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## DOX - Q1 2017 Amdocs Ltd Earnings Call

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**OVERVIEW:**

Co. reported 1Q17 revenue of $955m and diluted GAAP EPS of $0.66. Expects FY17 reported revenue to grow 1.5-5.5% and diluted non-GAAP EPS to grow 4.5-8.5%. Expects 2Q17 revenue to be $940-980m and diluted non-GAAP EPS to be $0.90-0.96.





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## CORPORATE PARTICIPANTS

**Matthew Smith** *Amdocs Ltd - Head of IR*

**Eli Gelman** *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

**Tamar Rapaport-Dagim** *Amdocs Ltd - CFO*

## CONFERENCE CALL PARTICIPANTS

**Shaul Eyal** *Oppenheimer & Company - Analyst*

**Ashwin Shirvaikar** *Citigroup - Analyst*

**Jason Kupferberg** *Jefferies LLC - Analyst*

**Tom Roderick** *Stifel Nicolaus - Analyst*

**Wil Power** *Robert W. Baird & Company, Inc. - Analyst*

**Jackson Ater** *JPMorgan - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the Amdocs first-quarter 2017 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the floor over to Matthew Smith, Head of Investor Relations for Amdocs. Please go ahead, sir.

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**Matthew Smith** *- Amdocs Ltd - Head of IR*

Thank you, Karen. 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 events enables management and investors to consistently analyze the critical components and results of operations of the Company's business and to have a meaningful comparison to prior periods. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release which will also be furnished with the SEC on form 6-K.

Also this call includes information that constitutes forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations will not be material.

Such statements involve risks and uncertainties that may cause future results to differ from those anticipated. These risks include, but are not limited to, the effects of general economic conditions and such other risks as discussed in our earnings release today and to greater length in the Company's filings with the Securities and Exchange Commission, including in our annual report on form 20-F for the fiscal year ended September 30, 2016, filed on December 12, 2016.

Amdocs may elect to update these forward-looking statements at some point in the future; however, the Company specifically disclaims any obligation to do so. Participating on the call with me today are Eli Gelman, President and Chief Executive Officer of Amdocs Management, Limited; and Tamar Rapaport-Dagim, Chief Financial Officer. And with that, I will turn it over to Eli.

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**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

Thank you, Matt, and good afternoon to anyone joining us on the call today. We are pleased with our first-quarter results which reflect record revenue, above the midpoint of our guidance, adjusting for currency, as well as consistent execution across multiple dimensions of our business.

For instance, we maintained a high win rate which included pivotal transformation deals with Vodafone Italy and with a leading communication service provider in Southeast Asia. We renewed many services arrangements with several customers which strengthened the basis on which we expect to expand the scope of future activities. And we made significant progress in the scene of networks function virtualization and is in one of our important long-term growth engines.

The majority of FY17 still lies ahead of us and we are cognizant of the ongoing challenges presented by the global macroeconomics and industry environment in which we operate. With that said, our strong quarter-one result and the visibility provided by our unique business model now supports a slightly stronger outlook for constant currency revenue growth this year. This outlook also appears more balanced across regions than we originally anticipated.

With that in mind, let me review our first-quarter performance on a geographical basis. Beginning with North America, we saw further signs of stabilization as we supported strategic initiatives for customers such as [charges] communications. As we highlighted on our Analyst Investment Day in mid-December, Amdocs solutions and services are playing a key role in helping charges provide uniform and enhanced customer experience following its acquisition of Time Warner Cable and [white house nettles].

Regarding the outlook for North America, let me take a moment to share our thoughts on three major trends we believe will effect the North American market and Amdocs over the next several quarters. First, the modernization trends among Pay-TV providers is gradually translating into new awards for Amdocs, including those recently mentioned with the two largest [endest lows] in North America.

These important projects which are incorporated in our pre-2017 outlook, should create a pace for stronger growth in FY18 and beyond. Focus on those project supports our solution that Amdocs is in the strongest position to enable North American Pay-TV providers to modernize their IT in the coming years.

Second, we believe marriage of mobile connectivity with video is rapidly emerging as an essential long-term strategy for North American large integral period. AT&T recent service of their activity now and expand to add more premium content through their acquisition of Time Warner is a good demonstration of this trend. We see this as the next stage in the evolution of the integral carrier.

The potential opportunity of this trends for Amdocs is not reflected in our outlook but we believe in the overall direction. And as such, we are continuing to invest in R&D and M&A, such as our recent acquisition of Vindicia to support the future needs of our customers.

Third, we expect to see continued industry consolidation in North America, the permutation of which are impossible to predict. As we have said many times before, industry consolidation often present long-term opportunities for Amdocs, but also creates short-term uncertainties which can affect the discretionary spending of our customers.

To summarize North America, the long-term market dynamics remain positive but our immediate outlook still hold may moving parts and unknowns, including those resulting from customer conservation activities already in progress or which may be contemplated in the future.

Moving to Europe, revenue grew sequentially on a constant currency basis. During the quarter, Vodafone Italy selected Amdocs CES 10 as the preferred solution for its BSS transformation across the different lines of businesses. This pivotal project, which resulted from a highly competitive bid process, follows our recent project award with other [fourth won] group affiliates on which we are now diligently focused on bringing to production.

Additionally, we extended the several important managed services relationships in quarter one which strengthened the basis on which we can expand our future business. BT, the largest service provider in the UK, has awarded Amdocs five year service extension agreement, positioning Amdocs as a strategic partner to BT, following its acquisition of EE. Under this agreement, we reconvened to support Amdocs based business and operation support systems being used by BT across its fixed more broadband than any mobile lines of businesses, including Amdocs [king].

Additionally Rostelecom, Russia's national communications service provider awarded Amdocs a five-year service extension agreement following the consolidation of Rostelecom customer management systems on Amdocs CES. Regarding the outlook in Europe, we continue to see a potential for growth in multiple fronts by leveraging the strategic position of our highly relevant products and services offering.

Turning finally to the rest of the world, revenue grew sequentially as we focused on progressing several highly complex projects towards production. During quarter one, we also secured a meaningful end-to-end digital transformation project with a leading communications service provider in Southeast Asia, who is investing heavily to improve customer experience.

This award solidifies and strengthens our position in the region. Moreover, it represents the first instance of a former Comverse customer choosing to fully modernize on Amdocs CES 10. And it is, therefore, another proof point to support the rationale for acquiring the Comverse BSS asset.

We also saw continued business momentum with other former Comverse customers during quarter one, several of which have recently extended their maintenance service agreements with Amdocs, such as Algar Telecom in Brazil. Similarly, Oi in Brazil has signed on for systems software enhancement with Amdocs.

Regarding our outlook, we expect rest of the world to grow in FY17, although regional economics, foreign currency movement and lengthy decision-making cycles in Latin America are now presenting incremental headwinds relative to our original expectations. We remind you, however, that growth in Southeast Asia is expected to outpace Latin America for the full year. Overall quarterly trends are likely to remain lumpy, given the project orientation for our customer engagement in rest of the world markets.

With my original summary complete, let me update you on our recent progress in the field of network function virtualization where we are the first IT company to invest and subsequently lead. First, we recently announced the partnership with the Linux Foundation to accelerate the global adoption of AT&T ECOMP platform by making it open source and available to service providers and cloud developers in 2017.

Second, Orange Polska and Amdocs this week announced the industry first project to test and assess open source ECOMP in live cloud environment, initially for regional services with residential customers in Poland and then globally across Orange footprint. We believe our selection for this project is the technology integrator to reflect the unique knowledge, software capabilities and industry expertise we'll bring as a result of our so-development of ECOMP with AT&T. We are excited to validate the capacity and potential benefits of ECOMP deployment within the Orange network.

On a different front, we are also pleased to report positive signs of business momentum across the three digital-related acquisitions we completed last September. For instance, at Pontis we have signed a number of new deals, including with Smart Communication in the Philippines. Pontis contextual digital engagement technology enables service providers to quickly launch and manage cross-channel personalized market campaigns that leverage analytics tools for customers, the most appropriate service at the right time on the right channel.

To wrap up, we are encouraged by our solid start of FY17. Combined with the visibility provided by our record third month backlog, we now expect to deliver FY17 revenue growth within the range of 2.5% to 6.5% on a constant-currency basis. Note that this guidance does not reflect the potential impact of future customer consolidation activity which may take place in North America.

At the same time we committed to maintain stable operating margins and maximizing free cash flow, the majority of which we still plan to return to shareholders while retaining the capacity to execute M&A as opportunities arise. Taking everything into consideration, we remain on track to deliver diluted and non-GAAP earnings per share growth of 4.5% to 8.5% for the full FY17. With of that, I will turn the call over to Tamar.

**Tamar Rapaport-Dagim** - *Amdocs Ltd - CFO*

Thank you, Eli. First fiscal quarter revenue of $955 million was the midpoint of our guidance range of $935 million to $975 million, despite a negative impact from foreign currency fluctuations of approximately $7 million relative to the fourth fiscal quarter of 2016. Our first-quarter guidance range had included the margin of sequential negative impact from foreign currency fluctuations. Revenue performance was therefore above the midpoint of our expectations after adjusting for the foreign currency fluctuation.

Our first fiscal quarter non-GAAP operating margin was 17.2%, an increase of 10 basis points compared to the fourth fiscal quarter of 2016 and within the higher end of our long-term target range of 16.4% to 17.4%. Below the operating line, non-GAAP net interest and other expense was $2.8 million in Q1, primarily reflecting foreign exchange movements. For forward-looking purposes, we continue to expect the non-GAAP net interest and other expense in the range of a few million dollars quarterly due to foreign currency fluctuations.

Diluted non-GAAP EPS was $0.90 in Q1, at the midpoint our guidance range of $0.87 to $0.93. Our non-GAAP effective tax rate of 17.2% in Q1 was slightly above the high end of the annual target range of 13% to 17%, consistent with our guidance. Diluted GAAP EPS was $0.66 for the first fiscal quarter, towards the high end of our guidance range of $0.59 to $0.67.

Free cash flow was $127 million in Q1. This was comprised of cash flow from operations of approximately $168 million, less $41 million in net capital expenditures and others. As we disclosed at our analyst and investor briefing in mid-December, we expect to generate free cash flow approximately $500 million in FY17. Additionally, we remind you that free cash flow in the second fiscal quarter is typically lower due to timing of annual bonus payments.

DSO of 82 days increased by 3 days quarter over quarter. This is above our normal range and reflects timing differences between revenue submissions of every single customer and cash collections at the end of the first fiscal quarter. As an added point of disclosure, cash collections have been healthy the early part of our second fiscal quarter.

Total unbilled receivables increased by $50 million compared to the fourth fiscal quarter of 2016. Our total deferred revenue, both short and long term, decreased by $7 million sequentially in Q1. The net movement in unbilled receivables and total deferred revenue reflects a high level of transformation project activity and resulting timing differences between the revenue submission and the invoicing of customers during the first fiscal quarter.

Our cash balance at the end of the first fiscal quarter was approximately $0.9 billion. Our 12-month backlog which includes anticipated revenue related to contracts estimated revenue from managed services contracts, letters of intent, maintenance and estimated ongoing support activities was $3.18 billion at the end of the first fiscal quarter, up $10 million sequentially from the end of prior quarter.

During the first fiscal quarter we repurchased $80 million of our ordinary shares under our current authorization of $750 million. We have $517 million remaining out of that authorization as of December 31.

Now turning to our outlook, we expect revenue to be within the range of $940 million to $980 million for the second fiscal quarter 2017. Embedded within this guidance, we anticipate a negligible sequential impact from foreign currency fluctuations as compared to Q1. For the full FY17, we now expect revenue growth within the range of 2.5% to 6.5% on a constant-currency basis, which is higher than our previously guided range of roughly 2% to 6%.

On a reported basis, we now expect revenue growth in the range of 1.5% to 5.5% for the full fiscal year. This new range includes an anticipated drag from foreign currency fluctuations of about 1% year over year relative to the exchange rates prevailing at the end of the fourth fiscal quarter 2016. Our previous revenue guidance has assumed a negligible impact from foreign currency movement in FY2017. Incorporated within this outlook and consistent with our prior expectations, we anticipate revenue from our directory business in FY17 to place a drag of about 1% of the total Company results.

We continue to anticipate our non-GAAP operating margin for FY17 to be at the higher end of our long-term target range of 16.4% to 17.4%. As a reminder, operating margins may fluctuate within our long-term target range from quarter to quarter.

We continue to expect our non-GAAP effective tax rate to be within our target range of 13% to 17% for the full FY17. We expect the second fiscal quarter diluted non-GAAP EPS to be in the range of $0.90 to $0.96. Our second fiscal quarter non-GAAP EPS guidance incorporates an expected average diluted share count of roughly 148 million shares. In the likelihood of negative impact to foreign exchange fluctuations in non-GAAP net interest and other expense. We excluded the impact of incremental future share buy-back activity during the first quarter, as the level of activity will depend on market conditions.

For the full fiscal year, we are on track to deliver diluted non-GAAP EPS growth of 4.5% to 8.5%. Our full-year EPS outlook does factor in expected repurchase activity over the year. As Eli indicated earlier, we plan to return a majority of our free cash flow to shareholders through our ongoing share repurchases and dividend program in FY17. With that, we can turn back to the operator to begin our question-and-answer session.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Shaul Eyal, Oppenheimer.

**Shaul Eyal** - *Oppenheimer & Company - Analyst*

Thank you. Good afternoon, guys. Congrats on the continued solid execution. I know, Eli, you've touched on the ECOMP topic during your prepared remarks, but I wanted to spend another minute on the topic. In my view it is becoming a very important crucial longer term. As you mentioned, I believe earlier this week, you've announced the collaboration with Orange. I think that was in Poland.

A few weeks back you've announced the Linux collaboration, also on the ECOMP front. I recall one of the advantages of the ECOMP announcement with AT&T last year was the fact that there is no exclusivity here; you can take it in any direction.

So my question is how many additional large service providers and strategic partners are looking at ECOMP right now? And how do you see your NFV ecosystem developing in 2017 and beyond?

**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

It is evolving and it is evolving fast. Anything that I am telling you today may change, I think for the better, in the future the way it looks right now. It seems like people, that is to say, communication service providers around the world are getting more excited about the idea that ECOMP may tend to be some kind of standard.

Since everybody can not move as fast as we can, [this is itripoli or itsy or other body]. We believe that adoption of ECOMP is quite important for the future of ECOMP and beyond AT&T and others.

The fact that Orange announced it already and the fact that Bell Canada announced already, that they are looking into it and may adopt it, is a very good sign. There are several other major carriers around the world that are looking into OpenECOMP as a standard for them.

I see that more companies will join this consortium, so to speak, as we speak. We believe as an IT Company, we have a significant advantage because we develop significant causality. And we hold the type of engineers that are required for additional development for execution, for the enterprise division of it, the testing of it and many, many other services around it.

Now since it is only in the beginning, it's a topic in its infancy as a matter fact. It's hard for us to quantify, but the trend is positive. I think the speed is also picking up and I expect other companies to come against this to follow.

Hopefully, while they are following, we will be able to take along our services and capabilities and create more projects like the one that we just announced with Orange in Poland. But the Open joint direction is to implement the same services across the Orange network.

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**Shaul Eyal** - *Oppenheimer & Company - Analyst*

Got it. Thank you so much.

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**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

Thank you too.

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**Operator**

Ashwin Shirvaikar, Citibank.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Thank you and my congratulations as well on the quarter. I wanted to ask you, you had your first success here with Converse. Is there more detail potentially available on the sizing of what happens when a traditional Converse client takes up the full Amdocs portfolio in terms of contact size, as well as scope, ability, what kind event. That seems like a fairly complex --again, the simplicity of the platform that they are on, seems like a fairly complex long-term project. So I'm trying to figure out size, value, things like that.

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**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

Ashwin, it is a very good, question. Let me try to shed some light in comparison. When we're talking about an end-to-end CES platform, we're talking about at least four or five major components which includes the revenue management, the customer management, in this case the digital component, self-service, e-commerce and so forth, for the catalog ordering and a few others.

When you compare it to the Converse assets, primarily Converse assets is a revenue management engine. So by definition, transforming a company that had Converse as a revenue management component before, if it's an end-to-end, it's bigger than the Converse spec.

Specifically this project is a complex one. It's on high-speed or short duration of transformation. It includes the digital part of it as well as all of the other components that I just mentioned. So it is bigger than the average deal.

And it is a good indication because we sold -- from additional services we sold the Converse former customers. We sold some services we're adding add-on like Pontis or other components. But it's the first indication that we have, the top customers of Converse, some of them will transform to CES 10 over time, and this is a very good indication that solidified this region.

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**Ashwin Shirvaikar** - *Citigroup - Analyst*

Okay, that is good to know. On the rest of world growth, I missed what you said for working growth expectation exact number was. And can you explain the dynamics of why there are delays in that time, if I heard you right. Also over time is there a chance to convert the rest of world to more of a managed services and project-oriented market?

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**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

For the first component of the question on rest of the world, I would say that we have basically predicted that a couple of quarters ago and we have seen some variation between the two ends of the world, so to speak. Okay, the two emerging markets. While Asia-Pacific, because of regulations in India, because of a more competitive market in Indonesia and Malaysia and other places, and Korea and other places, we see more bids and more activities going on across the region, including Thailand, including other places.

We see less of this in Latin America in recent quarters. I think some of it will come back. Some of the delays that I am talking about in Latin America fluctuate. The macroeconomics and (inaudible) specifically in Brazil and Mexico which are the two largest economies, are not so good. It affects, obviously, the pace of decision. If you add to that political stability and our instability in some other countries, it affects the overall region.

But we have seen this region fluctuating in terms of the microeconomics and the cycle before. We're just -- and it changes almost on a quarterly basis. So I'm just basically saying that everything that we said before, at least twice and previous quarter of the different dynamics, of the difference to markets, which comprised the rest of the world, we see more of it.

Overall, rest of the world will be a growth engine in 2017. And even this production that I just depicted may change in a quarter or two. The overall growth of rest of world will not be as strong as it was in previous years. And again, it is something that we alluded to already [in the allied liver]we said it the strong end of it couple months, which is a good thing that the end of the day we see a much more balanced growth dynamic, along the three major regions, if you want to call it this way.

In the past two years we had relatively slow growth and sometimes no growth in North America and we compensated with a strong, sometimes very strong growth in rest of the world and somewhat in the middle and Europe. And now we see dynamics as we see growth in North America, in Europe and in the rest of the world, in different pace altogether that reflects the projection that we are giving with a slight raise of the guidance. Altogether I think it's actually a good thing.

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - CFO*

Ashwin, on the managed services point, we definitely believe this was the ideal conversion we'd like to see, where typically a relationship with a customer would start through a modernization and transformation. And later on as the relationship are being built and we show the value, the customer will adopt the managed services model.

We see more and more indications that this can be done also in the rest of the world region as well as Europe. Some examples we shared in the past. Yet we have not converted all of our customers, of course, to managed services, so the potential is definitely there.

In indications where we have done so, we already start to see, again, still relatively small size because of our relatively late entry into those regions. But we always see the renewal points coming up and extensions and expansions of the managed services activity with the customers that we have managed to shift into that modem.

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**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

The timing is also reasonably fit to the model because it takes a few good years to create the stability of the operation and the trust in the region, so to speak. And we have been in this region in a serious way only in the last few years. So you can expect this strength to take some time. It took us the same amount of time in North America and Europe and so.

We expect it to happen. We see some of it already, some of it happened. But I think it will continue to happen, and as Tamar said, the dynamics and the characteristics are very similar to what we see from other places over the world. So we are quite excited. We can eventually have the most significant managed services businesses in the rest of the world as well. Both rest of the world.

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**Operator**

Jason Kupferberg, Jefferies.

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**Jason Kupferberg** - *Jefferies LLC - Analyst*

Good afternoon, guys. I just wanted to start with a question about the uptick in the constant currency revenue growth guidance here. I know you called out some further signs of stabilization in North America. I think you mentioned some newer work with Charter. Is that the primary dynamic here driving that 50 basis point increase? Or did something get incrementally better outside the US as well?

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - CFO*

It is a combination of things, I would say. But the indications we are having from North America situation, as well as the progress we are seeing with the pay-TV market in North America, is definitely a good sign. But there wasn't any singular advance we should point out in that comp. I would say that comp is a little bit more a combination of a couple of things.

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**Jason Kupferberg** - *Jefferies LLC - Analyst*

Okay. And on the prospects of US tax reform, are there any implications for Amdocs? As a foreign filer, I am not sure exactly how it might impact you. Not just corporate tax reform, if there is border tax adjustment, or things like that, that end up getting enacted. What are some of the scenarios we should be considering?

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - CFO*

I think it is still too early to understand which one of the text reforms that you're looking on the House proposal versus Trump's campaign. There's many variations there. In general I would say given the fact we are multi-national that is not domiciled for the US, our situation is different, naturally, than maybe the other companies you're looking at.

And what we're seeing and general around tax and then taking it to the broader global perspective is definitely more and more attention globally of the topic. Coming from the EU all the way now to the US awakening to talk about that, and of course other countries as well.

So it's something we're tracking very carefully. We can not predict all permutation of legislation that we go through, but given what we know now, we believe the rate was provided of 13% to 17% is a reasonable range to look forward to.

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**Jason Kupferberg** - *Jefferies LLC - Analyst*

And last quick one. The Vodafone Italy transformational deals there, are those needle-moving this year? Is that a little bit of a contributor to the guidance raise too? I was just trying to get a sense of the size, given that they are in a transformational (multiple speakers).

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**Tamar Rapaport-Dagim** - *Amdocs Ltd - CFO*

I would say somewhat. But the given nature of how transformation projects work, you need to consider the fact that it usually starts with high-level design and then the detailed design where this is not the vast majority of revenue. Actually the vast majority of revenue comes later in as the pickup of work begins. So in this case, for example, it should have an impact more towards the latter part of the year. But in general, it is a sizable project. It is something that we are definitely encouraged to see and very spoke with of course in general, the Vodafone group and our execution ability there.

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**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

As Tamar said, the guidance is comprised out of many, many small details, but obviously two major projects with two of the largest MSOs in North America. And a lot of projects with Vodafone and many projects with Telefonica, it adds up to this thing.

So the rate it serves is a combination of many things. The raise that we mentioned and we used the word pivotal because of size but also because of importance in terms of transforming a whole market. We have seen it when we entered the Indonesia market or when we entered the Dutch market, whatever. The first project in such a market is usually quite significant for the market.

And surprisingly, these are our first projects in Italy in terms of size. We have some projects, of course, and some key assets there but out of sight. So it has many dimensions why it's important. And mainly means that we would sweat some more to execute this project along with the other projects that we have.

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**Operator**

(Operator Instructions)

Tom Roderick, Stifel.

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**Tom Roderick** - *Stifel Nicolaus - Analyst*

Hey, guys, good afternoon. Thanks for taking my questions. Eli, can you clarify your comments on in North American M&A might be impacting your outlook today. Obviously there has been plenty of rumored combinations but of course nothing that is official or on the tape yet.

Are you already seeing an impact in customer spend? Or do you anticipate seeing that this year, as perhaps some of those customers prepare for, or contemplate, potential combinations? Or are you simply reminding us that your customers do from time to time engage in M&A? When that happens they often take a pause in spending? Can you clarify your comments there?

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**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

Yes. It is not what we see right now significant slowdown or acceleration, per se. On the other hand, I actually strongly believe that the major MSOs of North America are investing in the customer experience infrastructure for the long term and maybe even beyond the PO plain cable services.

Both Charter and Comcast, and DIRECTV and other companies are being more and more integral characters. They have broadband, they have video, they have content in a growing way. And they all have accelerating their mobility component.

If they may decide to accelerate mobility to the level of acquisition, there are a few assets available in North America, and by T-Mobile and Sprint. And I am not trying to speculate but I would not be surprised if these two companies would try to merge mobility and video and maybe later-stage something to create the same integral carrier vision that AT&T has in North America that Vodafone has in other places and so on and so forth.

It is not like we are seeing specifically immediately related activities. But I think that my analysis of the reason why we see this stuff -- transformation in the MSOs, also has to do with potentially preparing themselves for M&A in different shapes.

Now in Charter it's clear that already it is given and it is in the broadband end video space. But Charter is also accelerating its MVNO capabilities, and as such we think there is the potential for more business there.

Converse may do it there for different reasons. And DIRECTV has their own view. Each one of them is doing it differently. And of course the market will have a lot of rumors of almost any permutation you can think of.

We believe that the integral carrier is the direction of the market all around the world, especially in North America. That is basically what we have tried to share with you.

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**Tom Roderick** - *Stifel Nicolaus - Analyst*

Outstanding, that is really helpful. The second question that I had for you, Eli, is on the topic of Charter itself. You highlighted that win as one of the reasons why North America is looking up in your rate in your constant-currency guide.

Can you talk a little bit more about what it is exactly you're doing for Charter? Understanding that they have pretty complex and fragmented back-end going environment across Charter Time Warner Bright House. Where do you sit in that hierarchy? And perhaps sitting over the top of it, what will that offering look like as you work with Charter going forward here?

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**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

It's not that they have a very complex and sophisticated back end, they have a very old one. The only thing that we can say about it is that it is very old. And they understand that it is a limit or limitation or it's a potentially slowdown for the progress.

So basically the idea in Charter, because we have three companies they need to integrate, and that we are blending with their IT platform that encapsulates the entire system that is wrapping, basically, their old legacy. Some legacy will be replaced, some legacy will just be wrapped. And all the rest of the layers are completely new components of CES 10 components, like for the catalog customer management, digital and so on and so forth.

So basically we believe that we are building the future architecture of Charter. It is a quite significant project for them and for us. It is a quite important one because it allows Charter to have the look and feel of a modern digital company despite the fact that they bought three assets.

This is expense philosophy for the other traditional factor into near or there. So about it, what we're doing in Charter. And the rest of it I'm afraid you'll have to ask Charter give more detail because I am not sure that the want their whole architecture out there.

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**Operator**

Wil Power, Baird.

**Wil Power** - *Robert W. Baird & Company, Inc. - Analyst*

Great, thanks. A couple of follow-up questions. Just come back to Vodafone. It seems these different Vodafone properties percolate from time to time.

I'm trying to get a sense for whether we could see the Vodafone opportunity accelerate in other regions. How many more regions are there to work with? Give us a sense for the scale of the upside opportunity there. It seems there's still a lot of Northern side or a number of different properties you are not touching actively today.

**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

Of Vodafone, you mean,?

**Wil Power** - *Robert W. Baird & Company, Inc. - Analyst*

Of Vodafone, yes.

**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

Within the Vodafone Group, yes. It is a huge and fantastic company, very intelligence company too. And they work in many, many markets. We do a lot of activities with Vodafone in India which is a very important growth engine for them. In India they have 22 markets, they call it circles, all consolidated on Amdocs CES platform. We plan many services and activities and so forth.

We have a lot of activities with Vodafone basically end-to-end in probably CES 9 in the Netherlands for post-paid and prepaid. And now Vodafone is contemplating to join forces with Ziggo cable company on video, which is a joint venture with LGI -- Liberty Global. We have a lot of activities in the UK. A lot of activities in the mobility only, Germany, in Turkey, in Greece, in Spain mobility and I can go on and on and on. We have a lot of activities in Vodafone.

We usually talk usually about the recent projects. And we are now working, as I said, diligently, to execute some of the recent wins from the last year and preparing in part for this new project in Vodafone Italy that we take very, very seriously. It's a significant project for all parties involved and we are definitely very proud to win it through the long process, highly competitive. You can expect something of this size in the middle of -- for Vodafone in the heart of Europe, you would expect anyone and his wife to show up for the bid. And the fact the we won it is a great indication for our strength.

**Tamar Rapaport-Dagim** - *Amdocs Ltd - CFO*

I would just like to note, Eli, that there are multiple dimensions of growth, one of the dimensions is to sell into your affiliations of the Vodafone Group. But other important dimensions of growth for us within the Vodafone Group could be selling additional product models.

For example, if we sold our customer management capabilities in certain affiliates and now they're thinking about how they're moving to the vehicle front end in the multi-channel way. Or any managed services could be, for example, an extension of the footprint we built, et cetera.

So there could be different dimensions of growth for us within Vodafone. We're adding new logos within the group, is just one of them.

**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

Unless we keep on buying companies, eventually the number of logos are finite, of course.

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**Wil Power** - *Robert W. Baird & Company, Inc. - Analyst*

Thinking about other products generally and not just within Vodafone, I'm not sure I've heard an update on this recently. But I think it was about three years ago you completed the sell-side and activist acquisitions and moved more into engineering network management. Any update as to how those products are working? Are those often integrated in some of these new wins? Any updated thoughts on the momentum there.

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**Eli Gelman** - *Amdocs Ltd - Pres, CEO, Amdocs Management Limited, Director of Amdocs Limited*

In general, first of all, I'll give you the general answer. In general, the more offering we add, the more potential we have to expand our relationship over time with customers. Because if in the past we have mainly revenue management and customer management and then we added ordering and then assist and then radio optimization and then e-commerce and on and on and on. The notion is that the industry is relatively concentrated by the nature of it and becoming even more concentrated.

So the logic that we have is that we want to expand into new bind centers with a different vehicle, a different tools that we are either developing or acquiring or both. And we have seen it in many customers, such as AT&T, such as certain companies within the Vodafone, Telefonica and others.

Specifically on the radio optimization, we actually are progressing quite nicely. We developed a few more features of this product in recent years. And we are expanding with some specific customers, not only all around our customer base, so that's eventually potential. You have to remember that in most cases this subject is usually part of the radio network itself. That's one of the next cell given (inaudible) cell provider.

So if someone sell, let's say Nokia sell the equipment to Telefonica then they will have initially the network optimization from Nokia in this case. But over the years, we added more and more features into our radio optimization. And it became the strongest in the industry. But it's a slow process to convince network guys to turn over such a delicate and important function in the network to independent supplier like us.

Specifically I would say that one of the areas that we see great success is in Latin America and specifically within Latin America, even more so with American Moto than with anyone else. America Moto is really running a very tight ship when it comes to network, network deployment, network optimization. Optimization in the broader context, not only the radio access but also the big hole and cell service.

So they're very advanced and like an early adopter of new technology, then we have a great progress with them. But we have it many other places and I believe it will keep on expanding.

That's just one more vehicle that we have that we can sell eventually also to Vodafone in certain geographies. Each one of the geographies will act differently because it is a regional decision. It doesn't have to be a corporate decision.

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**Operator**

(Operator Instructions)

Sterling Auty, JPMorgan.

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**Jackson Ater** - *JPMorgan - Analyst*

This is Jackson [Ater] on for Sterling tonight. Quick questions from us. What specifically drove the cash collection issues in this quarter?

**Tamar Rapaport-Dagim** - *Amdocs Ltd - CFO*

Would say it's collection as much as it's about the gap that we have within transformational projects between the pace of recognizing revenue based on progress of the project, and when you reach the interesting milestone, which is a natural thing that it just filters in the project life cycle. It is not a matter of having an issue of getting cash out our customers once the English is used. It's more about when we are getting into that. And that is also reflective if you've seen in the change we talked about and build AR which was another reflection of the same point.

**Jackson Ater** - *JPMorgan - Analyst*

Got you. Would we probably expect the seasonal cadence in free cash flow through the year? I know we expected a sequential drop in the second quarter. We probably -- is it safe to assume it may not be as exaggerated as it has been in years past?

**Tamar Rapaport-Dagim** - *Amdocs Ltd - CFO*

I think you should look at it more as a stronger half two because of the national seasonality we usually have in Q2 with the bonuses payments then. Therefore, if you look from the transport of view within the year, second half is stronger.

**Jackson Ater** - *JPMorgan - Analyst*

Okay. Thanks, guys.

**Operator**

That concludes our question-and-answer session for today. I would like to turn the conference back over to Amdocs for any additional comments.

**Matthew Smith** - *Amdocs Ltd - Head of IR*

Thank you very much for joining our call this evening, of your continued interest in Amdocs. We look forward to hearing from you in the coming days. And if you do have any additional questions, please give us a call at the investor relations group. And with that, have a great evening and we will talk to you soon.

**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone have a great day.