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DOX.OQ - Q4 2024 Amdocs Ltd Earnings Call

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**OVERVIEW:**

Company Summary

## CORPORATE PARTICIPANTS

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**Shuky Sheffer** *Amdocs Ltd - President, Chief Executive Officer, Director*

**Tamar Rapaport-Dagim** *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

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**Tim Horan** *Oppenheimer & Co. Inc. - Analyst*

**Shlomo Rosenbaum** *Stifel Nicolaus & Co., Inc. - Analyst*

**Tal Liani** *BofA Global Research - Analyst*

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## PRESENTATION

**Operator**

Thank you for standing by. Welcome to the Amdocs Limited fourth-quarter 2024 earnings conference call. (Operator Instructions) As a reminder, today's program is being recorded.

And now I'd like to introduce your host for today's program, Matthew Smith, Head of Investor Relations. Please go ahead, sir.

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**Matthew Smith** - *Amdocs Ltd - Head of Investor Relations, Company Secretary*

Thank you, Jonathan. 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.

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 fourth-quarter and full fiscal year 2024, and we'll update you on the continued progress we have made executing against our strategic growth framework including generative AI and our continued sales momentum in cloud. Shuky will finish by discussing our financial outlook for the full fiscal year 2025, after which Tamar will provide additional details on our fourth-quarter financial performance and forward guidance.

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

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**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

Thank you, Matt, and everyone joining us on the call today. Starting on slide 6. Fiscal 2024 was another important year in Amdocs' journey. My thanks for which goes to our thousands of employees worldwide to continuously serve our customers with innovative software products and services the design to accelerate the migration and adoption of the cloud, monetize next-generation networks, diligently transform the customer experience, and automate their mission-critical operations.

Despite a continuously challenging industry demand environment, the year was notable in several respects. We expanded activities between new and existing customers, winning important deals: AT&T, T Mobile, Charter, and Rogers in North America; Vodafone Ziggo in the Netherlands, XL and PLDT in Southeast Asia; and NTT in Japan.

We achieved double-digit growth in cloud, which now accounts for roughly 25% of total revenue and further extend our industry-leading position in GenAI. Managed services delivered another record year. We execute our plan to accelerate profitability, and we return more than 100% of free cash flow back to shareholders or share repurchase and dividends.

Summarizing our fiscal 2024 financial performance on slide 7, we delivered record revenue of $5 billion, up 2.7% from a year ago in constant currency; achieved non-GAAP operating margin of 18.4%, an improvement of 60 basis points year over year; and met our commitment to deliver double-digit total shareholder return for the fourth consecutive year in fiscal 2024 reflecting non-GAAP earnings per share growth of 9% plus our dividend yield.

As to the fourth quarter, we closed the year with strong sales momentum, which includes several important deal wins. At T-Mobile, we won a significant project to deploy Amdocs next-generation monetization platform under the major multiyear vehicle transformation program we are supporting.

Strong sales momentum continued in the cloud with key awards with AT&T in Japan and Vodafone Italy. And we maintain a high renewal rate in managed services, signing expanded multiyear engagement with a Tier 1 operator in Southeast Asia and Telia in Denmark.

I'm also encouraged by the market rapid adoption of Amdocs SaaS-based platform, connectX, as the comprehensive solution from MVNOs and MVNEs, and we are making steady progress in generative AI where we have expanded activity to support T-Mobile's mission to revolutionize the customer experience.

Regarding Project 4 execution, Q4 included successful product deployment at AT&T, T-Mobile to UK; A1, Bulgaria; PLDT in the Philippines, among others. At AT&T, we achieved major production milestone related to the consumer modernization and simplification program commenced the migration of applications from mainframe to the cloud under our -- our new five-year agreement and collaborate with Cricket Wireless to implement a new commission calculation system.

Our reputation for consistent execution also extends to our customer industry consolidation strategies. Industry consolidation sometimes creates short-term business uncertainty but often results in long-term opportunities for Amdocs to bring our post-merger integration and modernization expertise as we see following calls acquisition of Lumen EMEA business last year and for other US and European customers that are currently progressing consolidation strategies.

Now, moving to slide 9. We remain confident in our multi-pillar growth strategy, which is designed to provide our customers with the market-leading innovation and technology they need to accelerate the journey to the cloud, digitally transform the customer experience from consumer and B2B, monetize the future market potential of next emersion networks, deliver dynamic connected experiences by streaming lining automating complex network ecosystems, and to simplify and accelerate adoption of generative AI.

Beginning with the cloud. Amdocs' unique ability to support complex multiyear cloud journeys as the primary technology partner continued to drive strong sales momentum in Q4. Amdocs selected to modernize Vodafone Italy's business platform by implementing cloud-ready and cloud-native solution and migrating its business support system to the Microsoft Azure cloud. Structure under an extended five-year agreement, this modernization initiative will empower Vodafone Italy to deliver faster, higher-quality, and next-generation services and experiences to its customers enhanced operational efficiency and reduce costs.

Additionally, we expanded our relationship with NTT InfraNet in Japan, which selected Amdocs to modernize and migrate core system applications to the cloud under the business transformation and managed services agreements that will enable great cost control, increase efficiency, and improve business capabilities.

Cloud accounts for roughly 25% of Amdocs total revenue in fiscal 2024. And with this recent award adding to our strong book of business and in a traffic pipeline of opportunities, we are positioned for another year of double-digit growth in cloud in fiscal 2025.

Moving to digital modernization on slide 11 (sic - slide 12). MVNE.pl, digitally-driven mobile virtual network enabler in Poland, has selected Amdocs telco-in-a-box SaaS-based connectX solution under a five-year agreement to launch an innovative telecom ecosystem that empowers communities across the country to create and manage their own telecom brands with under precedent speed and affordability.

We are delighted by the rapid adoption of connectX, which has positioned Amdocs in the forefront on the NVME and MVNO market with the growing customer leads, including AT&T and Rizz Wireless in the US, Winity in Brazil, and Melon Digital in South Africa.

Additionally, Amdocs' SaaS-based Bill Experience solution was recently chosen by Convera, a global commercial payments leader, to easily simplify the billing experience and improve customer satisfaction. We are excited to be working with Convera, with this award demonstrating that Amdocs' solutions can be applicable for enterprise-scale customers beyond telco when suitable opportunities arise.

Turning to monetization on slide 12 (sic - slide 11). Amdocs continued to deliver cutting-edge technology to help service providers monetize their investment in next-generation networks including wireless 5G standalone fixed wireless access and fiber. On top of the multiyear digital transformation, we are delivering for T-Mobile, Amdocs has been selected for a significant project to deploy our next-generation cloud-native real-time organization offering, giving T-Mobile customers the freedom to define their buying experiences while delivering complete rises flexibility on a single all-inclusive platform.

We also expanded our partnership with Altice SFR, one of France leading telecom providers, on a five-year deal to transform the mobile and fixed-line B2C billing system into a single unified platform. This consolidation will reduce operating costs and improve efficiency while unlocking additional monetization potential and enabling the delivery of a seamless enhanced customer experience.

Moving to network automation on slide 13. Amdocs is in prime position to support the design and buildout of fiber network investments in the US and globally, having just introduced our next-generation fiber offering which capitalizes on recent acquisitions in this domain, including Procom Consulting in fiscal 2023.

Demonstrating our breadth of capabilities, a leading provider of fiber optic internet services in the US recently chose Amdocs to effectively manage and streamline complex fiber rollouts, enabling it to accelerate sales, enhance agility, and realize new monetization opportunities in the fiercely competitive fiber broadband market.

Amdocs' growing market recognition in the network domain is also reflected by recent industry awards, including Network Technology Vendor of the Year at the 2024 Network as a Service Excellence Awards, and the prestigious Orchestration Award at FutureNet Asia 2024, which Amdocs Service & Network Automation has now won two years running.

Turning to slide 14. Amdocs continues to extend its position as an industry leader able to help service providers unlock the transformative potential of generative AI. First, our flagship CES24 now embeds CES Copilots across Amdocs Catalog, Monetization, Intelligent Networking, and many other components of the suite, with several customers already utilizing such capabilities in production.

Second, we have collaborated with NVIDIA to enhance our generative AI platform as with innovative new agent capabilities that deliver immersive customer experiences with real-time interaction and visualization. Our first commercial platform awards are also materializing as we successfully progress many global production trials across several key domains.

As we alluded last quarter, etisalat by e& in the United Arab Emirates selected to integrate GenAI into its business systems. Leveraging amAIz, this expanded collaboration with Etisalat opened possibility for new revenue opportunities, business efficiencies, and improve customer experience for the telecom pillar of Etisalat.

Third, Amdocs continues to evolve our data, AI, and generative AI platform with new capabilities designed to meet the needs of the market and to simplify and enable GenAI adoption. The platform is now equipped with customer experience insights, CXI, embedded analytics, and a unified generative AI foundation, allowing service providers access to actionable customer experience insights based on real-time data harnessed from any source.

Our data, AI, and generative AI platform is already relied on by several service providers around the world, including Globe Telecom in the Philippines, which recently selected Amdocs' data intelligence services. Similarly, we recently signed an expanded agreement to support our DataONE Intelligence platform at T-Mobile, which is collaborating with Open AI, to revolutionize customer experience and deliver personalized services with the first-ever AI enabled, intent-driven decisioning platform.

Before addressing our outlook, last quarter, we mentioned that we have been proactively evaluating Amdocs portfolio of products, services, and business line in relation to our strategic investment priorities for fiscal 2025. As a result of this review process, in fiscal year 2025, we've already begun to phase out several low-margin noncore businesses activities that are becoming commoditized and potential for long-term value addition or profitability enhancement. While Tamar will provide further comment in the remarks, we believe this action will reinforce our level of business visibility including a higher share of revenue for long-term managed services engagements.

This move also expected to sharpen our focus on higher-margin strategic priorities like cloud, next-generation monetization platform and generative AI where we are well placed to further extend our communication industry leadership with our commitments to innovation.

Wrapping everything together on slide 16, let me comment on our outlook for the coming year. We enter fiscal 2025 as an industry leader with a unique competitive position to 12 months backlog visibility and a high win rate. Moreover, we believe Amdocs is well-positioned to monetize healthy pipeline of market opportunities while navigating a continuously challenging demand environment.

Adjusting for the phaseout of the low-margin noncore activities I just discussed, we expect pro forma revenue growth of between 1% to 4.5% in constant currency in fiscal 2025, including another year of double-digit growth in cloud. As to our profitability, we expect our non-GAAP operating margin to surpass 21% for the first time in fiscal 2025, a significant milestone and a better reflection of the platform, technology, and IP-based innovation we are delivering across our strategic areas of focus.

Combined with robust earning to cash conversion, we expect to deliver double-digit expected total shareholder return for the fifth year running in fiscal 2025, assuming the midpoint of non-GAAP diluted earnings per share outlook of between 6.5% to 10.5% plus our dividend yield.

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

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Thank you, Shuky, and hello, everyone. Thank you for joining us. I'm pleased with our solid financial results for the fourth fiscal year as detailed on slide 18.

Record Q4 revenue of approximately $1.26 billion was up 2.1% year-over-year in constant currency. On a reported basis, revenue increased 1.7% from a year ago and was slightly above the midpoint of guidance, adjusting for a positive impact from foreign currency movements of approximately $3 million compared to our guidance assumptions.

From a geographical perspective, we delivered year-over-year growth in North America, Europe, and rest of the world this quarter. Europe and rest of the world grew 5% year over year, while North America grew modestly by 0.2%.

Shifting down the income statement. Non-GAAP operating margin improved to 18.7% in the fourth quarter, up 90 basis points year over year and 10 basis points sequentially. Profitability in Q4 was consistent with the high end of our target range for the year, reflecting the cumulative benefit of disciplined resource management, automation, and tools leveraging AI as well as generative AI to drive cost savings and efficiency gains across the board. Interest and other expenses amounted to roughly $7 million in the fourth quarter, including adverse foreign currency movements.

On the bottom line, non-GAAP diluted EPS of $1.7 was in line with the midpoint of guidance and included a non-GAAP effective tax rate of 14.8%, which was consistent with our annual target range of 13% to 17%. Diluted GAAP EPS was $0.76 for the fourth fiscal quarter. This included the charge relating to our current restructuring program of approximately $83 million, or $0.64 per share, without which diluted GAAP EPS would have been at the higher end of guidance range of $1.34 to $1.42.

Summarizing our full fiscal year 2024 performance on slide 19. Revenue was up 2.7% in constant currency, consistent with the midpoint of guidance. As Shuky referenced, we achieved strong double-digit growth in cloud, which accounted for roughly 25% of total revenue this year.

On a geographical basis, we delivered record revenue across all three operating regions, with North America up slightly and Europe and rest of the world growing by 3.3% and 8.6%, respectively, on a reported basis.

Highlighting the ongoing diversification of our business and growing traction in international markets, 2 of our top 10 customers were new logos added in the last 10 years. Additionally, the number of countries in which we generate annual revenue of more than $40 million has almost doubled over the 10 years, some of those added to the list include Philippines, Italy, and India.

Overall, we delivered non-GAAP diluted earnings per share growth of 9% in fiscal year 2024, consistent with the midpoint of guidance and driven by sustained revenue growth, improved operating profitability, and the benefits of our share repurchase activity.

Turning to slide 20. Managed services revenue was a record $2.9 billion in fiscal 2024, up 1.7% from the prior year and equivalent to approximately 58% of total revenue. During Q4, we signed important cloud migration deals with Vodafone Italy and NTT Internet, both of which were structured under expanded multiyear managed services engagements.

Additionally, we are extending our collaboration with Telia Denmark under a long-term agreement to provide managed services for their billing platform through 2032. This renewal will enhance Telia Denmark's operational efficiency, empowering them to deliver more streamlined services to their customers.

Now, turning to the balance sheet and cash flow highlights on slide 21. DSO of 74 days increased by 5 days year over year and were unchanged sequentially. The sequential increase in unbilled receivables net of deferred revenue was $49 million in Q4, aggregating the short-term and the long-term balances. As a reminder, the net difference between unbilled receivables and deferred revenue fluctuates from quarter to quarter, in line with normal business activities as well as our progress on significant multiyear transformation programs we are currently running in North America.

Reflecting strong execution, free cash flow before restructuring payments was $694 million for the full year fiscal 2024 roughly in line with our annual guidance target of $700 million. Including restructuring payments of $75 million, reported free cash flow was $619 million.

Overall, we ended the fiscal year with a strong balance sheet, including a healthy cash balance of approximately $500 million and aggregated borrowings of roughly $650 million. We have ample liquidity to support our ongoing business needs while retaining the capacity to fund our future strategic growth.

Turning to capital allocation on slide 22. We repurchased $120 million of our shares in the fourth quarter and paid cash dividends of $55 million. Overall, we returned a total of $775 million to shareholders for share repurchases and dividends in fiscal 2024, significantly exceeding free cash flow.

Looking ahead, we expect free cash flow of between $710 million to $730 million in fiscal 2025, which does not include additional payments we expect to make under our current restructuring program. Our free cash flow outlook equates to conversion rate of more than 90% relative to expected non-GAAP net income and translates to a healthy free cash flow yield of roughly 7% relative to Amdocs' current market capitalization.

Regarding our capital allocations in fiscal year 2025, we expect to return the majority of our free cash flow to shareholders. This includes dividends, for which we are pleased to announce the proposed increase of 10% in our quarterly cash payments to a new rate of $0.527 per share, subject to shareholders' approval at the Annual Meeting in January.

Turning now to slide 23. As mentioned last quarter, we have continued to invest in our strategic priorities while also evaluating ways to optimize our existing portfolio of product, services, and activities. Following a comprehensive review, we have already started to phase out several low-margin noncore business activities that are becoming commoditized and hold little potential for long-term value addition or profitability enhancement in the future. These activities were barely accretive to net income.

The activities being phased out include, among others, certain low-margin software and outdoor partner activities, including phaseout of some on-prem software and hardware infrastructure and other legacy type activities as we focus more on cloud-related infrastructure and GenAI partner infrastructure. The ubiquity transactional video on demand business is another part of that, where we see a decreasing demand and noncore subscription services.

To provide some added context for our decision, Amdocs has historically demonstrated the discipline to optimize our business activities in response to market conditions and ever-changing telecommunications landscape. During the 2010/2015 timeframe, for instance, we managed a gradual decline of our historical Yellow Pages directory business which we chose to hold on to, while optimizing for positive free cash flow despite the persistent top-line headwind.

As another more recent example, in fiscal 2021, we announced the divestiture and sale of open market, a rapidly commoditizing mobile messaging business that we elected to monetize while market conditions permitted. Back to our current decision, we believe phasing out certain activities will reinforce our level of business visibility, including a higher share of revenue from long-term managed services engagements. It will also sharpen our focus on higher-margin strategic priorities like cloud, monetization platforms, and GenAI where we are well-placed to lead the communication industry through our commitment to innovation. Most of all, we believe this move will substantially improve our profitability, a point I will come back to you in a few minutes.

Moving to slide 24. 12 months backlog was $4.06 billion at the end of Q4. Adjusting comparable periods for the phaseout of the previously discussed business activities, 12 months backlog was up 2.5% from a year ago and up $30 million sequentially on a pro forma basis. The sequential increase reflects a combination of strong sales momentum in the quarter and ramp-up of recently won deals within the next 12 months.

As I just mentioned, phasing out certain business activities will also improve our overall level of visibility in the year ahead, with 12 months backlog now equating to roughly 90% of forward-looking revenue as compared with the historical average of roughly 80%.

Now, turning to our revenue outlook on slide 25. We are continuing to closely monitor the prevailing level of macroeconomic, geopolitical business, and operational uncertainty, which remains elevated in the current business environment. That's the first-quarter and full year fiscal 2025 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.

The activities we are phasing out were substantially already seized in the first quarter and that will naturally impact reported revenue for the full year fiscal 2025. So therefore, calculate our fiscal 2025 revenue growth versus fiscal 2024 in a comparable manner, we are providing an adjusted pro forma number based on our assessment that revenue from the phaseout activities was roughly $600 million in fiscal 2024. To assist your modeling, the regional mix of this revenue was similar to the overall company and contributed roughly $150 million per quarter.

Overall, we expect revenue growth of between 1% and 4.5% on a pro forma constant currency basis in fiscal 2025, which does not include activities we are phasing out. The focus growth rate midpoint is similar to the prior fiscal year includes some inorganic contribution and incorporate another year of double-digit growth in cloud. As for the first fiscal quarter, we expect revenue within a range of $1.095 billion to $1.135 billion which assumed a favorable sequential impact of $2 million from foreign currency fluctuations as compared to Q4.

Moving down the income statement, I'm excited to share that we expect non-GAAP operating margin within a new and improved range of 21.1% to 21.7% in fiscal 2025. We the midpoint of which equates to a substantial increase of roughly 300 basis points as compared with our full-year non-GAAP operating margin of 18.4% in fiscal 2024.

Assuming the midpoint of our new fiscal 2025 guidance, we believe our focus on operational excellence, automation and the gradual implementation of GenAI will support ongoing margin expansion of about 50 to 70 basis points, similar to the size of margin improvement we generated in fiscal 2024. The rest of the margin expansion in fiscal 2025 will result from phasing out noncore low-margin business activities.

Our margin outlook excludes additional restructuring charges we may take. Below the operating line, we anticipate that foreign currency fluctuations and hedging costs will impact our non-GAAP net interest and other expense lines in the range of several million dollars on a quarterly basis. We expect our non-GAAP effective tax rate for fiscal 2025 to be within an annual target range of 15% to 17% for the full fiscal year 2025. And for Q1 specifically, above the high end of that annual range.

Bringing everything together on slide 27, we expect to deliver non-GAAP diluted earnings per share growth of 6.5% to 10.5% in fiscal 2025. In the midpoint of which positions us to achieve double-digit expected total shareholders' return for the fifth year running when including our dividend yield of roughly 2.3%. Based on the proposed 10% payment increase announced today.

With that, back to you, Shuky.

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**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

Thank you, Tamar. We entered fiscal 2025 with a strong 12 months' backlog visibility, supported by our unique business model. Across our large serviceable addressable market and with the challenging demand environment, we continue to see healthy pipeline of opportunity.

And with our ongoing commitment to innovation and best-in-class execution, we are positioned to maintain a high win rate across our strategic domain such as cloud, which continue to grow at a double-digit rates; next-generation monetization platforms; and GenAI, where we were starting to see some production pilots to our first commercial awards.

We're also confident in our ability to drive ongoing margin improvement and a robust earning-to-cash conversion, further supporting our commitment to deliver double-digit expected total share returns in fiscal 2025.

With that, we are happy to take your questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Tim Horan, OpCo.

**Tim Horan** - *Oppenheimer & Co. Inc. - Analyst*

I guess, two questions. How integrated were these businesses with other units and how difficult is it to carve it out or were they fairly distinct.

Secondly, the free cash flow is growing the guidance by 3.5%, but earnings growing 8.5%. Why such a big gap in the two different growth rates? Thank you.

**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

So Tim, those businesses or activities that we decided to phase out from were not much integrated with other things. And we've been working on that for some time now in terms of how to do it in the best way, of course, that it doesn't interfere with other activities that we have. So we feel comfortable that this is achievable, and this is why we said we already phased out as we started the fiscal year from these activities.

And regarding the free cash flow, look, things are not tracking one-to-one in terms of earning growth to free cash flow. But if you look overall, on the health of the business, ability to translate earnings to cash, we feel very comfortable looking on the past several years, you can see that good conversion rate. Some years have been over 100%, some years in the 90%. So I don't think it's like a mathematical accurate formula because, of course, we need to build it bottom up based on the plan of record of the different business activities, the projects, the different deals that we have and we're trying to give the best outlook that we got in terms of what's happening.

But I don't think there's any reason for concern in that, and I don't think there's any fundamental change in the way we run the business in terms of expectations that we should be tracking on par earnings to cash over time.

**Tim Horan** - *Oppenheimer & Co. Inc. - Analyst*

Thank you. And then just can you characterize the backlog and, I guess, overall demand levels out there right now compared to what it was a year or a couple of years ago? Thank you.

**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Regarding the overall demand environment, I think we've been saying on the one hand, a lot of excitement around the cloud opportunities that we can provide to our customers and obviously presented in the very strong double-digit growth we've been doing in the cloud activities in the last two years.

And to remind you, when we say cloud activities, anything between cloud-native products that are coming out of R&D shop to be deployed to the customer, including gradual modernization to the cloud that we enable our customers to take with upgrading current more -- not current, so we at prior product versions of Amdocs, migration into the cloud from different legacy platform into the cloud platforms and managed service cloud ops that we provide our customers. So it includes many, many aspects, including consulting, how to do it, et cetera.

So from that point of view, the demand is strong. In terms of the overall environment, I would say, we are not saying relative to the prior quarters we've been discussing. I don't feel there's a reflection point, but we continue to see a strong pipeline. Still, in some assets, I would say, slow conversion of pipeline to deals.

But you can see we have a very strong win rate. We've been winning a lot of deals, both in terms of managed services, renewal and expansion as well as new transformations and new activities, very strong proof of concept with GenAI that we start seeing conversion into deals, et cetera.

**Tim Horan** - *Oppenheimer & Co. Inc. - Analyst*

Thank you.

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**Operator**

Shlomo Rosenbaum, Stifel.

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**Shlomo Rosenbaum** - *Stifel Nicolaus & Co., Inc. - Analyst*

Hi. Thank you for taking my questions. I just wanted to ask you a little bit Tamar about the cadence of revenue growth that you expect in fiscal year '25 because the high end of the revenue growth and even just the midpoint implies a tick-up in growth over what you've been seeing over the last three quarters?

And maybe you can just talk a little bit about that and how we should be thinking about it? Or is it if I strip out the noncore businesses that you're exiting, that it really is the same. Just trying to think of what the trajectory of the business really is that you're expecting in the guidance?

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Thanks for the question, Shlomo. We've been trying to give a comparable number. So that's why when we say 1% to 4.5% that's after taking out the $600 million of the business we are phasing out from. So from that point of view, we definitely feel just -- that's like the real expectation of comparing apples-to-apples.

The high end of that expects, I would say, better activity in terms of the pace of conversion of pipeline to as well as [to some] backlog, while we are expected rate visibility of 90% at selling the yield, of course, there are different moving parts in terms of pace of execution activities that we are taking into the -- so that's also disclosing there.

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**Shlomo Rosenbaum** - *Stifel Nicolaus & Co., Inc. - Analyst*

So is it -- what's -- is it really -- it's basically you have line of sight to the vast majority, it's just a matter of how fast the pipeline is going to move. Is that the way to think of it? And in terms of --

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Yeah. So when you have the pipeline, you need to close the deal, right? So yeah, it's about making certain estimations on how fast we can convert the deals into closure. But it's also, to some extent, about the pace of taking the back to the things that are in the backlog and recognizing it in the next year.

So while we may have a -- we have a great visibility entering the year -- it's based on certain estimations of how the business we already have in hand is going to convert into revenue, right? So we are taking some scenarios on that as well.

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**Shlomo Rosenbaum** - *Stifel Nicolaus & Co., Inc. - Analyst*

So should we see the revenue growth accelerating? Is that -- that's kind of what I'm looking for. Are we going to see an acceleration of the revenue growth through the year or is it just going to be bumping down around between quarters?

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Yeah, we will see acceleration of the revenue through the year. It's hard to predict exactly the exact trajectory. But yeah, overall, this is what we expect.

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**Shlomo Rosenbaum** - *Stifel Nicolaus & Co., Inc. - Analyst*

And then how should we think about in terms of the restructuring costs that we're going to be backing out of or adding back to free cash flow -- is there a number that you have a line of sight to or a range that we should think about that so we can get actual free cash flow and then kind of build back to the adjusted free cash flow.

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

I would expect something in the ballpark of what we've had in 2024. So I would take that assumption into consideration. So we're talking about roughly $70 million, $75 million.

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**Shlomo Rosenbaum** - *Stifel Nicolaus & Co., Inc. - Analyst*

Okay, thank you.

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**Operator**

Tal Liani, Bank of America.

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**Tal Liani** - *BofA Global Research - Analyst*

Hi, guys. I normally don't give complements to management teams on the call, but I want to give you a compliment for the transparency and great detail in your presentation, very clear. But now is a tough question. You pay for it now. If I -- I want to continue the last question in a different angle. So if I remove the $600 million, I'm still at the same growth rate of last year, which means -- and that's the midpoint, which means the environment -- so I assume, I just assumed that the $600 million didn't have a high growth rate. So that means the core business is X the $600 million is likely continuing the same weakness of last year.

And the question is about the spending environment. I don't have -- I don't think looking at your presentation, which is excellent and understanding what you're doing, I don't think we have any concerns whatsoever with what you offer with your portfolio, with your added value, but we do have a concern over the spending environment. So can you take us through what happened in 2024, meaning how the environment deteriorated? What have you seen in 2024 and your expectations for 2025 when it comes to the spending environment to the willingness of customers to spend money on these kind of projects and what changes the current weakness that we're seeing?

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**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

Hi, Tal. I don't think we see deterioration in '25 comparing to '24. But on the other hand, we don't see yet a recovery of the environment. So far, we -- while we have a lot of opportunities, we're experiencing the same demand environment, which means where win rate is high, but it takes more time to convert deals to obviously, to real projects and revenue or everything.

On the other hand, as we report, we see a lot of growth on the cloud. So on one hand, we have this growth engine is working extremely well for us. I mean, last year, you said 20% of revenue, now, it's 25% of its growing double digit. On the other hand, there is some headwinds in certain respects of legacy systems, as we discussed before. So obviously, this offsets some of the nice activity that we see in the cloud.

But overall, to your question, we don't see deterioration in the demand environment; it's relatively similar. And we check ourselves also with other people to see that we are not seeing something else. And everyone pretty much see the same thing, is that we see relatively the same demand environment, while extremely strong in areas like cloud monetization and others and less strong, if you talk about the legacy implementation, et cetera. So I think it's pretty much the same environment as this is why we didn't feel comfortable, although we see a lot of opportunities to change the growth projection for next year.

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Tal, I do want to add one point, which is about the amazing success we had in 2024 in renewal and expansion of managed services engagements, which is positioned and asset base in a strong way. And given the fact we are continuing to bring new innovation to the table and a lot of our success in winning new opportunities within existing customers as well as new logos has to do with the fact that, a, the base is secured and then the fact that we can continue and upsell into these accounts, the new innovation we bring.

So I think that by that we are positioned in a very good way. So once the demand environment is accelerating, we are coming with the right offering, we have the right base of customers. We have secured our long-term agreements, and we can hopefully accelerate the sale of the new things we bring to the table.

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**Tal Liani** - *BofA Global Research - Analyst*

But Tamar, if I take the question is, is cloud substituting the other 75% of revenues? Because you said that cloud is 25% of revenues. You said it's going to grow double digits. So if I take 10% on 25%, it's 2.5% growth. So that means almost your entire growth is cloud and the other 75% of the business is flat. That's just from taking your midpoint, give or take. So the question is --

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**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

Some of the cloud activities, not all of them are incremental. For example, if we had managed services on-premise, and we do a project and migration to the cloud, and we are moving from on-premise managed services to cloud, there is some incremental, but you cannot assume that everything is incremental because so you're replacing one type of managed services, which one, which is more expanded one, but it's like everything is incremental.

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

And on a debt basis, eventually, the company is growing, given the phenomena that Shuky mentioned as well as the fact that we are continuing to add new scope in certain customers, right? So in some aspects, it's replacing activities we've done before. And in some aspects, it's new activities --

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**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

It's a combination of replacing on-premise activities with cloud and in many cases, some incremental.

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**Tal Liani** - *BofA Global Research - Analyst*

Lastly -- I understand. So lastly, how do you define cloud? Meaning I saw the chart -- and on the right-hand corner on top, you say partnership with Amazon and others. So can you -- I understand what you're doing with cloud activities with telecom providers which you just described. What do you do with cloud titans, meaning how do you participate in the cloud titan environment? And how important is that part of your business?

**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

So it's a good question. We have different type of cloud activities. It trends from our activities in T-Mobile, in AT&T, which is a complete rip and replace. We are replacing everything in the legacy platform to a completely our next-generation platform, which is Cloud Native, and we are bringing to the customer a full model of holistic value proposition from the system, the operation, the cloud consumption, everything. They are just paying us, and we are obviously getting the whole service A to Z. This is like the model that we are running now use transformation program both in T-Mobile and AT&T.

We have some customers, for example, the one that we recently signed Vodafone Italy. This is more like a gradual transformation. We take the current version that the customer is running, and we are adding to the cloud version. So this is not a complete rip and replace like we do in AT&T, T-Mobile, and Vodafone Germany, and others. And here, where actually they are embarking on a more gradual modernization journey.

We have a customer that we take non-Amdocs system, which are in our domain, and we transition into the cloud. This is another example. Another very good example is the deal we signed with AT&T over there, we're taking hundreds of mainframe applications of AT&T, and we are moving them from the mainframe domain, convert it from Cobalt to then moving and doing their services running them running them in the -- on the cloud environment.

We have our platform on cloud agnostic. So in some customers, we run in AWS, some customer runs on Microsoft Azure, for example, T-Mobile is AWS. AT&T is Microsoft Azure. And when we talked about our partnership with the Webscale, it depends on which cloud we are running what type of infrastructure we are bringing to this type of modernization. It could vary between the different cloud providers.

**Tal Liani** - *BofA Global Research - Analyst*

Got it. Thank you very much for the detailed answer.

**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

Thank you, Tal.

**Operator**

Tavy Rosner, Barclays.

**Tavy Rosner** - *Barclays PLC - Analyst*

Hi, good afternoon. Thanks for taking my questions. I just wanted to ask about the competitive environment and especially around the strategic domains. Are you concerned that some of your customers whenever they will transition from on-prem to the cloud, might they be tempted to use kind of point solution for your competitors or you're still confident around your retention rate?

**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

We are very confident. First of all, we have a major -- an excellent 100% retention of all our customers. And actually, we discussed it before in our as in the cloud operation it's a bit -- they are even more expanded comparing to the on-premise. And I will give an example.

In most of the cases, in the on-premise environment, our managed services operation where for the most part, including running our Amdocs system or other systems in the data center. All the data center operations was, in most cases, was running by the customer. When we move to cloud operation, actually, we are taking everything. We are both running the -- our system in services. At the same time, we are running all the cloud infrastructure as part of the managed service. So I would argue that our position in the cloud definitely is not eroded, if any, it's even more stronger.

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**Tavy Rosner** - *Barclays PLC - Analyst*

Thanks for that, Shuky. That's all for me. Thank you.

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**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

See you tomorrow.

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**Operator**

Ryan Potter, Citigroup.

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**Unidentified Partifipant** - *- Analyst*

(inaudible) on for Ryan Potter. I just going to dive back into the phase out. I was curious if you could maybe go into a little bit more color on the business lines that are being included here and the mechanics of how that will be phased out? It sounds like it's began, but curious if it's like a gradual phase out there at 2025? Or is this something that you guys are expecting to happen by a certain point in time? Is there any attempt also selling these businesses prior to taking them out? And to what degree is free cash flow being impacted by these phaseout? Thank you.

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**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

I will start -- first of all, it started immediately already started in our first quarter in fiscal '25. So we're implementing this immediately -- this is -- the whole phase out process is a result of a very slow, I would say, methodical process that we've gone through is throughout the second part of 2024 as we prepare for 2025.

And when we talk about the business when we are phasing out, it's clearly impacted by the strategic priorities of the company. When we move much more to cloud activities and cloud operations, and we are actually phasing out on-premise activity. When we move to support more type of data generative AI and this type.

So actually, we did not see any point to continue to hold a low-margin business, which is a less lower visibility, low margin, there's not so much more on-premise and legacy activities and that we thought we didn't see any way to improve the profitability or to make it much more strategic. So the priority was on the strategic domain of the company. And this is where we are investing, and this is where we want to make sure that we continue to grow, and this was the rationale for the phaseout.

Tamar, do you want to --

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

I just want to say that as we explained to some historical examples. When we decide that there is a business that is not going to be part of our future strategy, naturally, we ask ourselves whether we want to tip it and milk it for margins and cash. Do we want to sell it or we just want to see doing it given these kind of activities that we are talking about now, unlike maybe other decisions we had in the past.

In this case, we decided the best approach will be to stop doing it. And we prepared ourselves to doing it, of course, making sure that we do it in the right way, while taking into consideration all aspects, and this is how we got to the conclusion. And then that's something that -- that makes sense to sell in any way.

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**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

And as result, I think as we discussed with the new, I would say, milestone in the profitability, which is over 21%.

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**Unidentified Partifipant** - - *Analyst*

Got you. And that makes -- are there any opportunities -- like additional opportunities here to optimize the portfolio that you guys are evaluating? Is that possible maybe to near term, but just curious about that.

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

I think any healthy company should -- we should ask that question on an ongoing basis, right? I mean so never say never, there isn't anything imminent that we can talk about, but with some that we need to assess all the time and ask that question, what do we want to accelerate or want to keep doing versus what do we need to stop doing -- but it's not big next week that we forgot to mention now.

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**Unidentified Partifipant** - - *Analyst*

Got you. Yeah, that makes sense. And last question for me is just on some of the business lines that we're phasing out. Just it seems like some of these were from that were related to acquisitions that we made in prior years and the thought process around M&A and maybe the due diligence process there changed at all? And your approach for M&A as you enter 2025 change at all or really capital allocation more broadly?

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Yeah. But just to put some frame up to that. The one piece there that is related to M&A was something that we've done in 2018. So it's quite a while ago, and it specific pace of was that has to do with video on demand. So it's not that the whole business there is changing. It's just the speed on demand became something that is really reduced and not relevant as it was in the past.

But back to M&A, we are actually very happy with the M&A we've done. When you look on some early success signs of recent M&A like in the case of TEOCO, which is around service assurance. We've won a big deal of next gen of that in APAC that we mentioned last quarter, in which the offering of TEOCO has been a major piece.

We talked about the large deal of AT&T, of maintenance to cloud in which capabilities we acquired from the [ASTIDIA] deal, the deal that we've done last November was a part of. So we're actually pretty pleased with the recent M&A activities that we've done, and we will continue to look on the right opportunities. There isn't anything to talk about in terms of change of M&A strategy. We've continuing to do cap on deals where we may find opportunities to enhance our offering, original spread, et cetera. So I think you should consider that approach is something we will move on and do also in the future.

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**Unidentified Partifipant** - - *Analyst*

Okay. Thank you.

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**Operator**

William Power, Baird.

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**William Power** - *Robert W. Baird & Co. Inc. - Analyst*

Okay, great. Thanks. I guess maybe a couple of follow-ups. I guess, Tamar, it'd be great if there's anything you could share on the inorganic contribution to fiscal '25, any kind of framework there, I think, would be helpful.

And then maybe for Shuky, I just like to get your perspective on the generative AI momentum. You're seeing customer conversations, how we should expect the revenue on that front to potentially build over the course of the year?

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**Shuky Sheffer** - *Amdocs Ltd - President, Chief Executive Officer, Director*

So I will start with generative AI question. I think we will see it accelerate throughout the year. Remember, when we talk about generative AI, there are different layers or domains that we see potential revenue acceleration. There is the high-end generative AI when we partner with NVIDIA and OpenAI and others, and we create the agent or the super agent and the capabilities.

But as we discussed before, GenAI everything is about data. And actually, the whole plumbing that you need to do under the route to allow this -- the models to be accurate and to be efficient -- so it's a very big data play. So we see a lot of potential in data play for example, we announced that we are collaborate in T-Mobile, with OpenAI and T-Mobile to doing the levering our data platform called DataONE, to be able to provide all the relevant data in real time, which is relevant for all these activities.

So we won a couple of deals, one of them we cannot announce this quarter because we didn't get approval. So we see -- I believe that throughout the year, in more and more proof of concept, become real projects, and we see more adoption to our platform and the data domain that we see acceleration in revenue.

I forgot the first question.

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Yeah. Now, I'll go back to the question about the inorganic contribution to the growth rate. So the majority of the growth is expected to be organic. Yes, we did factor in some impact also from M&A that will come through the year. And from a margin point of view, definitely organic based on a lot of activities we do around operational excellence, automation, the tools, the GenAI, et cetera, as well as the change in the business mix given the phaseout that we discussed.

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**William Power** - *Robert W. Baird & Co. Inc. - Analyst*

Okay, thank you, all.

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - Chief Financial Officer, Chief Operating Officer*

Thank you.

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**Operator**

This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Matthew Smith for any further remarks.

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**Matthew Smith** - *Amdocs Ltd - Head of Investor Relations, Company Secretary*

Yeah. Thanks, John, and thanks, everybody, for joining us this evening. If you have any additional questions, just reach out to us here in the IR group. And with that, have a great night. Thanks.

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**Operator**

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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