AMDOCS Q3 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 third quarter fiscal 2023 and will update you on the continued progress we have made executing against our strategic growth framework, including the vast opportunity of the rapidly emerging field of Generative AI.

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

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: Solid Q3 Financial Performance: Record Revenue & Ongoing Margin Expansion

I'd like to begin by thanking our global base of talented employees for their hard work and incredible contributions towards another **solid** financial and operating performance in our third fiscal quarter, as we continued to execute against our core growth pillars of digital modernization, 5G monetization, cloud, and network automation.

As you can see from the financial highlights on slide 6.

- **Record** revenue of $1.24 billion was slightly above the midpoint of guidance on a reported basis and was up 6.9% from a year ago in constant currency
- Non-GAAP operating margin **increased** by 20 basis points from a year ago as we continued to realize the benefits of operational efficiency initiatives in our business
- On the bottom-line, non-GAAP diluted earnings per share of $1.57 was above the guidance range, mainly due to a lower than anticipated non-GAAP effective tax rate in the quarter
- Twelve-month backlog was a **record-high** $4.14 billion, up roughly 5% from a year ago despite some impact from a challenging macro and industry environment.

Slide 7: Third Fiscal Quarter Operational Highlights

Among the third quarter operational highlights, I am encouraged to report continued **cloud-related** sales momentum, as shown on slide 7. Following last quarter's wins with **PLDT** and **two leading European operators**, Amdocs was recently selected to support the cloud-strategies of **Bell** and **TELUS** in Canada**,** and **Claro** in Brazil.

- Additionally, we won new awards and deepened relationships with **Verizon** and **Dish** in North America, **M1** and **Telkomsel** in Southeast Asia, and many others around the world as we focused on driving greater adoption of our broad product offering and capturing more share of wallet at our customers.
- Significant long-term growth potential also exists in **managed services**, which delivered another **record** quarter driven by **expanded** activities with **long-standing** customers like **Globe** in the Philippines, and contributions from **new first-time** logos signed earlier. Additionally, I am pleased to report growing signs of demand for our next-gen cloud operations as the **latest**, **future-ready** component of our managed services offering.

- I'd also like to highlight **media**, where **Amdocs Vubiquity** extended its position as a trusted provider to the world's leading streaming services during Q3.
  - We continued to work closely with **Disney** to execute on their content strategy globally as we expand our engagement with them.
  - Amdocs' Vubiquity has also been selected by **Lionsgate** to support the technical enhancement of its iconic 18,000-plus film and TV title library, by performing quality assessment and content editing using industry leading automation, in addition to which Vubiquity's content and catalog services were recently chosen to support streaming services for **Watch Brasil** and **VIDAA TV** in the US.

Superb execution was another highlight of Q3 as we achieved a very high number of project milestones in support of digital transformation journeys at customers like **AT&T**, **T-Mobile**, **Vodafone**, and **Three UK.**

- Demonstrating Amdocs' capabilities, we recently surpassed the migration of more than 80 million prepaid subscribers to our **newest** highly robust and scalable system for **XL Axiata** in Indonesia.

Slide 8: Generative AI is a Company Priority

Moving to slide 8, I'd like to highlight a very important strategic priority to **establish** Amdocs as the telecom **industry's leader** in the **rapidly** emerging field of Generative AI.

- Earlier in Q3, we announced the launch of Amdocs amAIz, a **cutting-edge** enterprise-grade Generative AI framework which creates a foundation for global service providers to benefit from the **immense potential** of the Gen AI era
- Amdocs amAIz combines our **carrier-grade** architecture and **telco-specific expertise**, with OpenAI and the industry's most advanced open-source technology and large-language models. The framework also empowers service providers to deploy generative AI use cases across the telecom ecosystem, from customer experience to network provisioning for consumer and enterprise customers.
- The Amdocs amAIz framework follows the expansion of our strategic partnership with Microsoft earlier this year and marks an important step towards capitalizing on market-leading generative AI capabilities, such as those resulting from this partnership.

- Amdocs has also launched a company-wide program to accelerate the ways in which Gen AI can be harnessed **internally** to drive organizational agility, operational efficiency, and cost reduction. Spanning the software development lifecycle, our managed services activities and many corporate functions, the program has so far identified **more than 80 Gen AI use cases**, many of which are already in progress.

Slide 9: Progress in Strategic Domains (1/4)

Now, let me provide you with a progress update in respect to our strategic growth pillars which have driven a major expansion of our addressable market by ensuring we bring market-leading innovation to help our customers:

- **Accelerate** the journey to the **cloud**
- **Create seamless digital experiences by transforming IT systems and operations for consumer and B2B**
- **Launch and monetize new 5G services, and**
- **Deliver** dynamic connected experiences with **real-time**, **automated networks**

- Starting on slide 9 with **cloud**, the value potential of which service providers are still in the early stages of maximizing. For most, the cloud will be a **multi-year** journey that will require the proven capabilities of Amdocs, including our cloud-native product suite and our ability to simplify complexity by delivering an end-to-end, fully accountable migration path.

- As highlighted earlier, we signed cloud deals with multiple Tier 1 operators in the Americas this quarter.

    - **First**, Amdocs is supporting **Bell Canada's** digital transformation by moving on-premise, essential applications to the cloud.

    - **Second**, Amdocs is collaborating with **TELUS** in Canada to move on-premise applications to Google Cloud, helping TELUS be more flexible and cost efficient and unlock new business models.

    - **Third**, at **CLARO Brazil** we're moving on-premise infrastructure to the cloud, unlocking new opportunities in the consumer and enterprise market, and improving cost-effectiveness

    - Overall, we are pleased with the recent **sales momentum** in our cloud business, which we believe reflects the combination of our unique industry expertise, and our strategic cloud partnerships.

Slide 10: Progress in Strategic Domains (2/4)

Moving to slide 10, service providers continue down a path of **digital modernization** to grow revenue, reduce cost and improve experience for **consumer** and **B2B** customers.

- Marking a significant milestone in **Vodafone Spain's** multi-year digital transformation journey, Amdocs recently completed the successful modernization of customer engagement software for this operator, providing it with improved system stability, security, and performance while enabling the delivery of new and exciting services to Vodafone Spain's customers.

- Among other highlights this quarter:
  - Amdocs signed an agreement with **Dish** for a new SaaS-based billing presentment for Boost Infinite subscribers, providing an enhanced experience.
  - We successfully upgraded Swiss operator **Sunrise's** monetization capabilities, enabling them to sell and deliver a wide range of innovative products to their customers.
  - In South Africa, we **strengthened** our partnership with **Melon Digital**, a digitally-led mobile virtual network enabler, which has selected Amdocs' eSIM Cloud platform to provide its customers worldwide with eSIM capabilities on their primary and secondary devices
  - And in Southeast Asia, Amdocs successfully implemented an IoT connectivity management platform at **Telkomsel in Indonesia**, thereby enabling this operator to increase business agility and quickly launch new IoT services for consumer and enterprise customers.

Slide 11: Progress in Strategic Domains (3/4)

Turning to 5G monetization on slide 11, Amdocs continues to provide global service providers with the next generation solutions they will need to monetize and **unlock** the **future** market potential of **true** 5G **standalone** networks as they rollout over the next few years.

5G Fixed Wireless is one of the most powerful use cases to emerge from 5G, and we can now say **T-Mobile** selected Amdocs' Home Operating System to simplify internet and device management, and to automate customer support for its 5G home internet customers.

Additionally, we recently delivered a 5G-ready, next-generation charging solution for a **major European operator** to enable enhanced agility and time to market for innovative new products and services.

One of the early adopters of true 5G standalone networks is Singapore, where we are delighted to continue working with **M1 Limited,** a leading digital network operator which has selected Amdocs' monetization engine to power its prepaid platform. By leveraging our monetization platform to launch their prepaid and MVNO offerings, M1 will be able to bring cutting edge experiences to enterprises and consumers and drive new revenue streams, while increasing agility and efficiency.

Slide 12: Progress in Strategic Domains (4/4)

Turning to **network automation** on slide 12, I'm happy to say we closed the previously announced acquisition of TEOCO's service assurance business on June 30, thereby equipping Amdocs to deliver a unique end-to-end service orchestration offering, assuring the quality of service and enabling the monetization of next generation dynamic customer experiences.

Amdocs' expertise in the network domain continues to be recognized by the market. Among recent examples, **DISH** implemented Amdocs' network services to expand its 5G services on the public cloud, which included 5G RAN, core and voice services, culminating in the successful rollout of a comprehensive 5G network that now reaches over 70% of US population.

Additionally, in **Verizon,** we went LIVE with the 5G Orchestration platform enabling service and network automation, in addition to which we have expanded our engagement in Operations Engineering to include continued platform support in Network Function onboarding and improved automation.

Slide 13: Fiscal 2023 Outlook

Now, I'd like to make a few points about our business within the current operating environment, as presented on slide 13.

- To begin, we remain of the view that Amdocs is sitting at the heart of a multi-year, **technology-driven** investment cycle, centered around the **major** long-term trends of 5G, network automation, digital modernization, and cloud.

- Moreover, we strongly believe global service providers **must** continue to participate in this investment cycle to ensure their long-term competitive position in their respective markets.

- Therefore, as a key technology enabler and trusted partner to the communications industry, we continue to see high levels of customer engagement and a large pipeline of opportunity which we believe Amdocs is well positioned to monetize.

- The current economic **uncertainty** and industry **pressure** is, however, beginning to weigh on the spending decisions of **<u>some</u>** customers which are now prioritizing multi-year strategic modernization programs in lieu of further investment to enhance legacy systems. Amdocs is already at the **heart** of this modernization journey with many customers, and we are ideally placed to expand our future scope of activity in these programs. Given we are also the incumbent provider of legacy applications for these customers, these business dynamics are nevertheless presenting **some** headwind to revenue growth.

  To adjust to these business dynamics, we are taking **proactive** and **appropriate** measures to **<u>optimize</u>** our expenditures and resource allocation, and to **ensure** continued **long-term** growth **<u>together with</u>** continued, **gradual improvement** of our operating margins.

  - These measures include an even greater emphasis on operational **excellence** and **cost leadership**, primarily led by efficiency gains resulting from our growing adoption of automation, sophisticated tools, and the future expected benefits of Gen AI-related capabilities, while maintaining investments in our strategic growth areas.

- Wrapping everything together, revenue growth for the full year fiscal 2023 is now tracking slightly below the 8% midpoint of our original guidance range of 6% to 10% in constant currency.

- On the bottom-line, we are **raising** the midpoint of our outlook for non-GAAP diluted earnings per share growth in fiscal 2023 for the second time this fiscal year,

- Additionally, we are **<u>reiterating</u>** our free cash flow outlook of approximately $700 million for the full fiscal year, equating to a conversion rate roughly on par with expected non-GAAP net income.

- Overall, we are **well on-track** to deliver **<u>double-digit</u>** expected total shareholder returns for the **<u>third</u>** year running, including our dividend yield.

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

<u>Slide 14: 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 15: Q3 FY2023 Financial Highlights</u>

I am pleased with our **solid** financial results for the third fiscal quarter, the highlights of which you can see on slide 15.

- **Record** Q3 revenue of approximately $1.236 billion was up 6.9% year-over-year in constant currency.
- On a reported basis, revenue increased 6.5% and was slightly **<u>above</u>** the midpoint of guidance, including a positive impact from foreign currency movements of approximately $5 million compared to our guidance assumptions. To clarify, there was no revenue contribution from the acquisition of TEOCO's service assurance business in Q3 as the deal closed on the last day of the quarter June 30.
- On a geographical basis, North America delivered its **best-ever** quarter as we continued to support the strategic modernization journeys of customers across the broader region, while in Europe we achieved a **second** consecutive quarter of **record** revenue as project activity continued to ramp-up.
- Rest of World declined on a sequential and year-over-year basis in Q3, reflecting fluctuations in customer project activity.
- Moving down the income statement, our non-GAAP operating margin of 17.8% was **up** 20 basis points from a year ago and **unchanged** as compared with the prior quarter.
- On the bottom-line, non-GAAP diluted EPS of $1.57 **was above the** guidance range, primarily due to a non-GAAP effective tax rate of 12.3% which was lower than we anticipated.
- Diluted GAAP EPS was $1.32 for the third fiscal quarter, which was **above** the guidance range of $1.16 to $1.26, also due to a lower than anticipated GAAP effective tax rate.

<u>Slide 16: Gradually Improving Profitability</u>

Moving to slide 16, I'd like to double-click on our non-GAAP operating margin which has **trended higher** in fiscal 2023, in line with the **new** and **improved** guidance range of 17.5% to 18.1% which we provided at the beginning of the year.

- The year-over-year improvement in profitability reflects our commitment to operational excellence and cost leadership in respect to which we are now planning to take **additional** and **appropriate** measures to further optimize our expenditures and resource allocation, and to realize ongoing efficiency gains led by our growing use of automation, sophisticated tools and the future expected benefits of Gen AI-related capabilities

- These measures include **workforce reductions** aligned with our global site strategy and work model, and will result in restructuring charges of roughly $50 million to $60 million in our fourth fiscal quarter.

- Looking ahead, we expect to sustain gradual long-term improvement in non-GAAP operating margins, as we have done over the last years.

Slide 17: Leading Indicators and Business Resiliency: 12-Month Backlog

Moving to slide 17, 12-month backlog was a record-high $4.14 billion, up roughly 5%. On a sequential basis, our 12-month backlog was up by $30 million in Q3.

- During Q3, we continued to sign deals with new logos and existing customers. Additionally, work in backlog is progressing with no project cancellations, and managed services renewals are tracking at 100%. As such, 12-month backlog increased again in Q3, although compared with Q2, the year-over-year growth rate of 5% was lower this quarter, reflecting the business dynamics referenced by Shuky earlier.

As a reminder, 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 18: Leading Indicators and Business Resiliency: Managed Services

Turning to slide 18, managed services revenue was a **record** $720 million in Q3, equivalent to about 58% of total revenue. In fact, fiscal 2023 has so far been a landmark year in managed services, with revenue in the first nine months up roughly 5% from a year ago.

- During Q3, we signed a **multi-year** extension of an existing managed services agreement with a Tier 1 operator in Western Europe

- Amdocs was also selected by a customer in Caribbean to consolidate its business support systems under a single stack, while taking over IT operations via managed services.

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. These sometimes include modernization projects which further **deepen** our relationships, a recent example of which is our extended partnership with Globe in the Philippines, as announced this quarter and last.

<u>Slide 19: Balance Sheet & Cash Flow</u>

Now, turning to the balance sheet and cash flow highlights on slide 19.

DSOs of 79 days **decreased** by 3 days year-over-year in Q3 and **increased** by 5 days sequentially. The net **positive** difference between deferred revenue and unbilled receivables, aggregating the short-term and long-term balances, **narrowed** by $101 million sequentially, largely offsetting the sequential increase of $102 million recorded in the previous quarter. As a reminder, the net difference between deferred revenue and unbilled receivables fluctuates from quarter to quarter, in line with normal business activities.

Reflecting strong execution and healthy customer cash collections in the period, we generated free cash flow of $144 million in Q3. Free cash flow was comprised of cash flow from operations of approximately $173 million, less $29 million in net capital expenditures.

Overall, we ended Q3 with a **strong** balance sheet and a healthy cash balance of approximately $750 million, including aggregate borrowings of roughly $650 million. Our cash balance already reflects the acquisition of TEOCO's service assurance business which closed for a net consideration of roughly $90 million.

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

<u>Slide 20: Disciplined Capital Allocation</u>

Turning to capital allocation on slide 20, this quarter we repurchased $129 million of our shares under our current authorization of which there was roughly $156 billion remaining as of June 30.

Reflecting our confidence in the future success of Amdocs, and the company's ability to generate cash, our Board has today authorized a new share repurchase plan of $1.1 billion with no stated expiration date.

Between the two authorizations, we have up to $1.26 billion of remaining repurchase authority.

Additionally, we paid cash dividends of $52 million in the third fiscal quarter.

In respect to the full year fiscal 2023, we are reiterating our free cash flow outlook of roughly $700 million, excluding payments related to the restructuring charges referenced earlier. Our free cash flow outlook assumes a conversion rate roughly on par with non-GAAP net income and equates to a healthy free cash flow yield of roughly 6% relative to Amdocs' current market capitalization.

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

Slide 21: FY2023 Outlook
Now, turning to our outlook on slide 21.

To begin, we are continuing to closely monitor the prevailing level of macro-economic, business, and operational uncertainty, which remains elevated in the current business environment. Thus, the fourth 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 now expect year-over-year revenue growth of approximately 7.6% in constant currency, assuming the midpoint of our full year fiscal 2023 outlook. This is slightly below the 8% mid-point of our previous guidance range of 7% to 9%, yet well within our **original** 6% to 10% range for the year.

- As a reminder our initial outlook for the fiscal year included an expected contribution of roughly 0.6% to revenue growth from inorganic activity which never materialized.
- On a reported basis, we now expect revenue growth of 6.3% to 7.1% year-over-year, as compared with 6% to 8% year-over-year previously. The new outlook anticipates an unfavorable foreign currency impact of approximately 0.9% year-over-year, which is slightly less than our previous assumption of 1%.

Our annual outlook includes fourth fiscal quarter revenue within a range of $1.220 billion to $1.260 billion, and an immaterial contribution from the consolidation of TEOCO's service assurance business.

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.

For the full fiscal year, 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, but **above** the high-end of the range in Q4.

- Bringing everything together, we now expect non-GAAP diluted earnings per share growth within a range of 11% to 12% in fiscal 2023, the 11.5% midpoint of which is roughly 50 basis points higher than our previous outlook, and roughly 150 basis points better than our original guidance issued at the beginning of the year.
- For you modelling purposes, the anticipated Q4 restructuring charge will be excluded from our non-GAAP financial results.
- Overall, we are on-track to deliver **double-digit** expected total shareholder returns for the **third** year running in fiscal 2023, assuming the sum of our expected non-GAAP EPS growth and our dividend yield of nearly 2%.

Slide 22: Committed to ESG

Before passing it back to Shuky, let me say a few quick words about ESG, which sits at the core of Amdocs' DNA and which is embedded throughout our business operations, strategic priorities, and the value we deliver to customers.

- Among many highlights this quarter, we are thrilled to say that Amdocs' Vubiquity has been selected to provide a full suite of content management services to power **HERFLIX**, a subscription-free online streaming service focused on films for, about and by women. Amdocs believes that representation matters, and by championing female-led narratives, we believe this partnership allows Amdocs to contribute to a more inclusive and representative media landscape that reflects the diversity of our society.
- Another key dimension of our ESG strategy is the environment, in support of which we were proud to sign a recent agreement that will enable all of Amdocs Park in Israel to be powered by renewable energy from 2024.
- We look forward to providing a fuller account of our ESG strategy and recent initiatives in our new 2022-2023 Corporate Social Responsibility and **ESG report** which we expect to publish later this month with an **ESG investor webinar** to follow in September.

With that, back to you, Shuky

Slide 22: Q&A

Shuky Sheffer, Chief Executive Officer

Thank you, Tamar.

As you can probably tell from our remarks today, we are pleased with our solid financial and operational position as we enter the final quarter of our fiscal year, notwithstanding the uncertainty of the global macroeconomic and industry environment.

With that, we are happy to take your questions.

Operator?