

R. Robert Goldman
Senior Research Analyst
443-394-3499, rgoldman@pjc.com

Daniel Meron
Research Analyst
011-972-3-753-2033, danielm@nzco.com

Reason for Report:

Change in rating, target, estimates

Changes	From (Previous)	To (Current)
Rating	Outperform	Mkt Perform
Price Tgt	\$28	\$12
FY02E EPS	\$1.40	\$1.12
FY03E EPS	\$1.46	\$0.93
FY02E Rev (mil)	\$1,726	\$1,608
FY03E Rev (mil)	\$1,801	\$1,458

Price: \$14.56
52-Wk Range: \$58.00-\$14.45
Price Target: \$12
(15x forward 12-month EPS of \$0.82)
Shares Out (mil): 225.5
Market Cap (mil): \$3,284
Avg Daily Vol (000): 2,928
Book Value/Share: \$6.77
Cash Per Share: \$4.62
Debt to Total Capital: 22%
Div (ann) – Yield: N/A
Est LT EPS Growth: 20%
P/E to LT Growth (2002): 0.65x
Est Next Rep Date: July 2002
FY End: Sep 2002

Rev (mil)	2001	2002E	2003E
Dec	\$342.2	\$422.6A	\$358.9
Mar	\$372.3	\$455.3A	\$359.3
Jun	\$404.0	\$380.0	\$365.5
Sep	\$415.4	\$350.0	\$374.3
FY	\$1,533.9	\$1,607.9	\$1,458.0
CY	\$1,614.4	\$1,544.2	\$1,493.7

FY RM	2.1x	2.0x	2.3x
CY RM	2.0x	2.1x	2.2x

EPS	2001	2002E	2003E
Dec	\$0.27	\$0.36A	\$0.21
Mar	\$0.30	\$0.37A	\$0.22
Jun	\$0.33	\$0.20	\$0.23
Sep	\$0.35	\$0.19	\$0.26
FY	\$1.24	\$1.12	\$0.93
CY	\$1.34	\$0.97	\$1.00

FY P/E	11.7x	13.0x	15.7x
CY P/E	10.9x	15.0x	14.6x

Note: EPS excl goodwill and one-time items.

Disclosures (see last page for details):

(#) Market Maker
(^) Beneficial Interest
(>) Beneficial Interest/Pre-IPO
(@) Underwriter
(-) Employee/Director

Amdocs Ltd. (DOX – \$14.56)

Market Perform

Volatility: High

Lowering Rating To Market Perform Following Earnings Preannouncement

KEY POINTS:

- Yesterday, after the close, DOX sharply lowered guidance for the balance of its fiscal year ending September, citing lower-than-expected new wins (in size and especially in number), due to delays in procurement decisions by the world's telecom carriers. This reflects the second reduction in guidance for 2H02 in 60 days.
- New guidance of \$380 million in Q3 sales and EPS of \$0.20 represents a 10% decrease to the previous top-line guidance and compares with expectations of \$0.33. Revised Q4 revenue expectations were taken even lower to \$350-\$360 million, down from \$428.0 million. EPS is expected to be in range of \$0.17-\$0.20.
- Management plans to reduce headcount by 10% in the next two fiscal quarters, which should help stabilize operating margin in the upper-teen range. It is unclear as to the level of restructuring costs related to these cost-reduction measures.
- In our opinion, a negative fundamental shift in the CC&B space is having a negative impact on DOX's competitive positioning and business model, which could lead to slower long-term sales growth rates of around 10%-15%.
- We are lowering our rating, estimates, and price target, following this preannouncement, and believe that other shares, such as TTI Telecom (TTIL-\$21.90-SB-#@) could decline as part of the collateral damage from this news. Our new price target of \$12 reflects 15x our revised forward 12-month EPS of \$0.82 and is based upon a lower multiple than our previous target, due to the expected decline in business.

INVESTMENT RECOMMENDATION:

It appears that the negative banter in the Israeli press regarding DOX was right on the mark. Following the Billing World conference, we were able to receive confirmation that DOX had indeed not won an AT&T Wireless (#) tender worth an estimated \$100 million, and that DOX may soon be displaced at a few existing wireless customers in the coming months. Displacement would be a first, but not likely the last. Contrary to our original thesis, DOX's relatively high-cost business model just isn't well suited for the tight-fisted telecom environment. As a result, DOX's shares could continue to be under pressure for a few quarters, both competitively and from the delays cited by management.

COMPANY DESCRIPTION:

Amdocs Ltd. (#) is the largest provider of CC&B (Customer Care and Billing) information system solutions to major communications companies (90% of FY01 rev.) and directory-publishing systems worldwide. The Company employs well more than 9,000 people, with offices located strategically around the globe.

Rob Goldman, 443-394-3499, rgoldman@pjc.com
Daniel Meron, 011-972-3-753-2033, danielm@nzco.com

Amdocs Ltd.
(NYSE: DOX)
Historical and Projected Income Statement
(\$ in thousands, except per share)

		Dec 01	Mar 02	Jun 02	Sep 02		
	FY01	1Q02A	2Q02A	3Q02	4Q02	FY02E	FY03E
License Revenue	\$ 171,430	\$ 42,290	\$ 45,528	\$ 37,200	\$ 34,600	\$ 159,618	\$ 148,600
Service Revenue	1,362,480	380,351	409,741	342,800	315,400	1,448,292	1,309,400
Total Revenues	\$ 1,533,910	\$ 422,641	\$ 455,269	\$ 380,000	\$ 350,000	\$ 1,607,910	\$ 1,458,000
License	5,651	980	1,433	1,150	1,060	4,623	4,490
Maint and Service	847,590	230,603	249,204	233,100	207,500	920,407	831,200
Total Cost of Revenues	\$ 853,241	\$ 231,583	\$ 250,637	\$ 234,250	\$ 208,560	\$ 925,030	\$ 835,690
Gross Profit	\$ 680,669	\$ 191,058	\$ 204,632	\$ 145,750	\$ 141,440	\$ 682,880	\$ 622,310
Research and Development	105,807	28,557	30,902	32,000	31,000	122,459	126,600
Selling, General, & Admin.	195,593	53,779	61,023	53,000	52,000	219,802	213,800
Amortization of Goodwill	219,998	56,782	61,894	62,000	62,000	242,676	248,000
In-proc. R&D charge	-	30,711	-	-	-	30,711	-
Total Operating Expenses	\$ 301,400	\$ 82,336	\$ 91,925	\$ 85,000	\$ 83,000	\$ 342,261	\$ 340,400
Operating Income	\$ 379,269	\$ 108,722	\$ 112,707	\$ 60,750	\$ 58,440	\$ 340,619	\$ 281,910
Interest and Other Income	22,286	3,327	2,383	2,000	2,000	9,710	10,300
Pretax Income	\$ 401,555	\$ 112,049	\$ 115,090	\$ 62,750	\$ 60,440	\$ 350,329	\$ 292,210
Income Taxes	120,466	31,374	32,225	17,600	16,900	98,099	81,800
Extraordinary Gain (Loss)	-	(76,341)	-	-	-	(76,341)	-
Net Income (Loss)	\$ 281,089	\$ 80,675	\$ 82,865	\$ 45,150	\$ 43,540	\$ 252,230	\$ 210,410
Wtd. Avg., Dil Shares	226,832	225,090	225,488	226,000	226,700	225,820	227,300
EPS (excl goodwill and one-times)	\$ 1.24	\$ 0.36	\$ 0.37	\$ 0.20	\$ 0.19	\$ 1.12	\$ 0.93

Margin Analysis:

Revenue Breakdown:							
License Revenue	11.2%	10.0%	10.0%	9.8%	9.9%	9.9%	10.2%
Service Revenue	88.8%	90.0%	90.0%	90.2%	90.1%	90.1%	89.8%
Gross:							
License Gross Margin	96.7%	97.7%	96.9%	96.9%	96.9%	97.1%	97.0%
Maint and Serv. Gross Margins	37.8%	39.4%	39.2%	32.0%	34.2%	36.4%	36.5%
Total Gross Margin	44.4%	45.2%	44.9%	38.4%	40.4%	42.5%	42.7%
Operating (as a % of Total Revs):							
Research and Development	6.9%	6.8%	6.8%	8.4%	8.9%	7.6%	8.7%
Selling, General and Admin.	12.8%	12.7%	13.4%	13.9%	14.9%	13.7%	14.7%
Total Operating Expenses	19.6%	19.5%	20.2%	22.4%	23.7%	21.3%	23.3%
Total Operating Margin	24.7%	25.7%	24.8%	16.0%	16.7%	21.2%	19.3%
Tax Rate	30.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
Net Margin	18.3%	19.1%	18.2%	11.9%	12.4%	15.7%	14.4%

Growth Statistics:

Sequential:				
License Revenue	1.8%	7.7%	-18.3%	-7.0%
Service Revenue	1.7%	7.7%	-16.3%	-8.0%
Total Revenues	1.7%	7.7%	-16.5%	-7.9%
Total Cost of Revenue	0.8%	8.2%	-6.5%	-11.0%
R&D	-1.8%	8.2%	3.6%	-3.1%
SG&A	4.9%	13.5%	-13.1%	-1.9%
Total Operating Expenses	2.5%	11.6%	-7.5%	-2.4%
Total Operating Margin	3.2%	3.7%	-46.1%	-3.8%
Net Margin	3.1%	2.7%	-45.5%	-3.6%
EPS	2.4%	3.2%	-46.0%	-3.9%

Rating Definitions

Investment Opinion: investment opinions are based on each stock's return potential relative to the overall market*, not an absolute return.

- **Strong Buy:** Expected to significantly outperform the relevant broader market index over the next 6 to 12 months. An identifiable catalyst is present to drive appreciation.
- **Outperform:** Expected to outperform the relevant broader market index over the next 12 to 18 months.
- **Market Perform:** Expected to perform in line with the relevant broader market index over the next 6 to 12 months.
- **Underperform:** Expected to underperform the relevant broader market index over the next 6 to 12 months.

* Broader market indices = Russell 2000 and S&P 500

Volatility Rating: Our focus on growth companies implies that the stocks we recommend are typically more volatile than the overall stock market. We are not recommending the "suitability" of a particular stock for an individual investor. Rather, we are identifying the volatility of a particular stock.

- **Low:** The stock price has moved up or down by more than 10% in a month in fewer than 8 of the past 24 months.
- **Medium:** The stock price has moved up or down by more than 20% in a month in fewer than 8 of the past 24 months.
- **High:** The stock price has moved up or down by more than 20% in a month in at least 8 of the past 24 months. All IPO stocks automatically get this risk rating for the first 12 months of trading.

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