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DOX - Q2 2015 Amdocs Ltd Earnings Call

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OVERVIEW:

Co. reported 2Q15 revenues of $903m and diluted non-GAAP EPS of $0.82. Expects FY15 YoverY reported revenue to grow 0.3-3.3% and diluted non-GAAP EPS to grow 4.5-7.5%. Expects 3Q15 revenues to be $885-925m and diluted non-GAAP EPS to be $0.79-0.85.

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CORPORATE PARTICIPANTS

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Ashwin Shirvaikar *Citibank - Analyst*

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Tom Roderick *Stifel Nicolaus - Analyst*

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Ken Talanian *JPMorgan - Analyst*

PRESENTATION

Operator

Welcome to the Amdocs second quarter FY15 earnings call. My name is Bakiba, and I will be your operator for today's call.

(Operator Instructions)

Please note that this conference is being recorded. I will now turn the call over to Matt Smith, Head of Investor Relations.

Matt, you may begin.

Matt Smith - *Amdocs Limited - Head of IR*

Thank you, Bakiba.

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 condition; risks related to our ability to close the acquisition of assets of Comverse and successfully integrate those assets into our business. And such other risks as discussed in our earnings release today and at 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, 2014, filed on December 8, 2014; and our Form 6-K furnished for the first quarter of FY15 on February 9, 2015.

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'll turn it over to Eli.

Eli Gelman *- Amdocs Limited - President and CEO of Amdocs Management Limited*

Thank you, Matt.

And good afternoon to anyone joining us on the call today.

We are pleased with our second fiscal quarter, during which we continued to focus on the various components of our long-term growth strategy. We expanded our customer base by securing significant wins in strategic markets. We persistently executed to bring highly complex projects toward production. And we expanded and extended relationship with long-standing customers through enhanced product functionality, broader services, and the penetration of new buying centers.

We believe that the model of initial penetration, followed by strong execution and then follow-on expansion, is a cornerstone in our ability to continuously improve our market share. This model has also translated well in our Rest-of-the-World market, where we achieved record revenue in the second quarter. As always, we are focused on our financial discipline, which includes the management of our foreign currency hedging program. This program is designed to protect our profitability and robust free cash flow generation. And we are pleased that it has been proven effective for the volatile currency markets over the last two fiscal quarters.

As for the allocation of our free cash flow, we remain committed to returning capital to shareholders in FY15, at levels substantially above that suggested by our long-term 50/50 framework. At the same time, we have continued to allocate and to evaluate long-term growth initiatives as a use of our cash, including M&A. Along these lines, we returned more than 100% of free cash flow to shareholders in the second quarter, including through a dividend.

Additionally, we are pleased to announce that today, we signed an agreement to acquire a substantial majority of the BSS, Business-Support System, assets of Comverse, for approximately $272 million in cash, subject to customary closing conditions.

This strategic deal geographically complements our existing activities, and will further strengthen our leading position in the BSS market. I will come back to this deal later in the call. But first, let me review our second-quarter performance on a geographical basis.

Starting with North America reflected variations in customer activity, and anticipated ramp-down of some projects, and the negative impact of the Canadian dollar's exchange rate. In this increasingly dynamic region, we have maintained a laser focus on delivering value to our North American customers.

For example, a recent case study highlighted how Amdocs worked closely with Comcast businesses to transform the way that it manages and delivers services to its business customers. We combined our OSS and managed services operation to create a customized provisioning solution, resulting in a 15-fold increase in the number of orders processed over the year, and [15%] reduction in the steps involved. This has translated to shorter provisioning time, while improving customer experience.

Regarding our outlook in North America, a number of important market dynamics persist, including consolidation activity. As we pointed several times in the past, these dynamics can present short-term uncertainties. But we believe we are in a position to benefit from it in the long term. Let me explain why.

First, competition among North American wireless operator continues to intensify, presenting us with opportunities to partner and support our key customers as they execute their competitive initiative.

Second, North American wireless infrastructure and spectrum cost are rapidly increasing. And we see many opportunities to help service providers improve efficiencies, and handle the growing complexity with our offering in the radio access network optimization software and the network functions virtualization.

Third, North American wireless and Pay TV markets continue to consolidate. And with our proven experience, we are ready to support these customer in the post-merger integration planning and execution.

With respect to the coming few quarters, we still expect overall growth rates in North America to moderate relative to the strong performance of FY14. This is in line with the expectation we furnished in the beginning of the FY15, and reflects many moving parts, which can sometimes cause performance to fluctuate on a quarter-to-quarter basis. This includes the timing, scope, and execution of new project awards.

Additionally, we remain subject to customer consolidation activity, including the effect of potential delays, all unplanned consolation of deals currently in the process. As well as from additional consolidation activity, which may still occur among wireless and Pay TV at the operators at North America in the near future.

Moving to Europe, performance was negatively affected by currency movement in the quarter. But we remain focused on strengthening our customer relationships. This includes EE, the UK's largest mobile operator, which expanded its managed services contracts with Amdocs to develop and maintain its BSS platform.

Our strategy to expand into new buying centers of existing customers is also progressing, as demonstrated at TeliaSonera, where our radio access network optimization and Self-Optimizing Network, SON, solution were selected to improve customer experience and mobile network performance across Sweden, Norway, Finland, Estonia, and in Slovenia.

Looking ahead, we remain well-positioned in Europe to leverage opportunities on multiple fronts. But we believe that microeconomics and regulatory conditions will remain challenging in FY15.

Turning finally to the Rest-of-the-World, we delivered a record quarter, reflecting continuous progress on a number of highly-complex modernization projects. Providing the technology and acting as a system integrator, we just completed the deployment of an integrated Amdocs BSS platform to provide billing business services to Vodafone India's enterprise costumers. This is just one phase of a larger BSS transformation program in which Vodafone India is also migrating all postpaid customers onto a consolidated Amdocs billing platform. At Etisalat, we implemented a prepaid system upgrade, based on ACC, or Amdocs Compact Convergence, to further strengthen this global service provider's operation in Sri Lanka.

Our Rest-of-the-World activities also included significant wins with new customers in strategic markets. In Kazakhstan, we won a BSS transformation project with Kcell, an affiliate of TeliaSonera and Kazakhstan's largest mobile operator, under which we will replace a third-party legacy system with a fully convergent platform. In Indonesia, Transvision selected Amdocs to provide a comprehensive customer care and billing solution that will accelerate time to market of new Pay TV services, offering promotions and campaigns. With regard to the Rest-of-the-World outlook, our backlog and rich pipeline continue to support strong growth in FY15. But quarterly trends are likely to remain lumpy, due to the project orientation of our customer engagements in these regions.

Now I would like to refer back to the definitive agreement we signed today to acquire a substantial majority of Comverse BSS assets. First, let me provide some [macro] context around this intended acquisition. As we have discussed in the past, we believe the Global Wireless and Pay TV industries are constantly converging towards a fewer number of participants, and the majority of which are using multi-play offering as their core strategy. To support these larger organizations and a more complex offering, the supply chain is also consolidating in favor of larger vendors that have the greatest capacity to invest. With this in mind, let me now take a moment to elaborate on the strategic rationale behind today's announcements.

As we said, this acquisition geographically complements our existing activities by expanding and diversifying our global customer base. Particularly in Asia-Pacific and Latin America, and in Europe, where Comverse has a wide BSS customer footprint. The acquisition also brings Amdocs an established BSS cable and satellite presence in Europe. Most importantly, a majority of the customer base we intend to acquire represent a new relationship for Amdocs and, therefore, new opportunities. As a result of this agreement, Amdocs will also be able to bring additional value, innovation, and a broader ranger of offerings and services to many of Comverse BSS customers.

This includes a much richer variety of product functionality across BSS, OSS, and network domains, as well as a much wider range of services. Overall, we believe this transaction represents a disciplined, strategic, and timely use of free cash flow. As we move forward, we believe the strength of our Company and unique business model, will enable Amdocs to offer even better value and benefits to our customers and shareholders.

To wrap up, we are pleased with our achievement for the first half of the fiscal year. The dynamic markets in which we operate present many moving parts and challenges. However, with consistent operating execution and our robust free cash flow, we believe we are on track to deliver on our guidance for diluted non-GAAP earnings-per-share growth of 4.5% to 7.5% year over year in FY15. And combined with our dividend yield, to maximize the total return we expect to provide to shareholders.

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

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

Thank you, Eli.

I'll begin with our second fiscal quarter revenue, which was in line with our midpoint of our expectations on a constant currency basis. Second fiscal quarter revenue of $903 million was within our guidance range of $900 million to $930 million. And included a negative impact from foreign currency fluctuations of approximately $16 million, relevant to the first fiscal quarter of 2015. Our second-quarter guidance range already embedded a negative sequential impact of approximately $3 million from foreign currency fluctuations. Revenue performance was therefore in line with the midpoint of our expectations, after adjusting for the additional negative impact of foreign currency fluctuations.

Our second fiscal quarter non-GAAP operating margin was 17%, an increase of 10 basis points compared to the first fiscal quarter of 2015 and within our target range of 16.2% to 17.2%. We continue to expect operating margins to fluctuate within this range for the remainder of FY15. And we would not extrapolate a continuing trend of margin expansion from the strong results in Q2.

Below the operating line, non-GAAP net interest and other expense was $1.7 million in Q2. For forward-looking purposes, we continue to expect a 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 $0.82 in Q2, compared to guidance range of $0.78 to $0.84. Our non-GAAP effective tax rate of 15.3% in Q2 was modestly higher than our expected annual range of 13% to 15%. While the effective tax rates may change from quarter to quarter, as was the case in our first half of the fiscal year, for the full FY15, we continue to expect our non-GAAP effective tax rate to remain within the target range of 13% to 15%.

Free cash flow was robust, at $115 million in Q2. This was comprised of cash flow from operations of approximately $135 million less $20 million in net capital expenditures and other. This result includes an annual cash bonus payment for the prior fiscal year consistent with our guidance last quarter. As a reminder, over the long term, free cash flow tends to convert at a rate on par with our non-GAAP net income.

DSO of 74 days increased by 5 quarter over quarter. This isn't consistent with our historic range and reflects timing differences between revenue recognition, the invoicing of customers, and cash collections at the end of the second fiscal quarter, primarily in North America.

Total unbilled receivables were down by $3 million, as compared to the first fiscal quarter of 2015. Our total deferred revenue, both short-term and long-term, increased by $28 million sequentially in Q2. As indicated in the past, both of these items may fluctuate from quarter to quarter.

Our cash balance at the end of the second fiscal quarter was approximately $1.3 billion. Our 12-month backlog, which includes anticipated revenue related to contracts, estimated revenue from added services contracts, letters of intent, maintenance, and estimated ongoing support activities was $3 billion at the end of the second fiscal quarter, down $30 million sequentially as reported, but up $30 million sequentially on a constant currency basis.

During the second fiscal quarter, we repurchased $111 million of our ordinary shares under our current $750 million authorization plan. We had $502 million remaining under this authorization as of March 31. Including our quarterly dividend payment, in addition to our share repurchase activity, we returned more than 100% of free cash flow to shareholders in the second fiscal quarter.

Now turning to our outlook, we expect revenue to be within a range of $885 million to $925 million for the third fiscal quarter of 2015. Embedded within this range, we anticipate a negative sequential impact of approximately $2 million from foreign currency fluctuations. Our guidance does not incorporate contribution from the acquisition of the Comverse BSS assets.

For the full fiscal year, we continue to expect total revenue growth within the range of 2.5% to 5.5% year over year, on a constant currency basis, relative to when we initially provided this guidance on November 4, 2014. As a reminder, this range already included an anticipated drag from foreign currency fluctuations of about 1%, based on exchange rates prevailing at the end of our fourth quarter FY14.

Forecasting reported revenue accurately for the full FY15 remains challenging as a result of continued volatility in foreign currency markets. Reflecting exchange rate movements relative to the start of the fiscal year, we now expect foreign currency fluctuations to place a further drag of over 2% to our full-year growth on a reported basis. As such, we expect reported revenue growth in the range of 0.3% to 3.3%, year over year, for the full FY15, with fluctuations in foreign currency negatively impacting our performance by about 3% year over year.

Also within this outlook, and consistent with our prior expectation, we anticipate revenue from our directory business in FY15 to decrease in double-digit percentage range, placing a drag of about 1% on total Company results. The full-year FY15 revenue outlook does not incorporate our planned acquisition of the Comverse BSS assets.

For your long-term modelling purpose, we do not believe the publicly disclosed BSS segment revenues of Comverse are indicative of future performance. Given factors such as the impact of purchase accounting adjustments and the fact that this transaction does not include Comverse entire BSS division. With these factors in mind and based on what we know now, we expect the planned acquisition of Comverse BSS assets to contribute revenue in the low tens of millions of dollars for the first couple of quarters after closing.

We anticipate our non-GAAP operating margins for FY15 to be within our long-term target range of 16.2% to 17.2%. For your modeling purposes, we expect to remain within this long-term target range of 16.2% to 17.2% after closing the acquisition of the Comverse BSS assets.

We expect the third fiscal quarter diluted non-GAAP EPS to be within the range of $0.79 to $0.85. Our third fiscal quarter non-GAAP EPS guidance also incorporates an expected average diluted share count of roughly 158 million shares, and the likelihood of a negative impact from foreign exchange fluctuations in non-GAAP interest and other expense. We excluded the impact of incremental future share buyback activity during the third fiscal quarter as the level of activity will depend on market conditions.

For the full FY15, we are on track to deliver on our guidance for diluted non-GAAP EPS growth of 4.5% to 7.5%. Our full-year EPS outlook does factor in expected repurchase activity over the year. Our third fiscal quarter diluted non-GAAP EPS guidance, and our full FY15 diluted non-GAAP EPS growth guidance do not incorporate any contribution from the acquisition of the Comverse BSS assets.

We do not expect a material impact from the acquisition of the Comverse BSS assets, if completed within the fiscal year, to our FY15 non-GAAP EPS outlook. Based on our current estimates, we expect the acquisition will be neutral to non-GAAP earnings per share in the first full year following completion of the deal and accretive thereafter. As to the impact on GAAP results, this will not be known until after Amdocs completes the purchase price allocations for the acquisition. Amdocs expects to incur acquisition-related expenses related to operating adjustments, restructuring charges, and other acquisition-related costs.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ashwin Shirvaikar from Citibank.

Ashwin Shirvaikar - *Citibank - Analyst*

Good evening. My question is on Comverse, and Tamar, you said that Comverse's public BSS information is not a good guide with regards to revenues. Would that comment also be true with regards to the segment margins that they have? And if so, what should we assume for modeling purposes with regards to what the revenue contribution and net income contribution might be in FY16?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

As I said, there are some accounting purchase adjustments, as well as some differences in the specific assets that we've acquired relative to what was included in their segment. So overall, we expect that the revenue contribution on a quarterly basis would be in the low tens of millions of dollars for the first couple of quarters. We'll come with more accurate numbers as we get into the next fiscal year. And of course, as part of our overall guidance then.

In terms of margin, after inclusion of this acquisition, we believe we will remain within the operating margin, long term target we've provided already, of 16.2% to 17.2%. And from the earnings per share point of view on a non-GAAP basis, first year should be neutral to EPS. And thereafter, it should be accretive.

Ashwin Shirvaikar - *Citibank - Analyst*

Okay. And so when you're making asset purchase like this, where you only buy some of the assets, would that also mean that you're not then able to use the NOLs that Comverse has piled up?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

The NOLs was not a major part of this consideration for the deal. You're right, it's an asset deal, we will look forward in terms of how we are structuring the different activities in line with our current tax structure. The NOLs was not part of the consideration here.

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

Ashwin, I would like to add that we believe that the financially, it's a good deal. But strategically, we believe we have the potential to be a brilliant deal over the next couple of years, or few years. Because we're acquiring relationships and long-term maintenance contracts, and a presence in additional dozens of customers, very important customers, in different regions that we are active in, or are complementing our regional presence.

We are talking about customers that used to have a very limited functionality, mainly billing and invoicing, and things like this, from the Kenan days or the Comverse one days, and so on and so forth.

So when you look at the breadth of product and services that we can offer, and relationships, and product and services relationship, and managed services, this actually should be the highlights of this deal. And from this respect, we believe it's strategic, but also can turn into, financially, a very intelligent deal. And it's -- I think we also would be very important for the customers that we are acquiring. We had the chance to talk to some of them and we had a very positive response, an initial response from these customers. So all together, these are the essence of the deal. While being also a good financial deal.

Ashwin Shirvaikar - *Citibank - Analyst*

Yes, no, the financial part I get, and I'm trying to more understand what exactly you bought and what exactly you said no to in terms of the assets you're purchasing. I completely understand the relationships and the good long track record you guys have of growing relationships, so that's all good. Just trying to understand what you got and what you didn't get.

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

I will tell you that -- only that much. We are very careful in what we are bringing home. And we know we took the assets that we thought are relevant. Part of the reason why it took us longer, it was not a simple thing for Comverse on their side to, in a way, split the company into two pieces, the digital or the VAS aspect and the BSS, and that was the breakthrough in the dialogue with them, when they agreed to do it. And then they kept their end to this deal. And on the overall assets, we basically took, really, what we needed, and what we can actually reuse and expand and so on and so. So we were very careful in executing this deal.

Ashwin Shirvaikar - *Citibank - Analyst*

Okay. Maybe we can talk off-line.

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

Thank you.

Operator

Thank you. S.K. Prasad Borra from Goldman Sachs.

S.K. Prasad Borra - *Goldman Sachs - Analyst*

A couple, if I may. Probably to start off, to get better view on your guidance, what would you need to achieve higher end of the guidance? Is it more of the deals coming online? Or is it a case of signing newer deals? If you can provide some color on that?

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

All of the above. We need the more projects, more and new logos, and which will be usually translated into new opportunities over time. Keep on executing, and just a larger or higher rate of transformation and new projects in the market will be what we need.

S.K. Prasad Borra - *Goldman Sachs - Analyst*

And from an end market perspective, we have seen announcements from various telcos. CapEx was probably very weak in the first quarter, with the expectation that as you look at second half the general spending patterns should improve. I know you guys are more reliant on OpEx than CapEx, but just from a spending perspective, it seems to be getting healthy. Does -- are you expecting a post-impact from that, at all?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

We are not that correlated to these kinds of trends on a sequential basis, from the CapEx point of view of the spend. And in general, we are seeing very, I would say, active dynamics in the North American market, and in general. We talked -- you referred, I assume, to the North American spend. But overall, if you look on our results, we are definitely happy about the momentum we're seeing. Also, in rest of the world, which is becoming a more meaningful part. And in North America, naturally, the consolidation, whether things will happen or delay or slow down, it could have some impact on the activity level that we will see, moving into the next half of the year.

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

Maybe one comment about the way to look at CapEx [system] we're not that related to that. We're not 100%, also, correlated to the OpEx. It's kind of the beauty of our business model. But specifically to the CapEx, when you look at companies like AT&T or other companies, you may sometimes need to read into the fine print, because they may reduce the CapEx location into North America markets, for example. But they take some of this money and invest it elsewhere. With AT&T, specifically, it's quite clear that that's what they are doing. They're moving some money outside of North America. So you need to look at the overall picture.

So if that, for example, means that they are going to be in the very comprehensive network in Mexico, for their [user sale] and Nextel assets, that, in a way, could actually represent new opportunities, which we don't know yet, but could represent new opportunities. So you need to really look very carefully in the way that they are spending the money in North America. Sometimes, it's basically reallocation of money into different geographies, or different activities.

S.K. Prasad Borra - *Goldman Sachs - Analyst*

Just a last one, from my end. Post acquisition of Comverse BSS business, now is your strategy clearly shifting to acquiring some [growth year] assets? Or would you consider more consolidation in the BSS space?

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

As we said all along, we don't have a rule of -- for that. We will do things that will strategically support the growth of the company. It takes us a long time to convince ourselves that we need it, because we know all the risks that's associated with M&A. But I would believe that we will keep on using M&A as a vehicle to accelerate growth, as sometimes consolidation, sometime technology, sometime diversification, sometime just buying some intellectual property from customers that we can generalize and do better with. So I would say all of that. We would -- we actually like to use M&A in different directions.

Operator

Tom Roderick from Stifel Nicolaus.

Tom Roderick - *Stifel Nicolaus - Analyst*

So Tamar -- I think if I heard you correctly, you were talking about revenue contribution from the acquired BSS business from Comverse being in the low tens of millions per quarter. Now from our modeling of Comverse in the past, we had that at over $200 million this year. So that would be maybe something less than half, or -- yes, a little bit less than half of that run rate, or about that. Is that just a conservative attempt to acknowledge that there will be some disruption right out of the gates? Or is that low tens of millions per quarter sort of the rough run rate of the business that you're buying, and you hope to achieve upside to that when you can up-sell to the install base?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

First of all, there is a certain treatment of the purchase accounting in relation to deferred revenue. As you know, within the Comverse results there was a waterfall of deferred revenue impacting their numbers, which will change when we go through the purchase accounting exercise, from the numbers point of view. Then there is also other factors, such as the time it will take up to create additional upside of business, as we move into that level of new logos that Eli mentioned. We are very happy about the opportunity to go and expand, and selling more offerings and et cetera. But this kind of new sale cycles will take time.

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

And Tom, don't forget that we are taking less than 100% of the assets. And don't forget that we have to be conservative in the first couple of quarters because some of it we don't know yet. So -- and what is low, exactly? I mean, like you're saying low is [$220] million, or maybe it could be [$230] million? But there's something in this range. We're not trying to guide the exact number right now, because we are still walking on that, and as Tamar said and I added, we have some additional consideration. It's a good deal.

Tom Roderick - *Stifel Nicolaus - Analyst*

Understood. No, that's great. And one of the areas where it's been very clear that Comverse has been trying to build out its BSS business has been in managed services. Some of that has lent itself to tier two, tier three markets, emerging markets, Latin America, to a certain degree. Certainly India and other places like that.

Can you talk, Eli, about the competitive dynamics in those markets? How you think that Amdocs can augment that managed services strategy, if in fact that is part of what you've acquired? And then just lastly on that, how you think you can leverage the installed R&D, the developmental and engineering work that Comverse brings to the table, particularly as you look at your Israeli operations to achieve some synergies on that front?

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

So for the first question, look, almost 50% of our business is managed services. Obviously, we understand something about it. We also tried it successfully, in recent years, outside of North America, in Europe, in Latin America, in Southeast Asia, on the OSS front. I mean, in five different dimensions. So obviously, we would try to take whatever we can within the assets that we are buying an accelerate the managed services concept, because in many cases, it would be applicable. We believe that we are the strongest player in this -- in managed services, within this domain. So without seeing -- whatever we get is a stepping stone, and the rest of it, we can climb up, and use it as a bridge head to expand.

As for the engineering aspect of it, it's actually -- the BSS assets of Comverse are not in Israel. It's in Boston; most of the Kenan engineering in New Jersey, close to our operations. So in terms of engineering, we will take the engineers we need. We would not take those that we don't need, and that's it. But it's not in Israel. Actually, in Israel, a majority of the business in Israel is their value-added services, and the digital life. The digital aspect, and this deal is very non-Israeli centered.

Tom Roderick - *Stifel Nicolaus - Analyst*

Perfect. All right, guys. I'll look forward to talking to you more about it.

Operator

Tavy Rosner from Barclays.

Tavy Rosner - *Barclays Capital - Analyst*

Thank you for taking my questions. I was going to ask, when looking outside of the core business, if you look at the [address and moves], I was wondering if you could give us an update, since your presentation in December, what you view the opportunities for the new domains, perhaps is 2015 and 2016? What kind of revenue contribution we could see from there?

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

Tavy, it's a very good question. I'm not sure we will have the time to cover all of it. But just to give you a glimpse, we distinguish between several things that we think that will be of size in the near future. And things that are on the runway, that has potential, but financially or number-wise would not make an impact in the near future. So among the things that have definitely revenues and EBIT along with it is some of the network application, the RAN, radio access network optimization activities, the SON activities. New services that we have, like all the [activations] and things like this, which is part of our domain -- services 3.0 initiative, which was part of the presentation at the analyst day about growth engines for us.

On the newer things, we see progress on many fronts, including the big data analytics applications. Now we added another use case for big data analytics for the network, which is called the best network investment, so -- which is helping the carriers to decide in which network elements, and which network geographies and what technology to invest their money. On the mobile financial services, we see progress in the emerging markets, especially, but not only. We have some new projects in Sprint, and in other places. On the network functions virtualization, this is more in the proof of concept and small project mode. But again, this one of the things, like (inaudible) and other, that can one day, that I cannot predict right now, but can climb quite fast.

So the bottom line is that we believe that we make progress fronts that we presented in the analyst day. And if you know this, some of the press releases that we are putting out represent it. And the rest of it, we'll have to give you an update on a more detailed level, some other time.

Tavy Rosner - *Barclays Capital - Analyst*

Thank you, that's helpful. And a housekeeping one for Tamar. When looking at the EPS guidance for the year, for the growth of 4.5% to 7.5%, on what kind of share count is this based?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

We are not committing to the share account of that. We have talked about the fact that we are planning to be, for the fiscal year, substantially ahead of our 50/50 return rate of cash to shareholders. You've seen we've done it the first half of the year. But we have not committed to share count behind that.

Operator

Mark Sue from RBC.

Mark Sue - *RBC Capital Markets - Analyst*

Just on the capital returns, you've commendedly returned over 100% of your cash to shareholders. You have had some recommendations from folks to add more debt to actually lever up on the balance sheet. Any thought there, and to potentially run at that rate of continued high returns to shareholders?

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

So yes, some people suggested it. We said all along that we would need to have a good reason to do that. Just to leverage the Company for the sake of leveraging your company, not necessarily is a good idea. And -- but we can see situations that they will go into a significant M&A that will make sense to leverage the company, if we can strategically justify a large deal, we can strategically justify the leverage.

Other than that, we said we have a philosophy of 50/50, but we are executing based on the reality of what we have, the performance of the Company and the cash that we generate. In some cases, we get back from exercise option. So we navigate this line carefully all the time. We're giving you, usually, the framework of our thinking. But if you want to get the best outcome of this framework of 50/50, it is that we want to do both. We want to return cash to shareholders and we want to continue doing M&A, and now it's a -- depends on which quarter and which year, on the assets that we have, as we demonstrated with this transaction. We're very careful to do an asset deal of what we need. The minimum price that we could pay for such a deal. Its quite easy to do big deals, and then look for ways to justify it.

Mark Sue - *RBC Capital Markets - Analyst*

Yes. And so the recurring theme, it seems to be large deals. We'll seeing it where you've got customers who are consolidating telcos and cable, and others, and wireless as well. And we're also seeing it with some of your competitors, such as Nokia and Alcatel getting together and Ericsson moving warranty of markets, and they are driving out scale to do that.

So as we look forward over the next few years, is it a business of increasing scale? And is that the driving force right now in terms of your priority to -- and also to grow? And maybe your thoughts on how do you scale that organization in a nonlinear fashion? Which -- since it is a very headcount-centric business?

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

So yes, scale does matter. But it's not scale for sake of scale. It's the ability to maintain a highly competitive product set and services set, in a high scale. This is the name of the game. Otherwise, the IBM of the world and the Tech Mahindras of the world would do better and they don't, because they don't have the sophistication or the product set, and the offering that we have. And they do not invest in the future of this industry. So it's not only the scale. We specifically relate to the scale in the Comverse context because one of the reasons, I believe, that they got to the conclusion that it's better home for this asset -- Amdocs is a better home for this asset is because they cannot justify their investment on -- huge investment in the R&D. With the number of [the five], and the number of customers they have.

So it is a matter of scale, but it's not only a matter of scale. And in terms of the -- and the strategy for growth, we have said all along, we are expanding geographically, we are expanding on the services, we are expanding on the products. We will do some consolidation. We may do some diversification. We actually are not trying to think, at least, and sometimes execute on several dimensions of growth.

Mark Sue - *RBC Capital Markets - Analyst*

That's helpful. It's an exciting time. Thank you, and good luck.

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

Thank you, Mark. It is an exciting time.

Operator

Jason Kupferberg from Jefferies.

Amit Singh - *Jefferies LLC - Analyst*

This is Amit Singh for Jason. Wanted to quickly come back to the growth in different geographies. So in North America, the revenues this quarter were pretty much flattish, year over year, and that is significantly down from where you were, especially at the end of last year. And you had spoken about growth in North America to come down. But as we look at -- and I understand the long-term opportunities there from consolidation et cetera.

But in the near term, how should we think about growth in the region? And how do you plan to achieve your guidance? Is most of the growth going to come from emerging markets? Or you expect North America to start improving from here a little bit?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

So in general, you know, it's a matter of the size of the base of business we have in each one of the regions, not just the growth rate. So 1% on our North America base still is more significant than a few percentage points on the rest of the world. But nevertheless, I believe there is growth opportunity in North America. Yes, we are moderating relative to last year. But you need to remember, first of all, it's a matter of natural activity level of certain project that is ramping down or ramping up, plus Canadian dollar exchange rate is also impacting results in North America. And given recent two quarters fluctuation of the currency there, that has been material, as well.

So overall, we continue to be focused on North America. We believe we have a very strong presence there, the right offering, the right partnerships, and yet we are very excited about the growth opportunity in the rest of the world, as well. So we don't see a contradiction, of course.

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

And in Europe, Europe had been good to us in the last couple of years, despite the overall microeconomics. And we believe that the assets that we will acquire through the Comverse deal will also accelerate that. So we should not underestimate Europe at all. As for North America, I just want to mention that there is very little activity today, still, in the cable industry. Now that Comcast is dropping the deal with Time Warner, it may change the dynamics in this market, because they [did it] to go back to the drawing boards and decide about a different strategy. Charter may decide to do something, and other people. So this entire pay TV has been very -- almost dormant, in terms of technology, IT technology. AT&T DirecTV can generate some boost in North America.

And network virtualization, it will flow. We know that it will be slow to come. But when it comes, it represents a quite sizable opportunity for Amdocs. And we believe the consolidations is not over yet, at all. Not among the wireless, not among the satellite and pay TV, maybe the cross between them, maybe another multi-play player. Could be that money from the outside will come into North America. So North America is just in a period right now of wait and see, and a lot of it depends on regulatory approvals, and so on and so forth. But it's still a very strong and very dynamic market, and we think that we may be able to keep on tapping into this.

Amit Singh - *Jefferies LLC - Analyst*

Okay. Great. Quickly on FX. We talk about FX impact on the top line. But if you look at margins in general, is there any benefit to the margins from FX that you're witnessing?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

It's not a matter of benefit. But I have to say we are satisfied with the fact we were able to protect the profitability of the Company, despite a major negative impact on the top line, which has been always the design on our hedging program, to protect the bottom line. So that has been working well for us, and effective indeed.

Amit Singh - *Jefferies LLC - Analyst*

Perfect. Thank you very much.

Operator

(Operator Instructions)

Sterling Auty from JPMorgan.

Ken Talanian - *JPMorgan - Analyst*

This is actually Ken Talanian on for Sterling. You mentioned earlier that customers had a positive reaction to the acquisition of the Comverse assets. I was wondering if you could share any specific commentary from key customers like Telstra?

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

No, obviously, we cannot do that. We cannot go to the specific comments. The comments are what you would expect, but it's nice, still, to hear them. Some people say they would love to tap into our services capabilities and accelerate. We do services with a great knowledge of the product and the space. It's not generic SI. So this is one type of comment.

The other make the comment that it will be much easier to do convergent project, because we own post-paid, and pre-paid, and it's all integrated. And we have -- so that's something that will excite other people. Some people would -- that we won't like the SingTel project, is something that we won about two quarters ago. But in Optus, for example, we are converting from Comverse old assets to Amdocs. So obviously, we can ensure a smoother transformation.

So you get different comments from different places. But I think the overall theme is that they understand the logic, they support it, and we are the best house for this type of assets. They would have the old concerns, obviously, about the future; now they would have less. And these are the type of comments. Obviously, a specific comment by a specific CEO, a specific CXO, is not appropriate.

Ken Talanian - *JPMorgan - Analyst*

Okay. Thank you very much, that's helpful.

Operator

Ashwin Shirvaikar, Citibank.

Ashwin Shirvaikar - *Citibank - Analyst*

I just wanted to follow up, just a clarification on the FX impact, Tamar. You said that a couple of million dollars more, sequentially. Is that correct? And would that then basically be basically what, $18 million, $19 million impact in Q3? Is that what you're saying?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

You mean on the top line, Ashwin?

Ashwin Shirvaikar - *Citibank - Analyst*

On the top line.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

So relative to the -- comparing quarter to quarter, Q3 guidance to Q2 actual results, we already took into consideration $2 million negative impact from FX. Given the exchange rates we've seen at the end of the recent quarter. But of course, the environment may change. Just sharing with you what the assumption we've baked in already.

Ashwin Shirvaikar - *Citibank - Analyst*

Right, so Q2 total impact from currency was (multiple speakers).

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

Q2 relative to Q1 was 16.

Ashwin Shirvaikar - *Citibank - Analyst*

So now it's 18? In the quarter, it's an $18 million impact? Is that what you're saying?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

$18 million is if you compare Q3 to Q1. I'm sorry, it's a bit confusing.

Ashwin Shirvaikar - *Citibank - Analyst*

No, so okay, you're doing sequential, okay.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

So it's sequential. Sequentially, Q2 relative to Q1 was $16 million. Looking into the guidance of Q3 relative to Q2, it's [$2 million].

Ashwin Shirvaikar - *Citibank - Analyst*

And when I consider that for six or seven quarters now, the width of your revenue range has been $30 million, and now it's -- I think it's $40 million. Is that indicative of a -- I would say a weaker dynamic, in terms of revenue conversion or anything like that? Or are you just giving yourself room to play, because of the uncertainty with FX, and so on and so forth?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

It's primarily the FX issue. We've just, in this quarter, relative to our guidance, it was $12 million, $13 million. So we wanted to make sure we leave enough room in a bigger range, for the FX topic.

Ashwin Shirvaikar - *Citibank - Analyst*

Okay. And one last question, if I can squeeze this in. The -- you guys have made some pretty good, interesting investments in the mobile money, internet of things, in those areas. Could you comment on the monetization of some of those? I know you acquired Utiba, and signed a couple of mobile wallet type contracts in the last couple of quarters. But is it possible to size up what that opportunity is, what it's growing at, and so on?

Eli Gelman - *Amdocs Limited - President and CEO of Amdocs Management Limited*

The sizing of it will probably be premature. I can tell you that the amount of -- if you can say energy that we see in this topic -- the amount of new wins that we have. The presence that we are getting in some quiet customers, so the Utiba and some new customers, in the right markets. And the right market meaning, for us, in India, Indonesia, Philippines, Latin America and others. We are not coming with some new use cases of electronic money, if you will, which are premature to share right now, but interesting ones. And we are also seeing some progress in the developed markets, with this type of approach. So we are pleased with the progress there. But we've said all along, it will be a long runway. And maybe then, the slope of growth will change quite significantly and dramatically.

I have also to mention that we see it as a topic that really -- it's a topic that attracts a lot of interest from the world. Recently, we took upon ourselves to be a leader in WEF, in the World Economic Forum, in Davos and in other places, in promoting this financial inclusion. You know, the accessibility to money and financial services, to the un-banked and the under-banked. And that's part of the same notion that this topic is very, very important, in terms of the world and how people are treating it. So all together, it's a very positive thing.

On the internet of things, for example, we made some progress, interestingly, in some application of security at home, in the connected homes, and some in the connected cars. But I think it's a little bit premature to connect all the dots and say, these are offering in the IoT space.

Like with other (inaudible) topics, like big data analytics and others, we are very careful to find the specific angle, the specific laser focus go to market, when we come to this type of application. Otherwise, it's just a lot of words, and -- they have their own words, and we are not very good in marketing. So I think that we see some progress there, but still a little bit premature.

Operator

And at this time, we have no further questions. So I would now like to turn the call back over to Mr. Matt Smith for closing remarks.

Matt Smith - *Amdocs Limited - Head of 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 do have any additional questions, please give us a call at the Investor Relations group. Have a great evening, and with that, we will conclude the call.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating You may now disconnect.

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