



Amdocs LTD

3/29/18

Price target: \$74.00





Amdocs is a leading software and services provider to the world most successful communications and media companies. As customers reinvent themselves, we enable their digital and network transformation through innovative solutions

## **Company Overview**

Amdocs is a leading provider of software and services for more than 350 communications, Pay TV, entertainment and media industry service providers in developed countries and emerging markets. These communications and cable service providers include some of the largest telecommunications companies in the world, including America Movil, AT&T, Bell Canada, Charter, Deutsche Telekom, Singtel, Sprint, Telefonica and Vodafone, as well as cable and satellite providers, including Altice (USA), Comcast, J:COM and Rogers Communications.

The company develops, implements and manages software and services associated with business support systems (BSS), operational support systems (OSS), the service-driven network and other network solutions, entertainment offerings and digital solutions. These offerings are based on a product and services mix, using technologies such as cloud, microservices, DevOps, open source, bimodal operations and increasing amounts of automation through standard information technology (IT) tools, REST APIs. In addition, the company has begun to offer components of artificial intelligence to enable service providers to efficiently and cost-effectively introduce new products and services, process orders, monetize data, support new business models and generally enhance their understanding of their customers. The technology, design-led thinking approach and expertise help service providers to further transform into digital service providers, enhance their over-the-top (OTT) entertainment offerings and serve their customers across all channels. These offerings are referred collectively as customer experience solutions (CES) because of the crucial impact they have on the service providers' end-user experience.

## **Amdocs Company Offerings**

*Software products.* Amdocs CES portfolio and new cloud-native offerings of open pre-integrated software products are designed to allow modular expansion as a service provider evolves, ensuring rapid, low-cost and reduced-risk implementations. In the second quarter of 2016, the company released Amdocs CES 10, a cloud-enabled portfolio that spans BSS/OSS and network solutions to deliver contextualized and personalized customer experiences across all channels; diversify revenue streams with new services to target a new customer base; empower service providers with data analytics and insights; and accelerate the rollout of new technologies. In



the fourth quarter of fiscal 2016, Amdocs launched Amdocs Optima, a converged, multi-tenant digital customer management and commerce platform. It serves mid-sized communications businesses and mobile virtual network enablers/mobile virtual network operators, as well as digital enterprises and can be deployed on premise or in the cloud. In the first quarter of fiscal 2017, the company released Amdocs CES 10.1, to enable our customers to accelerate digital transformation and capture growth opportunities in the on-demand digital economy

Amdocs LTD offers a comprehensive line of services designed to address every stage of a service provider's lifecycle, from planning, delivery and implementation to ongoing support. The services include managed services, testing, digital business operations, revenue guard, Brite:Bill (personalized digital interactive billing services), network service assurance and advisory services. Using artificial intelligence and predictive analytics, intelligent operations enable faster time to market for new services and the cost-effective management of existing services. Intelligent operations provides multi-year, flexible and tailored business processes and applications services, including application development and maintenance, operations, IT and infrastructure hosting, cloud services and legacy modernization. Professional services are designed to assist customers in the selection, implementation, operation, management and maintenance of their IT systems. As a lead systems integrator, the company assumes end-to-end responsibility to monitor, manage and deploy the overall development and integration activities of Amdocs and third-party vendors throughout the transformation lifecycle.

### **Sector Information**

We believe that service providers will maintain a strong focus on growing new revenue streams, cost reduction and efficient operations, and that the trends of ongoing digital transformation, network virtualization, and consolidation within the industry as service providers seek to become full-service integrated carriers will continue. The smartphone and associated communications and entertainment applications, or apps, other connected devices such as tablets, e-readers, wearables, and improvements in the Internet of Things (IoT) technology continue to drive unprecedented growth in the demand for multi-modal customer engagement capabilities and data. In response to the demand for digital experiences, service providers are continuing to focus on providing digital services, as well as enriching their offerings with integrated partner services. Service providers are also investing in their networks, and virtualizing them, to meet the demand for increased bandwidth, faster pace of innovation for new digital services, as well as to improve their business and operational agility and optimize and monetize their investments in such services.

Non-traditional service providers and device manufacturers continue to penetrate the communications market and are now competing for customer attention in the entertainment market as well. Additionally, social networks such as Facebook and Twitter, alongside OTT-



focused players such as Skype, Snapchat and WhatsApp, have become widely-accepted alternatives to traditional voice communications and in some cases are also providing video streaming services. To meet the challenges from new competitors, service providers are developing cooperative partnerships with OTT-focused players to improve the customer experience. Pay TV providers are moving toward more OTT and on-demand video services in their need to respond to customers' on-demand experience expectations. As the business-to-consumer (B2C) domain is crowded with disruptors and heightened competition from OTT players, service providers are also looking to strengthen their standing with enterprise customers, explore new opportunities in the wholesale market and provide IoT services to new vertical market segments, such as the home, health and automotive industries.

To capture new revenue streams, service providers are expanding within existing and non-traditional business models and deploying new network technologies. We believe service providers will place an emphasis on network virtualization and on modernization and transformation projects for their networks and operational and business support systems as they look for innovative ways to improve service agility and operations.

We believe these factors create significant opportunities for vendors of information technology software products and providers of managed services and end-to-end systems integration, such as Amdocs.

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## **Investment Thesis**

As the boundaries between communication service providers and media companies continue to blur, Amdocs is positioned to be the leading company to serve these needs.

### **Key Drivers**

- *Network Functions Virtualization*: NFV will prove to be one of the largest revenue drivers for Amdocs in the future. NFV is a network architecture concept that uses the technologies of IT virtualization to virtualize entire classes of network node functions into building blocks that may connect, or chain together, to create communication services. Physical hardware currently required, i.e., Encryptions, Firewall, DNS, would be integrated into a connected cloud based system that is far more efficient and cost effective for each company. In two years of offering this service, five Tier-1 customers have already signed on for the service. The five customers are already generating the company tens of



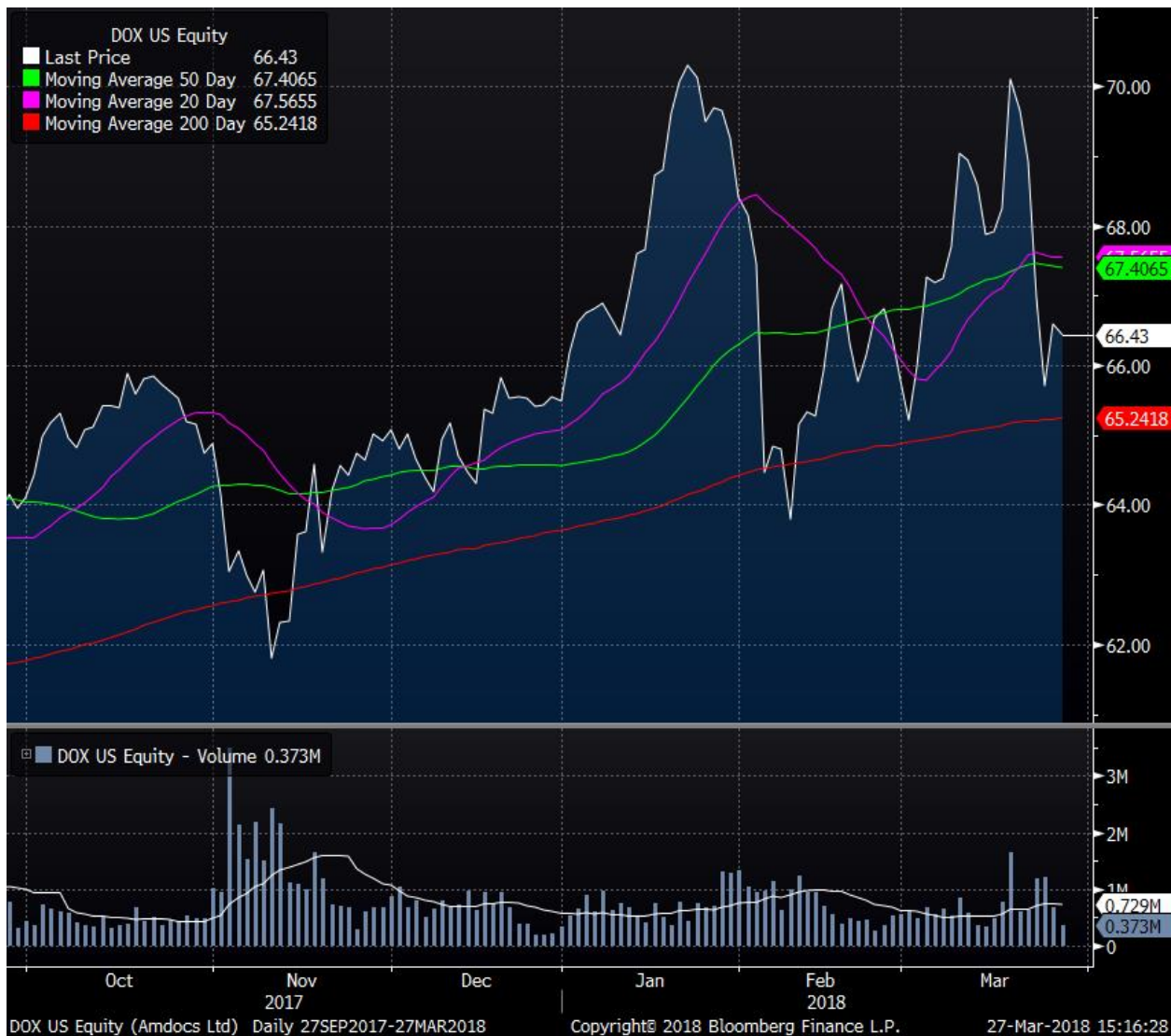
millions per year, without a clear strategy implemented by the company. Once a more clear strategy is defined, then the company should be able to more precisely value the market. As more large customers sign on, the company's more sizeable tier-2 customers will engage with the new capabilities.

- *AWS Partnership:* DOX announced a partnership with Amazon Web Services to help communications service providers drive the transition to cloud based digital programs. The partnership will allow customers to engage in small-scale programs to transition specific network programs to the cloud, providing low cost and highly efficient programs. The partnership certifies the Amdocs product as a AWS Technology Provider Partner and a AWS Partner Network
- *Vubiquity:* In February, Amdocs completed the 224M all cash purchase of Vubiquity, a leading provider of premium digital content services and technology solutions. The acquisition positions the company at the center of increased convergence across the content providers and aggregators. The purchase is expected to be EPS neutral in FY18 before becoming accretive thereafter. Top line growth is expected to be approximately 100M in the first 12 months following the closing of the sale. On April 4, Vubiquity announced that Turner Networks had renewed the companies contract to distribute their On-Demand content to over 60 million viewers.
- *International Growth:* Amdocs signed a 7-year, \$300 Million deal with the Philippines largest telecom provider PLDT, expanding the company's international business portfolio. Although a deal of this size likely won't lead to immediate top line growth, expect material increases to begin in the second half of FY18 and well into the future. Although fears about AT&T's discretionary spending seem to be overblown, it will be important for management to expand other revenue streams until clarity about their merger with Time Warner is finalized.



- *Strong capital returns:* Management at Amdocs has been committed to returning capitals to shareholders, providing strong downside protection. Since the company's first stock announcement in 2012, dividends have grown by approximately 14% per annum. Additionally, the company has spent on average 418.2M repurchasing stocks, providing a backstop for any decline in share price.
- *Microsoft Azure Partnership:* Amdocs recently announced a partnership with Microsoft Azure to implement their Open Network Automation Platform (ONAP) on Microsoft's cloud platform. ONAP allows operators to deliver virtual network functions that will demonstrate to customers the time-to-market and cost benefits on running a Virtual Network Function. This partnership will demonstrate to potential customers the benefits of Amdocs NFV products, a key driver in the company's performance. Again, this partnership appears to be another "seal of approval" for Amdocs's NFV along with their partnership with AWS.

**Financial Information**





- ❖ Although the stock has grown moderately in the 2Q18, \$DOX is poised for a strong second half of the fiscal year. Fundamental analysis points to more forward movements in both the short and long term. The company's 50 day SMA is trending well above its 200-day average while the 20-day recently broke above the 50. With concerns over AT&T's discretionary spending decreasing during merger discussions appearing to be overblown and strong sales performance in the first half of 2018, the stock is poised to climb.

## Amdocs Ltd (DOX US) - Adj Highlights

In Millions of USD 12 Months Ending	FY 2016 09/30/2016	FY 2017 09/30/2017	Current/LT M 12/31/2017	FY 2018 Est 09/30/2018	FY 2019 Est 09/30/2019
<b>Market Capitalization</b>	<b>8,511.7</b>	<b>9,287.2</b>	<b>9,569.2</b>		
- Cash & Equivalents	1,095.7	979.6	965.9		
+ Preferred & Other	0.0	0.0	38.1		
+ Total Debt	200.0	0.0	0.0		
<b>Enterprise Value</b>	<b>7,616.0</b>	<b>8,307.6</b>	<b>8,641.4</b>		
<b>Revenue, Adj</b>	<b>3,718.2</b>	<b>3,867.2</b>	<b>3,890.1</b>	<b>3,957.0</b>	<b>4,119.5</b>
<i>Growth %, YoY</i>	2.1	4.0	3.7	2.3	4.1
<b>Gross Profit, Adj</b>	<b>1,310.2</b>	<b>1,359.5</b>	<b>1,360.1</b>	<b>1,406.0</b>	<b>1,466.5</b>
<i>Margin %</i>	35.2	35.2	35.0	35.5	35.6
<b>EBITDA, Adj</b>	<b>694.9</b>	<b>732.2</b>	<b>725.7</b>	<b>813.0</b>	<b>866.3</b>
<i>Margin %</i>	18.7	18.9	18.7	20.5	21.0
<b>Net Income, Adj</b>	<b>406.0</b>	<b>433.3</b>	<b>453.0</b>	<b>582.8</b>	<b>610.5</b>
<i>Margin %</i>	10.9	11.2	11.6	14.7	14.8
<b>EPS, Adj</b>	<b>2.71</b>	<b>2.96</b>	<b>3.09</b>	<b>4.04</b>	<b>4.35</b>
<i>Growth %, YoY</i>	-3.2	9.2	13.9	36.6	7.6
<b>Cash from Operations</b>	<b>620.2</b>	<b>636.1</b>	<b>632.7</b>		
<b>Capital Expenditures</b>	<b>-130.1</b>	<b>-133.4</b>	<b>-143.4</b>	<b>-250.0</b>	<b>-141.3</b>
<b>Free Cash Flow</b>	<b>490.1</b>	<b>502.7</b>	<b>489.3</b>	<b>403.0</b>	<b>481.1</b>

Source: Bloomberg





## Amdocs Ltd (DOX US) - Profitability

In Millions of USD except Per Share 12 Months Ending	FY 2013 09/30/2013	FY 2014 09/30/2014	FY 2015 09/30/2015	FY 2016 09/30/2016	FY 2017 09/30/2017
<b>Returns</b>					
Return on Common Equity	13.08	12.66	12.98	11.83	12.33
Return on Assets	8.62	8.35	8.49	7.68	8.23
Return on Capital	12.39	12.01	12.41	11.28	12.13
Return on Invested Capital	11.62	11.19	11.51	11.00	12.35
<b>Margins</b>					
Gross Margin	35.23	35.27	35.52	35.24	35.16
EBITDA Margin	18.60	18.48	18.96	18.69	18.93
Operating Margin	14.39	13.91	14.16	12.99	13.38
Incremental Operating Margin	39.49	6.47	25.41	—	22.96
Pretax Margin	14.21	13.74	14.09	13.04	13.26
Income before XO Margin	12.33	11.85	12.25	11.01	11.30
Net Income Margin	12.33	11.85	12.25	11.01	11.30
Net Income to Common Margin	12.33	11.85	12.12	10.91	11.20
<b>Additional</b>					
Effective Tax Rate	13.26	13.77	13.10	15.55	14.83
Dvd Payout Ratio	20.29	22.41	23.14	27.68	28.74
Sustainable Growth Rate	10.42	9.82	9.98	8.55	8.79



Source: Bloomberg

Amdocs LTD has been a model of consistency for company's looking to control their margins. Both gross and operating margins have operated within 20 basis points the last three years and are expected to remain consistent in future estimates. The company is expected to receive an increase in net profit margin following the passage of corporate tax cuts in December 2017. More favorable foreign repatriation terms will allow for the company to generate greater income from its foreign business practices, roughly 34% of revenue. Moreover, any top line growth generated from their partnership with Amazon Web Services or their purchase of Viquidity should fall right to the shareholder. The company also has the option of again leveraging earnings by taking on more debt. They were able to pay off all long term debt in 2016 in lieu of repurchasing the company's shares. However, with a sustainable growth rate of 8.79% and growth predictions falling between 4-8%, this option is unlikely.

Ticker	2Y Corr	Mkt Cap (USD)	BF P/E	BF EV/EBITDA	BF EV/EBIT	BF EV/Rev	LF P/BV
DOX US		9569182560	15.9046	10.2927	12.3493	2.14	2.7299
			-1.8569	-3.3948	11.1051	18.6645	-9.39
Mean		2820591190	16.2056	10.6544	11.1149	1.8034	3.0128
G US	0.3494	6189400888	17.9316	13.3636	4.5898	2.3286	4.3317
EXLS US	0.3397	1907236514	19.672	11.088	13.4896	1.9789	3.1509
TTEC US	0.3043	1408408888	15.4816	8.1562	--	1.0983	3.9564
SYKE US	0.2742	1241492169	13.7744	6.5004	10.3612	0.6885	1.5545
CVG US	0.2631	2072631829	13.353	6.6231	9.4326	0.8299	1.5072
WNS US	0.259	2280188663	19.4466	12.6885	17.4271	2.7208	4.8422
FSOL IN	0.0819	558351786.5	10.9256	9.5087	11.3279	1.1591	1.6718
SRT US	0.0495	158427413.2	--	8.8776	--	--	3.3702

Metric	Current vs 2Yr Average Historical Premium				Implied @ Hist Avg	
	Current(%)	Hist Avg(%)	Diff(%)	# SD	Multiple(x)	Price(USD)
Subject Ticker: DOX US Equity						
BF P/E	-1.7426	4.1964	-5.9389	-1.3629	16.8699	70.8552
BF EV/EBITDA	-3.2633	4.3732	-7.6365	-1.0646	11.1119	71.5787
BF EV/EBIT	10.7769	-1.2175	11.9944	1.3884	11.0188	60.281
BF EV/Rev	19.7026	24.1375	-4.4349	-0.5583	2.2215	69.0508
LF P/BV	-8.3593	-9.2992	0.9399	0.1846	2.7057	66.1297



Amdocs is relatively undervalued based on their two-year averages and comparisons to its peer groups. Historically, DOX trades at a 16.9x PE multiple, with an implied price of 70.86. Currently, the company's PE is trading 6% below its average of a 4% premium over its competitors. These stats are supported by the company's market leading position and are in line with other market leaders in similar industry's. The fact that the current PE multiples are -1.4 Standard Deviations from the mean points to this unusually low price level and could point to positive price movements in the coming weeks. Furthermore, a -7% difference in EV/EBITDA compared to historical premiums show more signs of the company being undervalued.