to diversify and increase market share in Europe are bearing fruit and is reflected by record revenue in the world of several significant deals, including digital modernization programs at 2 new logos this quarter.

Similarly, Rest of the World continues to present attractive opportunities for Amdocs, such as the new cloud engagement announced today with PLDT in the Philippines.

Managed Services also had a great second quarter, which includes record revenue and newly expanded agreements with Globe, also in the Philippines, and a major operator in Western Europe.

In Media, Amdocs mobility demonstrated continued growth as the traffic provider to the world's leading streaming services, signing a new agreement which expanded its decade-long relationship with Virgin Media UK. Additionally, Hispasat, a Spanish satellite communication operator and new logo, chose Vubiquity to bring digital content with customer in Argentina and both in Latin America, while Juice, which is part of Vubiquity, was selected as the preferred fulfillment vendor under Amazon Prime Video for premium vendor program.

From an execution perspective, we maintained a high rate of successful project deployment in Q2, achieving major milestone in many of the world's largest service providers. For instance, Amdocs played an important role in the recent launch of AT&T's fixed wireless access offering, Internet Air, in selected markets which is running on the new cloud-native digital platform we are delivering under the B2C technology modernization and simplification program with this customer.

This quarter, we also took several strategic steps to strengthen our market-leading position and long-term growth profile. First, we expanded our strategic partnership with Microsoft to bring a new AI-powered customer engagement platform, which combine Amdocs' market-leading Commerce & Care Suite with Microsoft cloud portfolio to create what we believe is the most compelling telco-specific offering in the market. Amdocs and Microsoft already began to execute a joint go-to-market strategy to bring this platform to service providers worldwide, and we can already report encouraging sign of customer interest and expanding pipeline opportunity in both consumer and B2B.

Second, we sharpened our focus on the growth potential of B2B with the launch of CES23, which includes enhanced capabilities specifically developed to help service providers meet an increasingly complex demand of our B2B customers.

Third, we are today delighted to announce our intention to acquire the service assurance business of TEOCO for approximately $90 million in cash. Amdocs and TEOCO already partner on some opportunities, and we expect this move to enhance the execution of our network automation strategy by providing service provider with a unique end-to-end service orchestration offering, ensuring the quality of service and enabling the delivery of next-generation customer experience.

Now let me [overview] the strategic progress -- our strategic progress as we continue to deliver a market-leading innovation designed to help service providers. Accelerated the journey to the cloud, create seamless digital experience by transforming IT operation for consumer and B2B, launch and monetize new 5G services and deliver dynamic connected experiences with real-time automated networks.

Starting with cloud on Slide 9. Service providers are still in the early stage of maximizing the value of potential of the cloud. And for the most, it will be a gradual journey over several years before they fully realize expected benefits such as improved service agility, scalability, innovation, security and customer experience. I'm happy to share that more and more Amdocs new deals are cloud-related, and the growing number of operators see Amdocs as the primary technology partner to support their core system cloud strategies.

The value of Amdocs (inaudible) product suite is already proven in the cloud, and we have the capability to support the optionality of hybrid environment for customers. Amdocs also removes complexity for operators by delivering end-to-end fully accountable migration paths, which begin with strategic planning and stretches to cloud-native product deployment and cloud managed services while leveraging our intimate partnership with Azure, AWS and Google Cloud.

I'm delighted to report that PLDT in the Philippines and its wireless subsidiary, Smart, are developing a multi-strategic partnership with Amdocs to accelerate their cloud journey. By bringing our comprehensive suite of cloud services, Amdocs will leverage cloud infrastructure to efficiently migrate business critical system and application to the cloud while also integrating cloud-based application with the rest of PLDT and Smart hybrid (inaudible).

Among the recent cloud wins, Amdocs was selected by a Tier 1 Central European operator to support and enable its journey to the cloud for critical BSS application for [operating] in multiple countries, and we expanded our managed services relationship with a major Western European provider to migrate and operate non-Amdocs application on the cloud. We believe such deal momentum reflects the market's growing recognition of our unique cloud domain expertise, and we look forward to supporting this and other customers as they continue their multiyear cloud journey in respect to their core systems.

Moving to Slide 10. Service providers continued down the path of digital modernization to grow revenue, reduce costs and improve experience for consumer and B2B customers. I'm delighted to report that we expanded our role in digital transformation in T-Mobile, where Amdocs Commerce & Care Suite, together with Amdocs migration suite, will power insightful and transparent experience across all channels for T-Mobile consumer and B2B subscribers.

Amdocs was also selected by a major Eastern European operator to create and deploy new customer engagement platform designed to drive customer loyalty and retention and bolster its social media presence, while the second Eastern European service provider choose Amdocs to modernize the IT infrastructure in a strategic wide-ranging digital transformation project that will enable a harmonized, frictionless customer experience across multiple channels and touch points.

We are also collaborating with YES Network, the exclusive regional television home of the New York Yankees and Brooklyn Nets, to provide a premium customer experience for YES' direct-to-consumer streaming platform.

The shift from physical to software-based SIM card is another digital thing creating opportunities for Amdocs. Our cloud-based Amdocs eSIM orchestration platform was recently ranked as #1 in the market by independent analyst firm, Counterpoint Research, recognize our growing list of eSIM customers [for introducing a world] with ICE Norway and Drei Australia.

Turning to Slide 11. Global service providers continue to invest in 5G monetization, including next-generation charging, policy solution to unlock future market potential of 5G stand-alone networks. One of North American leading service provider recently deployed Amdocs network policy solution on AWS to support millions of prepaid subscribers.

Another recent product example is WINDTRE, a large Italian mobile operator for which Amdocs just completed a modernization project to provide a future-proof, 5G-ready, monetization stack deployed on the cloud.

This quarter also was selected by Magyar Telekom in Hungary to provide the policy control function in the operated 5G stand-alone program. And we successfully completed digital transformation project with Melita Limited that enabled the Malta-based operator to further monetize innovative new 5G and IoT-based services for both consumer and enterprise customer.

Turning to network automation on Slide 12. Amdocs is helping operators to prioritize 5G network slicing, which is needed to enable the rapid introduction of differentiated mobile services tailored for individual consumer or B2B customers. Amdocs recently helped Bell Canada to successfully deploy its first use case with an automated 5G network slicing solution.

Amdocs also is bringing fresh innovation to help a service provider rethink the way in which they manage and maintain network towers, which is also reducing their carbon footprint. Working with our partner, vHive, Amdocs has developed a solution, which powers autonomous drone flies to automatically create a digital [3D tree] of network towers much more quickly and safely than deploying trucks with tower climbing teams when they need to survey a site.

Demonstrating early market demand, we are excited to announce today that Verizon has selected our solution to inspect its wireless networking (inaudible).

Now moving to our fiscal '13 (sic) ['23] outlook as presented on Slide 13. As we repeatedly said over the last few quarters, Amdocs and our customers globally are not immune to economic uncertainty, and we are closely monitoring the overall operating environment during the current period of rapidly shifting market dynamics. As the key technology enabler and a trusted partner for the global communication industry, we believe Amdocs is positioned at the heart of a multiyear technology-driven investment cycle centered around the major long-term trends of 5G, network automation, digital modernization cloud. We also believe in our unique business model, which produces visible highly-returning revenue stream from the mission-critical systems we support under long-term customer engagements.

Taking everything into consideration, we are reiterating our full year fiscal 2023 revenue growth outlook within a tighter range of 7% to 9% in constant currency, the midpoint of which is unchanged as compared with our previous outlook.

On the bottom line, we are reiterating our outlook for non-GAAP diluted earnings per share growth of roughly 9% to 13% in fiscal 2023, which, as you may recall, we already raised in the prior quarter from our initial full year growth target of 8% to 12%. Accordingly, we are well on track to deliver double-digit expected total shareholder return for the third year running, including our dividend yield.

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

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

Thank you, Shuky. Hello, everyone. Thank you for joining us. I am happy to report solid financial results for the second fiscal quarter, the highlights of which you can see on Slide 15.

Record Q2 revenue of approximately $1.223 billion was up 8.2% year-over-year in constant currency. On a reported basis, revenue increased 6.8% and was slightly above the midpoint of guidance, including a positive impact on foreign currency movement of roughly $3 million compared to our guidance assumptions.

On a regional basis, we delivered another record quarter in North America where we are continuing to execute on multiple transformation projects for customers across the broader region. In Europe, I'm also delighted to report our best-ever quarter where, as anticipated, we are seeing double-digit growth as new projects awarded over the last several quarters continue to ramp up. Similarly, Rest of the World accelerated on a sequential basis in Q2, driven by the positive impact of customer project activity.

Moving down the income statement. Our non-GAAP operating margin was 17.8% in Q2, up 20 basis points from a year ago and up 10 basis points sequentially as we continue to realize the benefits of automation and other sophisticated tools implemented to manage costs and drive efficiency gains in our business. On the bottom line, non-GAAP diluted EPS of $1.47 was consistent with the midpoint of our guidance range and included a non-GAAP effective tax rate of 16.5%, which was, as anticipated, within our annual target range of 13% to 17%. We look at GAAP EPS of $1.23 for the second fiscal quarter, which was above the midpoint of our guidance range of $1.18 to $1.26.

For your modeling purposes, beginning this fiscal year, our quarterly GAAP and non-GAAP net income includes a new line item for net income attributable to noncontrolling interest. This reflects the earnings attributable to our joint venture partner in respect to the land we acquired in 2017 as the site for the new Amdocs park and will amount to roughly $0.7 million per quarter now that the campus is complete and operational.

Moving to Slide 16. 12-month backlog was a record high at $4.11 billion, up 5.7% year-over-year as reported and up roughly 7% in constant currency. On a sequential basis, our 12-month backlog was up by $20 million in Q2. Our 12-month backlog of traditional reserves as a good leading indicator of our business, having consistently averaged around roughly 80% of forward-looking 12 months revenue over the year.

Turning to Slide 17. Managed Services revenue was a record high at $719 million in Q2, up 8.4% from a year ago and equivalent to about 59% of total revenue. Globe, a leading digital solutions provider in the Philippines, has extended its partnership with Amdocs to reimagine their IT operations, enabled by digital transformation and cloud adoption for better business alignment under a multiyear managed services arrangement. This move will enable the company to create greater business value through improved customer experience that will result to revenue growth. Additionally, we signed an expanded managed services agreement with a major Western European operator to migrate and operate non-Amdocs applications on the cloud, as Shuky highlighted earlier.

To remind you, our managed services engagement underpin the resiliency of our business with a recurring revenue stream near 100% renewal rate and expanded activities under multiyear engagement and may sometimes include modernization projects, which deepen our relationship even further.

Now turning to the balance sheet and cash flow highlights on Slide 18. Reflecting strong execution, I'm pleased to report that we achieved many production-enabled milestones for this quarter, resulting in healthy customer cash collections. DSO of 74 days decreased by 13 days sequentially and by 7 days year-over-year in Q2, while the net difference of deferred revenue and unbilled receivables improved by $102 million sequentially. Similarly, we generated robust cash flow of $259 million (inaudible). Free cash flow was comprised of cash flow from operations of approximately $294 million, less $35 million in net capital expenditures, and was strong despite the seasonal timing of annual bonus payments, which typically occur in the second fiscal quarter.

Overall, we ended Q2 with a strong balance sheet and a healthy cash balance of approximately $0.9 billion, including aggregate borrowings of roughly $650 million. Moreover, we have ample liquidity to support our ongoing business needs while retaining the capacity to find strategic growth, including the planned acquisition of TEOCO service assurance business, which we expect to complete for roughly $90 million in cash.

Turning to capital allocation on Slide 19. We repurchased $106 million of our shares in the second quarter and paid cash dividends of $48 million. In respect to the full fiscal year 2023, we are reiterating our free cash flow outlook of roughly $700 million. This has yielded a conversion rate of roughly 100% relative to non-GAAP net income and equates to a healthy free cash flow yield of more than 6% relative to under current market capitalization.

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 program.

Now turning to our outlook on Slide 20. To begin, we are continuing to closely monitor our debt prevailing level of macroeconomic business and operational uncertainty, which remains elevated in the current business environment. That the third 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.

Taking into consideration our performance in the first 2 quarters and our visibility to the second half, we are reiterating our outlook for full year fiscal 2023 revenue growth within a tighter range of 7% to 9% in constant currency, the 8% midpoint of which is unchanged as compared with our final outlook of 6% to 7%. On a reported basis, we now expect full year revenue growth of 6% to 8% year-over-year as compared with 5% to 9% of the year previously. The new outlook anticipates an unfavorable foreign currency impact of approximately 1% year-over-year, which is unchanged compared with our previous assumption.

Our annual outlook includes third quarter revenue within the range of $1.215 billion to $1.255 billion. Additionally, our fiscal 2023 outlook assumes an immaterial revenue contributed from TEOCO service assurance business. On an annualized basis, this acquisition is expected to add roughly 50 basis points of total revenue in the first full year after closing.

Moving down the income statement. We anticipate quarterly non-GAAP operating margin to fluctuate around the midpoint of our annual target range of 17.5% to 18.1%. Below the operating line, we anticipate the foreign currency fluctuations and cost of hedging will continue to impact our non-GAAP net interest and other expense lines 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 reiterating our outlook for non-GAAP diluted earnings per share growth in the range of 9% to 13% for the full fiscal year 2023, which as Shuky reminded you, we already raised in the prior quarter from our initial previous growth target of 8% to 12%. Overall, we are on track to deliver double-digit expected total shareholders' return for the third year running in fiscal 2023, assuming the sum of our expected non-GAAP EPS growth and our dividend yield of roughly 2%.

Before passing it back to Shuky, I'd like to take a quick moment to comment on this year Mobile World Congress in Barcelona, which, for Amdocs, was an opportunity to showcase our commitment to ESG on the global stage. We published our first-ever interactive map to show how Amdocs is using technology to help its customers achieve their ESG and sustainable development goals, and we use an immersive experience to demonstrate how Amdocs is closing the digital device by connecting consumers in rural areas to digital services, such as education, health care and deployment.

I'm also pleased by our successful digital inclusion partnership with (inaudible), through which we donated 30 days Internet connectivity to approximately 2,000 girls and their families in India for every visitor to Amdocs' booth.

Among other recent ESG initiatives, our International Women's Day campaign, Break the Bias, generated 14 million campaign exposure through social media, and we partnered with UNICEF to raise roughly $100 million -- sorry, $100,000 with an employee donation drive with company matching to support earthquake recovery in Turkey.

Finally, we are already seeing the benefit from the implementation of a new worldwide policy by which employees are required to work from the office a minimum of 3 days per week. This will reflect our commitment to create exceptional work environment that fosters growth, collaboration and innovation. I'm heartened by the even greater energy levels I am experiencing among global employees since moving back to the office, including the new Amdocs park campus, which opened recently. Thank you to all our employees for making Amdocs such an amazing place to work.

With that, back to you, Shuky.

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

Thank you, Tamar. As you can probably tell from our remarks today, we are pleased with our solid financial and operational position at the midway point of fiscal year. And while the global macroeconomic and industry environment remains challenging, we are actually focused on delivering a strong second half and another real steady and profitable growth.

With that, we are happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Tal Liani of Bank of America.

Unidentified Analyst

This is Tomer (inaudible) on for Tal. So 2 quick ones for me. So first, you talked about some solid service provider wins, including T-Mobile. We've heard from some networking vendors in this quarter and last quarter about weakness in service providers. Can you talk a little bit about the spending environment and why you're positioned to keep winning business despite this apparent spending slowdown in that segment?

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

Sure. This is Shuky. Send my regards to Tal. I think as part of our strategy -- and we talk about the areas that we focus today, which is digital transformation, a 5G deployment and monetization, the journey to the cloud in B2B and consumer, all -- I would argue that all these pillars are extremely strategic to our customers. So while, obviously, we watch carefully the environment, we believe that our customers are pushing forward the strategies. And what we do for them is really in the heart of their strategic domain.

So as I said always, I don't think that Amdocs is immune by the fact that we are running their mission-critical systems. And most of the projects that we do are in the heart of the strategy help us to mitigate headwinds that some of our customers are facing.

Unidentified Analyst

Got it. And if I can sneak in a follow-up quickly. Can you give just a little more color around the tightening of the revenue growth? What exactly is driving that? And as a result of that, do you still see 8% constant currency growth in fiscal '24?

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

So as we move along the year and already halfway through, we are obviously tracking very well with a strong half 1. And looking forward, both in terms of the backlog that is representing already the contribution for the next 12 months of what we've signed as well as the pipeline that is looking strong, we felt that it's making sense to tighten the range and make it kind of more clear what we think should be the likely outcome in terms of the revenue growth, keeping, of course, the midpoint of the 8% constant currency growth unchanged.

Now in terms of the difference between the reported revenue growth and the constant currency revenue growth, we are maintaining this 1% headwind that we talked about already in the prior quarter.

Operator

And our next question will come from Ashwin Shirvaikar of Citi.

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

I wanted you know obviously, the big topic on every earnings call nowadays is with regards to macro. And you guys have called out not just this time, but last time as well that even your clients are not immune. But when I kind of look at sort of the wins, I mean, I would have expected perhaps maybe sort of client decisioning to move more towards cost and productivity type things, say, for example, network automation or cloud optimization, things like that, but you're actually signing all across the board. Is there any difference that you see from a client perspective with regards to how they're engaging with you, sort of the contract terms, decision-making time, ramp time, anything like that, that you can call out as far as your portfolio is concerned?

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

Hi Ashwin, it's Shuky. And I think we see a different change. I think that the deal cycle are pretty much the same. The pipeline is very rich. And yes, in some of the deals, I would say that TCO reduction is getting maybe a bit more of, I would say, recognition than in regular times. But this is always true. We announced a very large managed services deal in a very large Western European operator. Obviously, it includes moving to the cloud. So the benefit is obviously business agility, higher security environment, and TCO reduction is part of it.

So I will not say that TCO reduction is the main major definite lot. Most of the deals, as we mentioned, we have a very nice solid quarter in sales in every parameter of our strategy. So I will not say that TCO reduction is not getting a more highlight, I think it is. But I think it's reflected in many of the deals, as I said, the additional value that we can bring as part of the deal. I don't think this is the #1 reason to do this deal.

The #1 reason to -- that we are able to deliver our services and product is, I think, because the value, which is critical to our customer in their journey.

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

One thing to add maybe is that given the new architecture technology of our product and the way we continuously deliver it to production to our customers in a continuous manner in a very fast pace, customers can enjoy the benefit very fast from our R&D shop to what they can enjoy in their production environment. So the value creation is in a very different speed than what it used to be in the past, which I think is very compelling in this environment where customers would like to move fast, but also see faster returns to the investments.

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

Just to add on top of it. Definitely, the level of automation that we introduced in all our products and services, I think, also creates a great opportunity for our customer to reduce the cost.

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

Understood. With regards to talent, one of the things we've kind of seen, obviously, again, related to the environment is that the supply side is becoming a little bit easier, lower wage inflation, lower attrition, things like that. If you could comment on your -- what you're observing and how it sort of drives -- drive your, I guess, inclination to kind of increase headcount in particular areas. If you could comment on that.

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

Sure. I think we clearly see a change in the environment in terms of the labor market. But I think our focus on making sure that employee engagement is high has begun way before the great resignation era and will continue post the great resignation era. We are very focused on people as a key talent and a key asset of the company. It's not just a slogan. So it has to do with many things that we are doing.

And clearly, yes, the competition on talent has eased up. And yes, we see voluntary attrition going down. But our focus on making sure that we hire the best talent, onboard them in the most effective way, continue to have a high motivation and engagement, focus on upskilling people that they can move internally and all of those things that we've been doing in the last couple of years continues, and it should continue. But clearly, the supply is up.

And I think that another point is that we are seeing this as an opportunity, of course, to also continue and elevate the new skills that are required. And this is happening all the time. Whether we're talking about cloud or whether we're talking about experience design or any of those skills that are required today, talking about data analytics, whatever it is, it's clearly on our agenda.

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

Yes. But the bottom line, as Tamar said, the labor environment is in a completely different place comparing what it used to be probably a year ago.

Operator

(Operator Instructions) And our next question will come from Timothy Horan of Oppenheimer.

Hoonshik Yang ***Oppenheimer & Co. Inc., Research Division - Research Analyst***

This is actually Edward Yang for Tim. Congratulations on another clean quarter. Just my first question on backlog growth. That has moderated somewhat. It was like 10% about a year ago. It's come down at 6%. What's driving that? And what would get that to pick back up?

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

So just to clarify the numbers. We've mentioned the 5.7% on a reported basis. But constant currency basis, year-over-year growth of the backlog is 7%. And I think while we are talking always and for a good reason on backlog as a leading indicator, we shouldn't take it kind of mathematically on every quarter. For example, you've seen 2 quarters ago to sequentially up $20 million, then $120 million, this quarter again $20 million. So it's not something that is necessarily consistently moving like a Swiss clock.

I think the most important thing is the trajectory is very strong. We are continuing to sign important deals. Some of the deals we announced today actually are going to fuel much beyond the next 12 months' revenue. Therefore, it's not factored into the 12-month backlog. For example, the new managed services expansion and cloud migration with a leading West European carrier, a major deal, will take time to set up. It will get to the full run rate of revenue, only mainly impacting 2024. So we definitely see this kind of phenomena, but it's great. It's giving us visibility beyond the next 12 months. So we are tracking, of course, all the time our backlog and our pipeline. And Shuky thinks the pipeline looks good. And we're looking forward to see how we fulfill this great momentum.

Hoonshik Yang ***Oppenheimer & Co. Inc., Research Division - Research Analyst***

Okay. That's good color. And just looking at the U.S. wireless industry. Industry phone adds are coming down year-over-year, somewhat mid-single digits. Are you sensitive to that volume change? And within that, the composition of net adds has been changing where, this quarter, we saw cable MVNOs grabbing much more market share versus the telcos grabbing more like half the subs -- postpaid subs versus about 1/3 last year. Does that mix shift affect your revenue and margin?

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

First of all -- so that we are not connected to this. Obviously, we want to see our customer growing faster, but there is no correlation between the net adds to our revenue. But if you brought it, I mean, we see a very interesting phenomena that the cable guys are talking about wireless -- by the way, we are very happy, as we announced before, that we are behind the Comcast, Charter, Altice, all of them are using our platform for their mobile offering. And then the opposite, actually, the wireless guys are talking about fixed wireless, which also, we are very happy to support in T-Mobile, in AT&T and some other big customers.

By the way, also, AT&T launched their first Internet Air product on our new platform this quarter, although they're a fixed wireless offering. So there is no direct connection, and I can tell you that we are very busy working with our customer on the strategic, I would say, direction. We mentioned a very important deal in T-Mobile this quarter, which is critical for T-Mobile for their future growth. So we are very happy in the way we are supporting our customer.

Hoonshik Yang ***Oppenheimer & Co. Inc., Research Division - Research Analyst***

And if I could just squeeze one more question in. Just the strategic partnership with Microsoft on the AI customer engagement. I know you announced that during Mobile World Congress, but what -- how has the selling motion been for that product? And is this more of an expansion into existing customers? Or are you bringing on new logos or displacing competitors?

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

It's both, and we are very excited about this partnership. I think this, as we mentioned, I mentioned in my script, this unique combination of Amdocs bringing our pretty much market-leading CES suite for all the monetization and fulfillment aspects, integrating with a very strong cloud-based dynamic application, other application of Microsoft, obviously, integrating generative AI as part of the full offering, it creates what we believe is, by far, the best offering in the market.

Now we, together, are working very closely with Microsoft. In some cases, we are talking about going to a completely new logos for Amdocs and for Microsoft. In some cases, its expansion with existing customer, we see very -- I mean this was really relatively new. This is like 2 months old. We see a very, very nice growth in potential pipeline, potential deal, and we are working very close to -- with Microsoft to make sure that we are able to mature these deals. But I think the bottom line, this joint offering give us together very, very, I would say, by far, the leading suite for both consumer and B2B.

Operator

And our next question is a follow-up from Ashwin Shirvaikar of Citi.

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

The follow-up was more product-related. I want to ask about AI, important topic, obviously. And you mentioned it a couple of times in the course of this call. But the way I understand it, AI is integrated and a part of CES23, the way your approach to AI is embedded solutions that use AI for a variety of functions. Is that the right way to look at it? Because this is obviously an important topic of conversation with investors, and there seems to be a lot of noise on the topic. So if you could sort of lay out how to think of that.

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

Thank you for this question, Ashwin. First of all, we are very happy for this partnership with Microsoft, which gets us very closer to this generative AI capabilities. And while we are building and integrating right now what we call the customer engagement platform with Microsoft, it's going to -- definitely, we're accelerating the generative AI capabilities. We see generative AI capabilities -- and we are actually evaluating all the potential options right now, and we see a lot of opportunities. It's both internal and external.

I can give a couple of examples. Internal, we see to the opportunities to generate automatic test cases and using our very large testing, say, business. So this is one area that we are looking. I believe some examples caused by many more. And we see, in some cases, when we need to do a cost conversion, so we are going to use these capabilities and many other places, this is more like internal. Externally, we're already looking internally, and together with partnership with Microsoft, to see how we can actually elevate self-service application to do much more, and we talk about our monetization platform, how we can drive better offering to consumer and B2B using this type of capability.

This is early days. I can tell you that there are many teams in the company and together with partners like Microsoft elevating the potential. We believe the potential is huge. And it's in our managed services engagements, in our development capabilities and others. I believe that probably we are going to be much more mature in probably a couple of months. But definitely, it gets a lot of attention. And I think that, as I said, the partnership with Microsoft gets us a great access to these capabilities.

Operator

And I'm showing no further questions. So I would now like to turn the call back to Matt for closing remarks.

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

Yes. Thank you. And thank you, everyone, for joining the call today, and we look forward to hearing from you very soon. Please reach out to us here in the IR group if you have any questions. And with that, have a great night.

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

Thank you, guys.

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

Thank you. Bye-bye.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect.
