



Technology Research

New York  
74 Broad Street  
New York, NY 10004  
Tel: (212) 952-1100

Israel Office  
30 Kalisher Street  
Tel Aviv, Israel 65257  
Tel: +972-3-519-9000

## Amdocs Ltd

Sector Telecom Software

Reason for Report F1Q07 Results

<b>Rating</b>	<b>Hold</b>
<b>Price Target</b>	<b>\$36</b>
<b>Bloomberg:</b>	<b>DOX</b>
<b>Reuters:</b>	<b>DOX.N</b>
	<b>JANUARY 18, 2007</b>

### F1Q07 EPS Top Pre-announcement, FY07 Outlook Unchanged.

Revenue for the December quarter was \$691 million, slightly over the \$690 million revised guidance the Company provided on January 11. Non-GAAP EPS was \$0.03 higher than the revised guidance at \$0.53. We note that the EPS result reflects a sharp decline in the effective tax rate to 10.7%. Free Cash Flow of \$49 million was relatively low as CAPEX increased, as expected, to approximately \$50 million.

Management reiterated its revised FY07 revenue guidance of \$2.83 - \$2.91 billion and introduced a new FY07 non-GAAP EPS guidance of \$2.02 - 2.12. For the March quarter, DOX expects revenue of approximately \$705 million and non-GAAP EPS of \$0.49 - \$0.51. Management indicated it is still evaluating the magnitude of its cost-cutting measures, and therefore provided an EPS range. We are maintaining our FY07 revenue estimate of \$2.88 billion, while raising our FY07 non-GAAP EPS estimate by \$0.02 to \$2.07.

**Backlog Increase but So Do Sales Cycles.** Despite the lower than originally expected growth for the year, backlog increased by \$40 million to \$2.09 billion. Nevertheless, management indicated longer decision-making process among large carriers such as AT&T (T-NYSE-\$34.49), Vodafone (VOD-NYSE-\$29.35), Deutsche Telecom (DT-NYSE-\$18.89) and others as a cause for some large transformation projects being pushed further out. We believe that backlog may fluctuate in the coming quarters and view management comments as a clear signal for slower spending patterns.

**Operating Profitability Decline.** Operating margin declined sequentially by 90 basis points to 17.4%, mainly due to the full consolidation of Cramer for the first time, higher cost of service in some projects and, to a lesser extent, currency impact. While DOX is expected to implement cost-cutting measures, we do not expect these to fully offset the adjusted revenue outlook. That said, we expect operating margin to slightly decline in the March quarter and remain relatively steady or slightly increase in the remainder of the year.

**Maintaining Hold & Target of \$36.** While we believe DOX is well positioned to capitalize on the transformation of telecom BSS/OSS systems as well as large consolidation projects, we note that spending decisions are taking longer than in the past. That said, we believe DOX's growth potential is mostly reflected in its share price. Our target price is based on a DCF model and reflects a P/E multiple of 17.4x our FY07 estimate which is in line with the peer group average.

(Continued on the next page...)

### Trading Information

Ticker: DOX (NYSE)		
Information as of:	16:30 PM	1/17/07
Price (\$)		34.44
Market Cap (\$MM)		7,670.41
Shares Outstanding (MM, fd)		222.7
52 Week Range (\$)		41.01 - 30.83
Free Float (%)		94.8
3-Month Average Volume		1,523,450

### Oscar Gruss Estimates

FY Sept	F2Q06 A	F1Q07 A	F2Q07 E
Revenues (MM)	\$601.10	\$691.00	\$705.00
Previous	--	--	\$710.00
EPS			
(ex one-time items)	\$0.44	\$0.53	\$0.50
Previous	--	--	--

	FY2006 A	FY2007 E	FY2008 E
Revenues (MM)	\$2,480.10	\$2,876.00	\$3,163.60
Previous	--	\$2,880.00	\$3,168.00
EPS			
(ex one-time items)	\$1.84	\$2.07	\$2.19
Previous	--	\$2.05	--

### Ratios Analysis

P/E (FY07)	16.64
PEG (Est Avg 2-Yr growth)	N/A
P/Book Value (MRQ)	3.36
P/Sales (FY07)	2.67
EV/Sales (FY07)	2.47
EV/EBIT (FY07)	14.20

### Balance Sheet Data

Net Cash/ Share	2.54
TL Liab/ TL Assets	43.1%
Book Value/ Share	10.24
DSO	55
ROE	21.1%

**Roni Biron**  
**+972-3-519-9007**  
**rbiron@oscargruss.co.il**

**Important disclosures and disclaimer are on page 5. Price chart is on page 4.**

**Analyst Certification:** I, Roni Biron, certify that the views expressed in this research report accurately reflect my personal views about the subject security(s) and issuer(s) and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

---

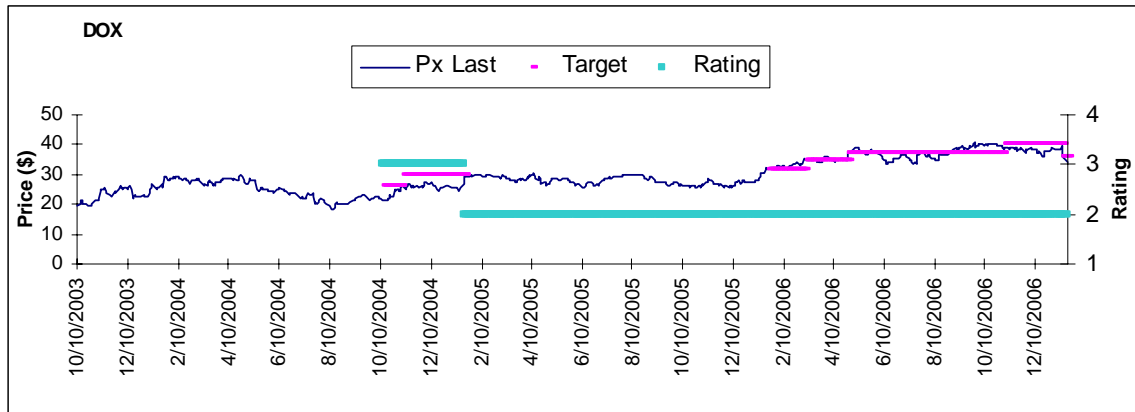
## Investment Risks

The acquisitions of DST Innovis, Qpass and Cramer present integration risks. DOX's revenue stream is largely influenced by a number of long-term projects, which may lead to soft sales during transitional periods. A significant portion of the Company's revenues is derived by a relatively small number of customers. A strategic decision by any of these customers to change its CC&B vendor or reduce its capital expenditure may significantly impact DOX's operating results. The Company operates in a highly competitive environment, which includes in-house IT departments, system integrators (SIs) and independent software vendors (ISVs).

## Amdocs Ltd. – Income Statement Model (FYE Sept)

USD Mil.	2005	2006				2006	2007				2007E	2008E
	FY	12/05A	03/06A	06/06A	09/06A	FY	12/06A	03/07E	06/07E	09/07E	FY	FY
License	100.0	31.7	30.3	23.2	31.1	116.3	31.7	32.4	33.6	34.5	132.3	145.5
Service	1,938.6	555.4	570.8	603.2	634.3	2,363.8	659.3	672.6	696.4	715.5	2,743.8	3,018.1
<b>Total revenues</b>	<b>2,038.6</b>	<b>587.0</b>	<b>601.1</b>	<b>626.4</b>	<b>665.4</b>	<b>2,480.1</b>	<b>691.0</b>	<b>705.0</b>	<b>730.0</b>	<b>750.0</b>	<b>2,876.0</b>	<b>3,163.6</b>
COGS - license	4.1	1.1	0.9	1.0	1.0	4.0	1.1	1.1	1.1	1.2	4.5	4.9
COGS - service	1,291.6	369.7	384.6	398.5	409.0	1,561.8	428.8	437.2	451.3	462.9	1,780.2	1,952.7
<b>Total COGS</b>	<b>1,295.7</b>	<b>370.8</b>	<b>385.5</b>	<b>399.5</b>	<b>410.0</b>	<b>1,565.8</b>	<b>429.9</b>	<b>438.3</b>	<b>452.4</b>	<b>464.1</b>	<b>1,784.7</b>	<b>1,957.7</b>
<b>Gross profit</b>	<b>743.0</b>	<b>216.3</b>	<b>215.6</b>	<b>227.0</b>	<b>255.4</b>	<b>914.3</b>	<b>261.2</b>	<b>266.7</b>	<b>277.6</b>	<b>285.9</b>	<b>1,091.4</b>	<b>1,206.0</b>
R&D, net	144.5	42.0	41.1	45.2	53.7	182.0	58.7	61.0	64.0	66.5	250.2	268.9
SG&A	232.1	72.9	68.3	69.4	80.0	290.6	81.9	83.5	86.5	89.0	340.9	370.1
<b>Operating profit</b>	<b>366.4</b>	<b>101.3</b>	<b>106.2</b>	<b>112.4</b>	<b>121.8</b>	<b>441.6</b>	<b>120.5</b>	<b>122.2</b>	<b>127.1</b>	<b>130.4</b>	<b>500.2</b>	<b>566.9</b>
Interest & other revenues	22.3	8.4	10.3	14.9	8.1	41.7	11.7	11.5	12.1	12.8	48.2	45.0
<b>Profit before tax</b>	<b>388.7</b>	<b>109.7</b>	<b>116.5</b>	<b>127.3</b>	<b>129.8</b>	<b>483.4</b>	<b>132.3</b>	<b>133.7</b>	<b>139.2</b>	<b>143.2</b>	<b>548.4</b>	<b>611.9</b>
Tax expense	77.7	19.8	21.0	21.1	20.3	82.2	14.2	22.7	23.7	24.3	84.9	110.1
<b>Proforma net profit</b>	<b>311.0</b>	<b>90.0</b>	<b>95.5</b>	<b>106.2</b>	<b>109.5</b>	<b>401.2</b>	<b>118.1</b>	<b>111.0</b>	<b>115.5</b>	<b>118.8</b>	<b>463.5</b>	<b>501.8</b>
<b>Diluted number of shares</b>	<b>217.2</b>	<b>214.9</b>	<b>217.9</b>	<b>220.1</b>	<b>221.2</b>	<b>218.5</b>	<b>222.7</b>	<b>223.5</b>	<b>224.5</b>	<b>225.2</b>	<b>224.0</b>	<b>229.0</b>
<b>Proforma EPS</b>	<b>1.43</b>	<b>0.42</b>	<b>0.44</b>	<b>0.49</b>	<b>0.50</b>	<b>1.84</b>	<b>0.53</b>	<b>0.50</b>	<b>0.51</b>	<b>0.53</b>	<b>2.07</b>	<b>2.19</b>
<b>Rev. breakdown</b>												
License	4.9%	5.4%	5.0%	3.7%	4.7%	4.7%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%
Service	95.1%	94.6%	95.0%	96.3%	95.3%	95.3%	95.4%	95.4%	95.4%	95.4%	95.4%	95.4%
<b>Profitability</b>												
Gross margin - license	95.9%	96.6%	97.0%	95.7%	96.7%	96.6%	96.6%	96.6%	96.6%	96.6%	96.6%	96.6%
Gross margin - service	33.4%	33.4%	32.6%	33.9%	35.5%	33.9%	35.0%	35.0%	35.2%	35.3%	35.1%	35.3%
<b>Gross margin</b>	<b>36.4%</b>	<b>36.8%</b>	<b>35.9%</b>	<b>36.2%</b>	<b>38.4%</b>	<b>36.9%</b>	<b>37.8%</b>	<b>37.8%</b>	<b>38.0%</b>	<b>38.1%</b>	<b>37.9%</b>	<b>38.1%</b>
R&D, net	7.1%	7.2%	6.8%	7.2%	8.1%	7.3%	8.5%	8.7%	8.8%	8.9%	8.7%	8.5%
SG&A	11.4%	12.4%	11.4%	11.1%	12.0%	11.7%	11.9%	11.8%	11.8%	11.9%	11.9%	11.7%
<b>Operating margin</b>	<b>18.0%</b>	<b>17.3%</b>	<b>17.7%</b>	<b>17.9%</b>	<b>18.3%</b>	<b>17.8%</b>	<b>17.4%</b>	<b>17.3%</b>	<b>17.4%</b>	<b>17.4%</b>	<b>17.4%</b>	<b>17.9%</b>
Effective tax rate	20.0%	18.0%	18.0%	16.6%	15.6%	17.0%	10.7%	17.0%	17.0%	17.0%	15.5%	18.0%
<b>Net profit</b>	<b>15.3%</b>	<b>15.3%</b>	<b>15.9%</b>	<b>16.9%</b>	<b>16.5%</b>	<b>16.2%</b>	<b>17.1%</b>	<b>15.7%</b>	<b>15.8%</b>	<b>15.8%</b>	<b>16.1%</b>	<b>15.9%</b>
<b>Annual change (%)</b>												
Total revenues	14.9%	25.0%	23.1%	23.5%	16.1%	21.7%	17.7%	17.3%	16.5%	12.7%	16.0%	10.0%
Net profit	25.0%	24.3%	25.8%	34.8%	30.6%	29.0%	31.3%	16.2%	8.8%	8.5%	15.5%	8.3%

Source: Company reports and Oscar Gruss estimates.



Ratings Scale: 1 - Reduce, 2 - Hold, 3 - Buy

Note: Price chart adjusted for dividends and splits. Past ratings have been recalibrated to reflect the current ratings scale.



# INVESTMENT RESEARCH

TECHNOLOGY		RISK ARBITRAGE & SPECIAL SITUATIONS	
ANALYSTS		ANALYSTS	
Rami Rosen	+(972) 3519-9004	Justin S. Lumiere	(212) 514-2311
Ehud Eisenstein	(212) 514-2405	Louis Meyer	(212) 514-2436
Roni Biron	+(972) 3519-9007		

EQUITY & CONVERTIBLE		RISK ARBITRAGE & SPECIAL SITUATIONS	
SALES - TRADING		SALES - TRADING	
Tim Brackett	(212) 943-7610	Laura Anreder	(212) 943-7610
Francois Morin		Andy Lyss	
Oren Gez		Chuck Whitman	
Ali Gurfinkel		Bob Gillis	
SALES - TRADING (EUROPE)			
Marcel Tschan	(212) 514-2460		
Chris Selicious			

**Investment Ratings:** **BUY:** appears undervalued or special circumstances lead us to believe it will outperform its peer group in the next 6 months. **HOLD:** appears fairly valued and may provide returns which approximate returns expected from its peer group in the equity markets. **SELL/REDUCE:** appears overvalued or is experiencing problems that we believe may cause it to underperform its peer group and possibly reduce in value. Other factors considered in the Investment Ratings may include, but are not limited to, the company's risk profile, including earnings predictability, financial position, industry position, technology and product risks, management strengths and other factors. The required annual return for a specific Investment Rating will be increased for stocks with greater financial, business and/or earnings risk.

Rating (As of 01/17/07)	No. of companies in OG universe with this rating:	% of companies in OG universe with this rating:	No. of companies for which Inv. Banking services have been provided:	% of rating for which Inv. Banking services have been provided:
Buy	19	65.52%	0	0%
Hold	9	31.03%	0	0%
Sell / Reduce	1	3.45%	0	0%

More information is available upon request.

## IMPORTANT DISCLOSURES:

The analyst, Roni Biron, who prepared this report does not own shares in Amdocs. Members of the analyst's household do not own shares in Amdocs. Oscar Gruss & Son Inc. does not own shares in Amdocs and does not have any investment banking relationship with Amdocs.

## DISCLAIMER:

This report is for informational purposes only, is not an offer to buy or sell any security, and is not investment advice because it does not take into account the differing needs of individual clients. Clients seeking investment advice specific to their financial profiles and goals should contact their Oscar Gruss & Son Incorporated sales representative. This report is based upon information which Oscar Gruss & Son Incorporated believes to be reliable but no representation is made by this Firm as to its completeness or accuracy. This report is not a complete analysis of every material fact concerning any company, industry or security. Oscar Gruss & Son Incorporated assumes that it will be read in conjunction with other available reports and data. Opinions expressed herein are subject to change without notice. No investor can assume that reliance on the views, opinions or recommendations contained herein will produce profitable results. Foreign-currency-denominated securities are subject to fluctuations in currency exchange rates that could have a positive or adverse effect on an investor's return upon the conversion into local currency of dividends or interest received, or proceeds from the sale of such securities. In addition, the value of U.S. dollar-denominated ADRs and the value of U.S. dollar-denominated ordinary shares, or common shares, of foreign issuers can be influenced by fluctuations in currency exchange rates. © 2007 Oscar Gruss & Son Incorporated. All rights reserved.