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DOX - Q3 2013 Amdocs Limited Earnings Conference Call

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OVERVIEW:

DOX reported 3Q13 revenue of \$841m and non-GAAP EPS of \$0.83. Expects 4Q13 revenue to be \$830-860m and non-GAAP EPS to be \$0.60-0.66.



CORPORATE PARTICIPANTS

Liz Grausam *Amdocs Ltd - VP, IR*

Eli Gelman *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Tamar Rapaport-Dagim *Amdocs Ltd - CFO*

CONFERENCE CALL PARTICIPANTS

Ashwin Shirvaikar *Citigroup - Analyst*

Amit Singh *Jefferies & Co. - Analyst*

Paul Thomas *Goldman Sachs - Analyst*

Dan Cummins *B. Riley & Company - Analyst*

David Kaplan *Barclays Capital - Analyst*

Thomas Roderick *Stifel Nicolaus - Analyst*

Lauren Choi *JPMorgan - Analyst*

Ameet Prabhu *RBC Capital Markets - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to this Amdocs third quarter 2013 earnings release conference call.

Today's conference is being recorded and webcast.

At this time, I will turn the call over to Liz Grausam, Vice President of Investor Relations. Please go ahead.

Liz Grausam - *Amdocs Ltd - VP, IR*

Thank you, Jessica.

Before we begin, I would like to point out that during this call we will discuss certain financial information that is not prepared in accordance with GAAP. The Company's management uses this financial information in its internal analysis in order to exclude the effect of acquisitions and other significant items that may have a disproportionate effect in a particular period. Accordingly, management believes that isolating the effects of such event enables management and investors to consistently analyze the critical components and results of operations of the Company's business and to have a meaningful comparison to prior periods.

For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release, which will also be furnished with the SEC on a Form 6-K.

Although this call includes information that constitutes forward-looking -- also this call includes information that constitutes forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations will not be material. Such statements involve risks and uncertainties that may cause future results to differ from those anticipated.



These risks include, but are not limited to, the effects of general economic conditions and such other risks that are discussed in our earnings release today, and at greater length in Company's filings with the Securities and Exchange Commission, including in our annual report on Form 20-F for the fiscal year ended September 30, 2012, filed on December 11, 2012, our Form 6-K furnished for the first quarter of fiscal 2013 on February 12, 2013, and our Form 6-K furnished for the second quarter of fiscal 2013 on May 16, 2013.

Amdocs may elect to update these forward-looking statements at some point in the future; however, the Company specifically disclaims any obligation to do so.

Participating on the call today are Eli Gelman, President and Chief Executive Officer of Amdocs Management Limited, and Tamar Rapaport-Dagim, Chief Financial Officer.

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Thank you, Liz.

And good afternoon to anyone joining us on the call today. We are pleased to announce that our third fiscal quarter results were solid and consistent with our expectations. We delivered our third consecutive quarter of record revenue. We demonstrated strong operational performance, and our free cash flow generation was robust. We believe our results demonstrate our strong focus on execution, which is increasingly critical in the context of global macroeconomics uncertainty and the dynamic nature of the telecommunication market.

By focusing on our sales objectives, improving our operating efficiencies, and effectively allocating our capital, we believe we are providing the best support to our customers, while driving healthy returns to our shareholders in these uncertain conditions.

Let me now add some color to the Company activity during the last quarter on a regional basis. Beginning with North America, we are pleased to report another strong solid quarter. As we predicted several quarters ago, carriers are seeking new ways to monetize their investment, which is supporting our activities across multiple customers.

AT&T was an important contributor to performance, as the customer focuses on new growth opportunities. During the quarter, we announced that we were selected to support AT&T's new no-contract service, Aio Wireless, as it expands into the fast-growing segment in the United States wireless market. We are also partnering with AT&T to support a variety of other initiatives, both in our existing buying centers and within new growth areas.

Looking at the whole North American market, there are many variables in this increasingly dynamic region that we need to consider in our planning. First, we are seeing a renewed level of competition in the North American wireless market. As a critical partner for our customers in refining and executing their competitive strategies, we believe stronger competition can generate demand for our products and services over the long term. Second, while T-Mobile and SoftBank have completed their respective transactions with Metro PCS, Sprint, and Clearwire, we are still only in the planning stages in the areas that pertain to Amdocs.

We cannot predict what decision T-Mobile and Sprint -SoftBank will make, and we are expecting that it will take some time before we understand and start executing our role in helping them shape their strategic agendas. I can assure you, though, that we are working diligently to demonstrate that we can bring value to both T-Mobile, Sprint, and SoftBank.

Third, it is difficult to predict the outcome of additional consolidation activities among North American carriers. As you know, AT&T recently announced its intention to acquire Leap. Additionally, there are widespread speculations of many other potential combinations of consolidations in the market. So to say the least, there are many moving parts in North America which can affect our outlook over the course of the coming quarters.

Moving to the emerging markets, we continue to support our customers in many of the world's most complex transformation projects during the third quarter. We also see a substantial pipeline of opportunities across Southeast Asia and Latin America. We are, however, mindful of the increasing



challenges microeconomics and telecom market trends within the emerging markets. This shift in dynamics may affect the timing and scale of new projects awards.

Turning finally to Europe, we delivered another quarter of sequential, stable, revenues. Difficult microeconomics and regulatory conditions persist in Europe and continue to present a challenges for the region's carrier. In this context, we are delighted that we have signed a five-years managed service agreement with a major European wireless group to support its customer care and billing systems, which includes both Amdocs and third-party applications. We will be replacing a number of current vendors and consolidating the activity in a new shared services center.

. The initial agreement includes three of the carrier's affiliates, and we look forward to expanding this arrangement with other members of the group in the near future. We believe that this agreement is an important evidence of the value that Amdocs' managed services can deliver in Europe, as operators seek greater simplicity and improved quality in their IT operations.

To wrap up, we are using multiple leaders to bring value to our customers across the globe, while simultaneously driving shareholder's value. Our competitive position remains strong and we are winning new businesses, including the two highly strategic deals with AT&T and the major European wireless group that I just mentioned today. As we look into the fourth quarter, we predict continued growth, but remain cautious on our growth outlook due to the many uncertainties we have discussed.

Our outlook also reflects our continued focus on our operational execution and capital efficiency. As such, for the full fiscal year, we now expect to deliver non-GAAP EPS growth towards the higher end of our previously noted range of 5% to 8%.

With that, I will turn the call over to Tamar.

Tamar Rapaport-Dagim - *Amdocs Ltd - CFO*

Thank you, Eli.

Third fiscal quarter revenue of \$841 million was within our guidance range of \$825 million to \$855 million, with a negative impact from foreign currency fluctuations of approximately \$4 million relative to the second fiscal quarter of 2013. Our third fiscal quarter non-GAAP operating margin was 16.8% and stable compared with the second fiscal quarter of 2013. Below the operating line, net interest and other expense was \$2.7 million in Q3, primarily related to currency fluctuations. For forward-looking purposes, we continue to expect a net expense in the range of few million dollars quarterly due to foreign currency fluctuations.

Non-GAAP EPS was \$0.83 in Q3, compared to our guidance range of \$0.70 to \$076. A lower effective tax rate positively impacted non-GAAP EPS in Q3, and was primarily attributable to the net decrease in our provision for uncertain tax position accumulated over several years, due to the lapse of the statute of limitations in certain jurisdictions during the quarter. The lower effective tax rate accounted for about \$0.10 EPS upside; and without it we would have been at the midpoint of our guidance range.

Free cash flow was strong, at \$151 million in Q3. This was comprised of cash flow from operations of approximately \$173 million, less \$22 million in net capital expenditures and other. DSO of 72 days improved slightly quarter-over-quarter. Total unbilled receivables were stable as compared to the second fiscal quarter of 2013. Our total deferred revenue, both short- and long-term, decreased by \$27 million sequentially in Q3.

Our cash balance of the end of the third fiscal quarter was approximately \$1.1 billion. 12-month backlog, which includes anticipated revenue related to contracts, estimated revenue for managed services contracts, letters of intent, maintenance and estimates of ongoing support activities was \$2.83 billion at the end of the third fiscal quarter, up \$20 million sequentially.

During the third fiscal quarter, we repurchased \$58 million of our ordinary shares, under the \$500 million authorization which was approved in November, 2012. We had \$433 million remaining under this authorization as of June 30. This plan has no expiration date and is being executed under our 50/50 framework for free cash flow allocation. As reminder, under this framework, on a long-term basis, we expect to allocate approximately 50% of our free cash flow to strategic growth activity, including M&A, and the remaining 50% to shareholders through dividends and buybacks.



Looking forward, we expect revenue to be within a range of \$830 million to \$860 million for the fourth fiscal quarter of 2013. Imbedded within this guidance is the assumption that growth rate within our North American region will moderate in Q4, due to normal fluctuations in account activity. Our guidance range includes minimal anticipated sequential impacts from foreign currency fluctuations, as compared to Q3. Translating the fourth quarter guidance to our full fiscal year, total revenue growth continues to track towards the midpoint of our previously guided annual range of 2% to 5% growth on a constant currency basis.

We expect foreign currency fluctuations to place a drag of about 50 basis points to our full-year growth on a reported basis, which was not anticipated at the start of the year. As such, we expect roughly 3% reported revenue growth for the full fiscal year 2013, based on the midpoint of our fourth quarter guidance. Within this outlook, and consistent with our prior expectations, we anticipate revenue from our directory business in fiscal '13 to decrease in the double-digit percentage range, placing almost a 1% drag on the total company results.

We anticipate our non-GAAP operating margin in the fourth quarter and for the full fiscal year to continue to be within a range of 16% to 17%. We expect the fourth fiscal quarter non-GAAP EPS to be in a range of \$0.60 to \$0.66. This range reflects an expected negative impact of about \$0.10, which is primarily due to changes in tax laws and rates in several jurisdictions. This happens to cancel out the favorable benefit of the lower tax rate we reported in Q3, and we encourage you to look through both the third and fourth quarter tax adjustments. We continue to expect our full fiscal 2013 non-GAAP effective tax rate to remain within the target range of 13% to 15%.

Our fourth fiscal quarter non-GAAP EPS guidance also incorporates an expected average diluted share count of roughly 164 million shares in Q4, and the likelihood of a negative impact from foreign exchange fluctuations, net interest and other expense. We excluded the impact of incremental future share buyback activity during the fourth fiscal quarter, as the level of activity will depend on market conditions. Factoring in our fourth quarter outlook, for the full fiscal year, we now expect to deliver non-GAAP EPS growth towards the higher end of our previously noted range of 5% to 8%.

With that, we can turn it back to the operator to begin our question-and-answer session.

Liz Grausam - Amdocs Ltd - VP, IR

Operator, can we move to Q&A now?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ashwin Shirvaikar, Citi.

Ashwin Shirvaikar - Citigroup - Analyst

Thank you. Good afternoon, Eli. Good afternoon, Tamar. So my question, as I look at your prepared remarks, even before, you have mentioned consolidation among North American carriers. You mentioned challenging conditions, so on and so forth. The new thing seems to be bringing in language around the slowdown in subscriber and economic growth segments of emerging markets, which was not exactly a surprise, but you're highlighting that in your prepared remarks. And I wanted to figure out how it affects you. Does it make telecom clients more likely to outsource, more likely to go to managed services, or does it push out? I can see both sides of it. Is it positive, negative, how are you looking at it?



Eli Gelman - Amdocs Ltd - President & CEO, Amdocs Management Limited

Ashwin, thanks for the question. Look, we live in the same world. So we read the same data. And the fact that the growth in the emerging market is slowing down is a reason for concern for us for the long term. It basically means that they keep on growing, but the second derivative is now negative. We don't think that there was a direct correlation between that immediately to our business. But on the other hand, if that will affect the overall atmosphere, eventually it will get to us, so it may slow down some of the projects. They may chunk it up, instead of having a full, major transformation, maybe slow it down. And it may come up in different format. The fact that we are mentioning it is because we live in this environment. On the other hand, we are also mentioning that we have a healthy pipeline of opportunities in the Southeast Asia market and in Latin America and CALA. We work diligently on many of them, and we actually plan to win them. So, it's a color that we share with you, because that's what we see on the ground. I think this is the best color I can give you.

Ashwin Shirvaikar - Citigroup - Analyst

Sure. No, that's quite helpful. The second question is about the managed services agreement in Europe. So congratulations on winning that. But could you talk a bit more about how it is going to be structured? Is it sort of a rebudgeting exercise where you all of a sudden get revenues starting on day one and then there's an incremental initial CapEx involved? Or is it sort of a transformation, followed by a takeover of facilities? How's it structured?

Eli Gelman - Amdocs Ltd - President & CEO, Amdocs Management Limited

So it's a great question. First of all, thank you for the congratulations. We worked quite hard on it. But mainly, we think it's a vindication of the model and we hope that if we can expand it or maybe even repeat it with other carriers, it will be a demonstration of the managed services vehicle within an economy that has challenges. You obviously understand that the European carriers are still living in a very competitive environment, and they have to keep all the KPIs and other initiatives. So there is almost an oxymoron here that they want to get it all done better and more effective and cheaper, and they still want to keep the same KPI and same competitive position.

The way specifically this agreement will work is that we will rebadge over time. It doesn't happen in one day, but over time, not a long time, we will rebadge individuals that are working on the application, maintenance, the development and so on and so forth, customer care and billing application, in several locations in Europe. And then from that point on, we have a base to provide a, better service, but b, a base for expansion, either modernizing components or adding new aspect and so on and so forth. We really look forward to this type of agreement. In terms of the capital, there was no major capital involved in this. Minor ones, really minor ones. Nothing to mention here. So altogether, it's a very important milestone. It's a good demonstration of our abilities and it happens in the heart of Europe, so it's very relevant.

Ashwin Shirvaikar - Citigroup - Analyst

Great. That's good to hear. Thank you.

Eli Gelman - Amdocs Ltd - President & CEO, Amdocs Management Limited

Thank you, Ashwin.

Operator

Jason Kupferberg, Jefferies.



Amit Singh - *Jefferies & Co. - Analyst*

Hello. This is Amit Singh for Jason. Quick question on North America revenue growth. You mentioned in your prepared remarks that outside of AT&T some other, you're witnessing some growth among some other key customers, as well. I was wondering if you could provide more details on that.

Tamar Rapaport-Dagim - *Amdocs Ltd - CFO*

We are seeing actually a broad base of activity in North America. It includes both the wireless providers as well as in the cable and satellite. For example, we talked last quarter about winning a meaningful managed services activity, first one, actually in North America, in OSS, and that was with Comcast. We are there supporting US Cellular as they go through a major transformation in the organization of their system. So we are seeing healthy activity in all kinds of customers in North America these days.

Amit Singh - *Jefferies & Co. - Analyst*

Okay. Perfect. And over the last three quarters, you had some meaningful emerging market wins. And emerging market revenue, I believe, as we know, fluctuates quarter to quarter. But this quarter it seemed to have done well. So I was just trying to get a sense of where are you in the implementation cycles on all these contracts that you had won over the past few quarters? And are the riskiest phases, so to speak, are they still ahead of us or are you over them?

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

So maybe I'll start, and Tamar may add some comments. In terms of implementations, these are very complex projects. But I'm actually glad to share with you that in all several projects -- there are not a couple, there are several projects -- we are progressing well. Some of them may cut initial customers into production already. Some of them are in other stages, and some are in the design stage only, both in Southeast Asia and Latin America. We are quite pleased with the progress there. And no, we don't see major -- no, there's any one of these major, dozens of millions of dollars transformation project has some risks.

The overall statistics in the world is not very impressive. Our statistics is very close to 100%. And we intend to keep these statistics in this project, well. So I don't think we can really call out any major risks in this type of project. It's just that it takes time. Some of them are moving into production, some of them are in earlier stages, but all of them progress well.

Amit Singh - *Jefferies & Co. - Analyst*

Thank you very much.

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Thank you, Amit.

Operator

Paul Thomas, Goldman Sachs.

Paul Thomas - *Goldman Sachs - Analyst*

Hello, guys. Thanks for taking my question. You talked about some of the recent M&A activity in the industry. And maybe not specific to these deals, but could you talk historically about the time line? How long after the deal does it take to firm up some decisions that would impact you? Is it a few quarters, or what's the typical time frame?

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

That's a very good question, Paul. From previous -- and again, history's the best indication for the future. I'm not sure to what extent it will be relevant. But in previous situations, when you looked at the Cingular, when you looked at the Sprint buying Nextel, and a few others in North America, it usually takes a few quarters, maybe two or three quarters, to really go through the design phase. Of course, the strategic reasoning is there before they make the transaction. But since the companies cannot really work together, almost by law, and they do not share the same data room, the same systems and same networks and everything else, they go through a design phase on all aspects. Usually first, the network because they have to make sure the next day the phone is working on the new network. For example, we were supporting all of day one of activity of Metro PCS being brought onto the T-Mobile network. So this stuff is almost immediate.

But the rest of it, the strategy, the policies, call centers, consolidations, stores, price plans, and the philosophy of the company takes a few quarters to materialize. And these are the stuff that pertain to Amdocs. And that's why we're saying it's a bit of an unknown. They're going to their drawing boards, happen to be that both of them are T-Mobile and SoftBank's Sprint are within this window of two or three quarters of design. And we tried to work with them as much as we can, and to demonstrate our capabilities of the past and what we can do for them in the future. But it's a lot of unknowns.

Short term the unknowns are always greater. As they start shaping their strategy, we become more confident on our, also. As we said always, short term is always uncertainty of different sort and volumes. It can run from A to Z, almost on all of them. Longer term, we believe that there are really very, very few people that can help with this type of transformations and protect the transformation and help them actually monetize it and become relevant.

Now especially in North America market, if you think about it, five major carriers are just changing ownership or completely blending into another one within whatever, two quarters, including Metro and Leap and Clearwire, and ownership of Sprint, and so on and so forth. So you can understand there is a lot of uncertainty around this. We believe that long-term, we should be able to demonstrate our capabilities. But it's unknown. Especially with the Japanese, they are new to the American market. They don't know us. We don't have a major business in Japan or with them before. So we start from scratch. We go A,B,C. We go back to the basics.

Paul Thomas - *Goldman Sachs - Analyst*

Thanks. That's helpful. On uses of cash, you've outlined your 50-50 framework on returning cash. At what point does it make sense to shift more over to dividends and repurchases? Are there deals that you've looked at in the recent past that are large, that you want to hold cash for those? Or have valuations risen past a certain point that would make you think you're unlikely to do a deal? I guess, how are you thinking about any potential change in that framework down the road?

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

So Paul, the reason why we put this framework is because we don't want to change it every quarter or so. So we will have to be a little bit patient on how it will evolve. But I will just repeat our commitment saying that, if we would not have very good ideas how to use of cash for strategic growth, we would most likely accelerate the buyback component. The dividends are obviously much more stable, the no-regret component of it. But I would not measure it -- and we don't measure it internally, quarter-by-quarter. And then if we see that our cash balances are positive, but accumulated too quickly, we may accelerate some of it.

On the other hand, without referring to specific M&A or something, if we would find that we need to use more of this capital, we'll do it. That's exactly why we want this flexibility. I would say, we'll stay within this framework as a base and we'll deviate and kind of softly change the potential meter as we move forward, but not necessarily every quarter.

Tamar Rapaport-Dagim - *Amdocs Ltd - CFO*

Just one thing to add. It's not like we have in mind a single deal that is in front of us and therefore we are piling up the cash. I mean, our strategy presents different opportunity to augment our growth and offering build up and regional buildup, in terms of different acquisition opportunities. So we're thinking about it more in terms of several opportunities in front of us, rather than a single large deal.

Operator

Dan Cummins, B, Riley.

Dan Cummins - *B. Riley & Company - Analyst*

Thank you very much. A couple questions. Eli, I was curious if you could describe a little bit more about the deal cycle related to the win in Europe, the five-year managed services agreement. How long, how deep is that relationship or has it been, or is it really net new stuff for Amdocs? I'm curious, it didn't sound like, based on a previous answer, that there's going to be any anticipated margin pressure from this one deal that would be visible to investors. But I was curious, in particular, about the December quarter. And I know you haven't given guidance yet there, but you talk about the transformation projects coming online in the emerging markets, in addition to this deal. I'm just curious if in the December quarter, you anticipate margin pressure, that being a fiscal 1Q.

And last question was related to the shared services and development center. Does shared in that respect, in that context refer to other properties of this European telco, or to other competitive opportunities for Amdocs? Thanks.

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

So Dan, I'll try to answer your 2.5 questions. Basically, the deal cycle itself was long. We are talking about Europe, we are talking about managed services, five years, rebadging of people, agreement of KPIs on transformations -- all of that. It's complex. We actually created a master agreement, because we are optimistically thinking about multiplying the same type of mechanism over different operating companies within this group. So we had this structure first. And then, luckily, throughout the quarter, we managed not only to sign the framework, but also have the three first operators, and we hope to have a couple more in the near future and maybe more later on. So the shared services is around this group. It's not going to be shared in Europe over other, or whatever. But this is sizable enough to create this -- it's a logical service group that has a lot of commonality. The people themselves will be spread, some of them will be in our back office, heavy center. Some of them will be on site and support customers.

In terms of the EBIT pressure, first of all, for quarter 4. We don't expect it to be -- it's marginal. If we have any, it's marginal. So we are not -- it's built into our guidance. It's not something dramatic. In principle, even if I have a very accurate [advance] on quarter 1, I prefer not to go there, because that will be crossing the line to FY '14. I promise you, come November, we'll give you guidance, most likely for the entire year, but definitely as much as, as far as we can see and with as much color and accuracy as we can.

Dan Cummins - *B. Riley & Company - Analyst*

So just if I could clarify, so you were talking about in Europe, these are discrete wireless telcos, not separate properties of a single telco?

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

It's actually, -- look, since I cannot use the name, I have to be careful. And you'll excuse me for that, not giving you enough data that you can extrapolate. And it's not a quiz or a riddle. It's a different operating companies in different countries that belongs to a galaxy, a conglomerate. That is the nature of the deal.

Dan Cummins - *B. Riley & Company - Analyst*

Okay. Thank you.

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Thank you, Dan.

Operator

David Kaplan, Barclays.

David Kaplan - *Barclays Capital - Analyst*

Hello, everyone. I think that the managed services contract in Europe is an interesting one. I think we've talked about it for a few quarters already, about the potential for Europe and for managed services to come back there. One of the roadblocks to that, that you guys mentioned in the past, had to do with the labor law and labor negotiations. How did that play out in this new contract you guys signed? Is something changing, or was this just one hurdle you managed to get over, and when you look forward, it's going to be difficult going forward with other operators?

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Look, David, the labor component in Europe was, and remain, a challenge. So let's start from the end. We managed to hedge it and frame it in such a way that it will not be material or not be really something that will jeopardize the entire business for us. Because we are after good businesses. And the customer was very attentive to that and work with us on the different countries. And you have to analyze country by country, because the laws change quite dramatically between country A to country B to country C. So it's not like we found the magic formula how to improve the labor, because we did not.

And I would not also say that, necessarily what we did here is 100% absolutely relevant for another galaxy or another European company. These are the type of deals you go through dozens, and sometimes hundreds of parameters and sort them out one-by-one. Tedious work on timing, on KPIs, uptime, and how long it will take you to get the [beans] on every agent, what will be the maximum every week. And the labor, and how many people you can actually change or release over the next one year, two years, three years, and so on and so forth. The right of first refusal for changes. And I can go on and on.

So I think that the beauty of it is that we are demonstrating here a tool that I hope can be expanded within this group and also expanded outside of this group, because it's a demonstration for others as well, of course. Everybody has the same issues. We manage to demonstrate better results, better KPIs, on a lower cost and much higher quality, which sounds like almost impossible, but that's exactly why we have this expertise in Amdocs to do stuff that other people cannot do. And the rest of it, you know, I will have to work hard and then prove each one of them every quarter, and then say also, a, that it's the same and that we can take it over to other companies.



David Kaplan - *Barclays Capital - Analyst*

Okay. Thanks. And in the beginning, in the prepared remarks, you talked again about the modernization of data. Obviously, that being the major trend for your customers. Can you talk a little bit about some innovations that you've seen very recently? We've heard Amdocs talk in the past. We've heard Rami in the past. Are you seeing yet any kind of traction coming from machine to machine, or some of these more outlying, more forward-looking type products that Amdocs could potentially offer its customers? And are the service providers there yet or is it still kind of a, we would like to have one day?

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

It's a great question. My answer will be more limited, because we see different initial aspects of all the things that you mentioned. So if I just take a couple of examples. On the machine to machine, in some areas, you see countries, especially North America, by the way, that believe highly in connected costs. That's part of machine to machines. And in other countries, you think about that carriers that are more interested on easy on-boarding a lot of small companies, could be irrigation companies, could be security companies, could be whatever you mean. So these are very different implementations. But the nice thing is that we've been a, softer platform and services that go along with it. And we believe that we can get this type of business moving forward.

When it comes to monetization of data, per se, data usage, you know, obviously the best example right now is the Family Share that they have in North America, which is a successful program. But you see other places trying different things, including substitute, not look to you like monetization of data, but it's exactly that, which is tiered price, for example. You get up until X amount of dollars, euros, dollars, whatever it is, and then you have different rates for consumption of additional data. That's monetization of data, in a different format. You may have a bill shock prevention. That is to say that they need to monetize data and to make sure that these individuals, while roaming, would not cross whatever threshold they put in front of, they put before they go onto the trip, could be EUR6.50, whatever it is. This is monetization of data.

So what we see, we see a few use cases already in action. But to tell you that like an epidemic positive way, we see few programs conquering the world. No, we don't see it yet. But we knew it when we talked about it. We talk about for about three or four quarters. We knew that we are ahead of the market. The nice thing about it, that every time the market starts somewhere, the chances they will call us is actually higher, because we have been early to the market. We want to be the thought leaders of this market. We deserve and expect it, if you will, to be the thought leaders of this market. And that's part of it.

David Kaplan - *Barclays Capital - Analyst*

Great. Thanks a lot.

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Thank you very much, David.

Operator

(Operator Instructions)

Tom Roderick, Stifel.



Thomas Roderick - *Stifel Nicolaus - Analyst*

Hello, guys. Good afternoon. Eli, in the past you've talked a little bit about LTE upgrades, and generally network upgrades as a whole, being something that you can participate more on the OSS side for growth. What are you seeing relative to OSS versus BSS in your offerings these days and the demand for them? How should we think about OSS as a growth engine for the Company here?

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

So Tom, it is true that usually at the infrastructure investment phase, post the marketing and offering phase, which comes usually afterwards, the tool that we are using, or that we are leading with OSS, within the OSS, we are talking about inventory. We are talking about what you call SOM, or service management. And we're talking about all kind of projects that are relating to optimization and planning of this type of network. Now what you need to remember is that different customers would actually apply these tools differently. Some companies will make a point to implement new technologies on the legacy whatever, legacy service management or legacy inventory or legacy whatever. Some others actually open up another instance of this type of software, which is usually better for us.

So altogether, OSS is still a growth engine for us, it is progressing well. And, we actually see now managed services in OSS. We declared that in Brazil, we declared that in [Concord]. If you ask me if this is the best performance level or if this engine is tuned perfectly, no, I don't think so. I think we can actually do better. And as we speak right now, we have new offerings around OSS and better linkage of OSS to BSS, and we are trying it in several places now. I think we still have room to grow. So altogether we are in good shape, but I think it could be polished and be a little bit more shiny, a diamond, if you will.

Thomas Roderick - *Stifel Nicolaus - Analyst*

Great. That's helpful. Tamar, I know it's much too early to provide anything formal in terms of where the margins go next year. But maybe just thinking structurally about the margins, we've been in this range, in the mid to high 16% range, for quite a while now. Is it your hope that over time we could see that kind of break out above 17%? And if that's the case, what would it take to get there?

Tamar Rapaport-Dagim - *Amdocs Ltd - CFO*

As we've indicated in the last analysts' day, our three-year outlook for '13 to '15 was actually to remain within the range of 16% to 17%. And that has taken into consideration all the different growth drivers we've seen in the business, as well as further efficiencies that can improve the cost structure to benefit the margin. I think, given all of that, we have taken these things into consideration, and still guided to 16% to 17%. So I don't want to create any expectations that we've changed our mind about growing emerging markets, about penetrating into additional areas. This is still a priority of ours. At the same time, I can assure you, all the time we are running multiple programs within the Company that are targeting improving the cost structure even moving forward. So it's a balance act there, and we want to do both.

Thomas Roderick - *Stifel Nicolaus - Analyst*

Great. One last quick one from me. Can you refresh our memories with respect to the ongoing trend with the directory business? It's going to be about a point drag on revenue growth this year. Is that likely to continue into next year? What's the best way to think of that trend on a multi-year basis?

Tamar Rapaport-Dagim - *Amdocs Ltd - CFO*

Tom, when we talked about directory, again, in the context of the three-year outlook, we expected -- and this is unfortunately meeting our expectations -- that it will continue to decline. We are targeting to continuing provide great service to our existing customer base. However, we are not investing in major R&D efforts at this point, and are tuning this business to optimize profitability, cash flow, et cetera.



Thomas Roderick - *Stifel Nicolaus - Analyst*

That's great. Thank you guys. Appreciate the help.

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Thank you, Tom.

Operator

Lauren Choi, JPMorgan.

Lauren Choi - *JPMorgan - Analyst*

Hello. This is Lauren for Sterling. I just wanted to talk about the increased competition in the US that you mentioned in your prepared remarks. I was wondering if these were particular areas that you're seeing this new competition in? Or is it maybe new entrants, or is it just that there's major lucrative deals that are going on in the North American market, and therefore it's getting pretty crowded?

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Lauren, we actually see it in several places in North America. The first one I would say is on the wireless packaging of data optimization packages. So you still have different opinions about how to offer data packages from relatively, what is called Unlimited, although when you look into the fine print, it's not fully unlimited, it's unlimited until something happens, versus Family Share, and versus other ideas. So that's one type of competitive view, or angle, that you can look at.

The second one in the wireless still is the no contract. It's basically the next generation prepaid, if you think about it. So it's not a simple prepaid, you have a scratch card and you have an allowance, and then you will cut off at the end of the allowance, it's almost a full postpaid system on a no contract, no strings attached, real-time environment. So at any given moment, I know exactly what costs me, how it costs. I can either do it prepaid or postpaid, but the whole notion is calculating everything. It's not a surprise that we want the I/O business, because you need for that, the sophistication of a postpaid system in real time. I don't know that anyone else can actually get even close to having this type of capability that we prepared in the last few years in anticipation of this type of trend. And we believe that we'll see this trend, by the way, also outside of North America, North America just leading specifically this trend.

The third one is about the way you pay for your service. You see more carriers coming up with installments for your phones versus a type of very sophisticated top ups. So the entire payment of the service is becoming a competitive area, an area that competition is being taking place.

And maybe the fourth direction, again, I can go on, but the entire aspect of MVNOs and MVNEs, the virtual companies, you're talking about major names and major brands that are getting into this business. Some of it you don't see yet, but we see already because we are working on some of it. I think you will see it in the future. Altogether, a lively market. Fewer carriers, so the competition is fierce. Obviously, the risk and the rewards are almost, I won't say binary, but becoming significant.

And then, obviously, if you look about North America, you can add to that cable and satellites. You probably watched the carriers, the MSOs, reporting basically net loss of subscribers in this last reporting, including today's reporting of Comcast. So the competition there also intensified. And you know, competition. Period. That's exactly what we thought that will happen a year ago, when the non-merger of T-Mobile has been digested by the industry, the industry went directly into higher competition. And short-term, as I said, it's challenging, potentially challenging, okay. And long-term, it should be good for us.

Lauren Choi - *JPMorgan - Analyst*

That's very helpful. Thank you. Just one more on this European carrier. Just wondering, did this show up in the backlog this quarter, and if you could talk about, did you have an existing relationship with any of the properties, operating properties, that they have talked about? And was this completely going in there and replacing current vendors, or were there parts of the business you were already in?

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

So maybe I will take the second part of the question, Lauren. Again, just because we cannot mention the name, it makes it harder to give you all the color. We are replacing some vendors in this environment. Some of the pieces are Amdocs components. By that, you can understand that with some of the operations we have, at least with some of them, we have some relationship from the past. And in terms of really having completely brand-new logo in Europe, it's very hard for us, because we work with almost everybody. But it is an extension. It's an extension, and it's a deeper relationship. It's all very positive for us. And as for the backlog, I'll maybe let Tamar --

Tamar Rapaport-Dagim - *Amdocs Ltd - CFO*

Some of it is in the backlog. Some of it is yet to happen. As Eli explained before, we have here a structure of a frame agreement under which we hope to add activities over time. So we hope that there's still room for expansion in terms of the booking or the backlog generation that we can bring from this agreement.

Lauren Choi - *JPMorgan - Analyst*

Great. Thank you very much. That was helpful.

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Thank you.

Operator

Mark Sue, RBC Capital Markets.

Ameet Prabhu - *RBC Capital Markets - Analyst*

Yes. Hello. Thank you. This Ameet Prabhu calling on behalf of Mark Sue. Just had a quick clarification on the European managed services contract. Just wanted to know if the pricing was in line with the new contracts. Just broadly, could you talk about the competitive environment that you've seen, competition, yet more aggressive in price, particularly in Europe and emerging markets?

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Okay. So I'll try to reveal this one. In terms of the pricing for this specific deal, I think it's a good deal for both sides. The carriers and the different operating companies are having a better over time price for better quality of service and better quality of software. We know how to do this stuff really well. So we can make some money on that as well, and that's a win-win. And more or less, I will tell you, this is the best I can give you in terms of color on the pricing of this specific deal.



In terms of competition, look, we have a very significant, very important and very significant position in the market. We have high win rate in the market. You can imagine that some of our competitors are trying to compete with us, also through the pricing. As they cannot compete in most cases, in almost all of them, on quality of software, quality of services, quality of experience, you know? The zero risk that someone takes with us, versus significant risk they take with others. When you run out of all of this argument, you create either a smoke and mirror and propaganda, or you go on pricing. And we see both. And up until now, we are in good position. I hope that we will continue convincing the market and our customers across the globe that taking someone else is basically, if you want it in one line, it could be a penny wise and a pound stupid. Because you may save a few millions here or there, you may take the whole company and put it in jeopardy. This is something that the more a carrier understands, the better it is for Amdocs. And that has been the situation so far.

While saying that, we don't have 100% market share. We cannot have it. We don't want to have it. We have healthy competition. It keeps us on our toes. It keeps us awake at night. And that's the way we like it.

Ameet Prabhu - *RBC Capital Markets - Analyst*

Okay. Thank you, and good luck, folks.

Eli Gelman - *Amdocs Ltd - President & CEO, Amdocs Management Limited*

Thank you.

Operator

And there are no further questions. I'll turn the conference back over to you, Ms. Grausam, for any additional or closing remarks.

Liz Grausam - *Amdocs Ltd - VP, IR*

Thank you very much for joining our call this evening and for your continued interest in Amdocs. We look forward to hearing from you in the coming days. And if you have any additional questions, please do reach out to the Investor Relations group. Have a great evening, and I'll turn it back to the operator to conclude the call.

Operator

This does conclude today's presentation. Thank you for your participation.

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