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July 10, 2002
Technology Research



Amdocs Limited

DOX: VoiceStream Contract Could be at Risk, Long Term, in the Event of an AWE-VSTR Merger

Investment Conclusion: *In the event of a merger between AT&T Wireless and VoiceStream, we believe Amdocs' long-term billing contract with VoiceStream could be at risk. We estimate the value of this contract as about \$85MM+ and \$0.05+ annually. Alternatively, a merger between AT&T Wireless and Cingular should be viewed as more of a wild card.*

Key Points

- Currently, Amdocs provides outsourced billing services for VoiceStream Wireless' 7 million subscribers. Its competitor, Convergys (CVG \$17.03), provides outsourced billing services for AT&T Wireless' 18 million subscribers.
- In the event of a merger between AT&T Wireless and VoiceStream, we believe billing would ultimately be consolidated with the larger AT&T contract with Convergys. Assuming Amdocs receives roughly \$1.00+/- per subscriber bill per month, we value this contract at \$85 million or \$0.05 annually. Because Amdocs has a multiyear contract with VoiceStream, the financial impact of such a merger may not be felt for several years.
- Alternatively, a merger between AT&T Wireless and Cingular could be to Amdocs' benefit or detriment. Amdocs currently provides billing solutions for most of Cingular (excluding the former Bell South wireless). If the two carriers were to merge, it is unclear whether billing services would be consolidated around the AT&T Wireless outsourced service (Convergys' platform) or the customized internal platforms (Amdocs) used by the majority of Cingular).

DOX: \$7.90
Rating: Market Perform

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Change In...	Yes/No	Was	Is
Rating:	No		MP
Operating EPS F2002E:	No		\$1.07
Operating EPS F2003E:	No		\$0.64
Rev F2002E:	No		\$1,602.9
Rev F2003E:	No		\$1,370.3
12-Month Price Target:	New		NE
52-Week Range (NYSE)			\$51.80-6.62
Shares Outstanding			225.1 MM
Market Cap			\$1,778.3 MM
Avg Daily Volume (000)			2,152
Book Value/Share 3/02			\$6.78
5yr Hist. EPS Growth Rate			37%
5yr Proj. EPS Growth Rate			20%
ROA 2002E			15.0%
Dividend/Yield			NONE/ NA
Total Debt/Tot Cap 3/02			23.0%
Net Cash 3/02			\$422.3 MM
Net Cash/Share 3/02			\$1.88

FY September	F2001 A	F2002 E	F2003 E
Operating EPS:			
1Q	\$0.27	\$0.36 A	\$0.14
2Q	\$0.30	\$0.37 A	\$0.14
3Q	\$0.33	\$0.20 E	\$0.17
4Q	\$0.35	\$0.14 E	\$0.20
Year	\$1.25	\$1.07	\$0.64
P/E	NM	7.4x	12.3x
CY EPS	\$1.33	\$0.85	\$0.75
CY P/E	NM	9.3x	10.5x
Rev (MM):	F2001 A	F2002 E	F2003 E
1Q	\$342.2	\$422.6 A	\$330.0
2Q	\$372.3	\$455.3 A	\$330.0
3Q	\$404.0	\$380.0 E	\$346.5
4Q	\$415.4	\$345.0 E	\$363.8
Year	\$1,533.9	\$1,602.9	\$1,370.3
CY	\$1,614.4	\$1,510.3	\$1,431.4
Mkt Cap/Rev	NM	1.1x	1.3x
Mkt Cap/CY Rev	NM	1.2x	1.2x

(Operating Earnings Before One-time Items.)

Company Info

The Company

Amdocs, Ltd. is a pioneer in the emerging high-growth market for billing and customer-care solutions for voice, data and convergent carriers. The company's end-to-end customer-care and billing solutions are mission-critical components of global telecom carriers' strategies to offer innovative services to attract and retain end-users. Amdocs' products include: complete end-to-end, next-generation customer-care and billing solutions for IP-voice convergence within wireline and wireless services (90% of revenues); fully integrated directory systems to support carriers' directory sales (yellow and white pages) and publishing activities (10% of revenues).

Investment Thesis

We believe Amdocs should benefit from an acceleration in demand for billing systems from large, global carriers as they: (1) consolidate their markets and seek Amdocs' aid in integrating disparate billing systems; (2) add new billing solutions to enable voice-data convergence; (3) enhance competitiveness of existing services by upgrading inflexible legacy systems to advanced, next-generation solutions permitting more innovative billing strategies; (4) reduce costs through improved operating efficiencies as they move to client-server platforms. In particular, we believe the shift to data services (both 2.5G and 3.0G) by Amdocs' large installed base of global wireless carriers will generate a substantial software upgrade cycle over the next 2-3 years as carriers look to measure and bill for bandwidth utilization and mobile-commerce.

Investment Risks

Among the risks to Amdocs are: (1) fluctuations in quarterly results; (2) the length of the sales cycle; (3) dependence on attraction and retention of systems integration professionals to drive growth; (4) integration of acquisitions; (5) concentration of customers in one industry - the telecom market.

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Market Underperform describes stocks that we expect to decline by more than 20%.

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Marianne Wolk

Marianne, a managing director, specializes in technology solutions for the converging communications industry. Her areas of expertise include communication software and services such as wireless data and telecom operation support systems. Marianne has had a decade of buy- and sell-side research experience in the technology industry. Marianne is a Wall Street Journal All-Star Analyst and has been ranked by Greenwich Associates as a leading industry analyst. Marianne received a BA in applied mathematics from Northwestern University and an MBA in finance and economics from the University of Chicago.

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