UNITED STATES DISTRICT COURT

EASTERN DISTRICT OF MISSOURI

EASTERN DIVISION

EVERETT GLOVER, Individually and on Behalf of All Others Similarly Situated, Plaintiff, vs. AMDOCS LIMITED, JOSHUA SHEFFER and TAMAR RAPAPORT-DAGIM, Defendants.	))))))))))))	No. CLASS ACTION COMPLAINT FOR VIOLATIONS OF FEDERAL SECURITIES LAWS DEMAND FOR JURY TRIAL

Plaintiff Everett Glover ("plaintiff) has alleged the following based upon the investigation of plaintiff's counsel, which included a review of United States Securities and Exchange Commission ("SEC") filings by Amdocs Limited ("Amdocs" or the "Company"), as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company, and plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal class action on behalf of purchasers of the common stock of Amdocs between January 29, 2021 and March 30, 2021, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R. §240.10b-5].

3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and §27 of the Exchange Act.

4. Venue is proper in this District pursuant to §27 of the Exchange Act and 28 U.S.C. §1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District.

5. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

PARTIES

6. Plaintiff Everett Glover, as set forth in the accompanying certification and incorporated by reference herein, purchased the common stock of Amdocs at artificially inflated prices during the Class Period and has been damaged thereby.

7. Defendant Amdocs is incorporated under the laws of the Island of Guernsey and maintains its corporate headquarters at 1390 Timberlake Manor Parkway, Chesterfield, Missouri 63017. The Company provides global software and services to the communications, cable and satellite, entertainment, and media industry service providers. Amdocs had more than 131.5 million shares of its common stock issued and outstanding as of December 31, 2020, which trade on the NASDAQ National Market ("NASDAQ"), an efficient market, under the ticker symbol "DOX."

8. Defendant Joshua Sheffer ("Sheffer") is, and was at all relevant times, the President and Chief Executive Officer ("CEO") of Amdocs and a member of its Board of Directors.

9. Defendant Tamar Rapaport-Dagim ("Rapaport-Dagim") is, and was at all relevant times, the Chief Operating Officer and Chief Financial Officer of Amdocs.

10. Defendants Sheffer and Rapaport-Dagim are referred to herein as the "Individual Defendants."

11. During the Class Period, the Individual Defendants, as senior executive officers and/or directors of Amdocs, were privy to confidential and proprietary information concerning Amdocs, its operations, finances, financial condition, and present and future business prospects. The Individual Defendants also had access to material adverse non-public information concerning Amdocs, as discussed in detail below. Because of their positions with Amdocs, the Individual Defendants had access to non-public information about its business, finances, products, markets, and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and/or board of

directors meetings and committees thereof, and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

12. The Individual Defendants are liable as direct participants in the wrongs complained of herein. In addition, the Individual Defendants, by reason of their status as senior executive officers and/or directors, were "controlling persons" within the meaning of §20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, the Individual Defendants were able to and did, directly or indirectly, control the conduct of Amdocs' business.

13. The Individual Defendants, because of their positions with the Company, controlled and/or possessed the authority to control the contents of its reports, press releases and presentations to securities analysts, and through them, to the investing public. The Individual Defendants were provided with copies of the Company's reports and press releases alleged herein to be misleading, prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, the Individual Defendants had the opportunity to commit the fraudulent acts alleged herein.

14. As senior executive officers and/or directors and as controlling persons of a publicly traded company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was, and is, traded on the NASDAQ and governed by the federal securities laws, the Individual Defendants had a duty to promptly disseminate accurate and truthful information with respect to Amdocs' financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings, and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that

the market price of Amdocs common stock would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

15. The Individual Defendants are liable as participants in a fraudulent scheme and course of conduct that operated as a fraud or deceit on purchasers of Amdocs' common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding Amdocs' business, operations and management and the intrinsic value of Amdocs securities; and (ii) caused plaintiff and members of the Class (defined herein) to purchase Amdocs common stock at artificially inflated prices.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

16. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all those who purchased the common stock of Amdocs between January 29, 2021 and March 30, 2021, inclusive, and who were damaged thereby (the "Class"). Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns, and any entity in which defendants have or had a controlling interest.

17. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Amdocs common stock was actively traded on the NASDAQ. While the exact number of Class members is unknown to plaintiff at this time and can only be ascertained through appropriate discovery, plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Amdocs or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

18. Plaintiff's claims are typical of the claims of the members of the Class as allmembers of the Class are similarly affected by defendants' wrongful conduct in violation of federal law complained of herein.

19. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class action and securities litigation.

20. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business and operations of Amdocs;

(c) whether the price of Amdocs common stock was artificially inflated during the Class Period; and

(d) to what extent the members of the Class have sustained damages and the proper measure of damages.

21. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

22. Founded in 1988, Amdocs offers a line of services designed for various stages of a communications, cable and satellite, entertainment, or media industry service provider's lifecycle,

including planning, delivery, implementation, and ongoing support and operations, such as end-to-end systems integration, managed, testing, cloud, digital business operations, and consulting services that address service providers' business imperatives, including consumer experience and monetization, media and digital services, enterprise and connected society, open cloud networks, new domains and disruptions, and services and hybrid operations. It also provides revenue guard services designed to detect and resolve revenue leakage, fraud and cyber fraud; and the BriteBill, a multi-channel bill presentment platform. In addition, the Company offers advertising and media services for media publishers, TV networks, video streaming providers, advertising agencies, and service providers.

23. On December 14, 2020, Amdocs filed with the SEC its fiscal year 2020 ("FY20") annual financial report on Form 20-F for the period ended September 30, 2020, which was certified pursuant to the Sarbanes-Oxley Act of 2002 by defendants Sheffer and Rapaport-Dagim (the "FY20 20-F"). The following false and misleading statements in the FY20 20-F would remain alive and uncorrected in the market throughout the Class Period.

24. The FY20 20-F claimed that Amdocs had achieved operating income of approximately $4.2 million during FY20, $4 million in 2019, $4 million in 2018, $3.9 million in 2017 and $3.7 million in 2016.

25. Describing what purported to be Amdocs' then-present biggest customers, the FY20 20-F stated in pertinent part as follows:

> Our customers include some of the largest telecommunications companies in the world (***including America Movil, AT&T, Bell Canada, Singtel, Telefonica, Telstra, T-Mobile and Vodafone***), as well as cable and satellite providers (***including Altice USA, Charter, Comcast, DISH, J:COM, Rogers Communications and Sky***), small to midsized communications businesses and mobile virtual network enablers/mobile virtual network operators and directory publishers and other providers of media and other services. Amdocs also has technology and distribution ties to more than 850 content owners to bring premium content to over 500 video service providers worldwide, ***including Verizon, Turner and Warner Bros***.

26. Claiming that Amdocs' U.S. business had been increasing – rather than declining – the FY20 20-F stated in pertinent part that "[i]n fiscal year 2020, revenue from customers in North America, Europe and the rest of the world accounted for 65.3%, 14.7% and 20.0%, respectively, of total revenue, compared to 63.2%, 14.7% and 22.1%, respectively, in fiscal year 2019," and that "***[t]he increase in revenue in fiscal year 2020 in North America was primarily attributable to higher revenue from managed services activities***."

27. Concerning the Company's available cash on hand, the FY20 20-F stated in pertinent part as follows:

> **Liquidity and Capital Resources**
>
> *Cash, Cash Equivalents and Short-Term Interest-Bearing Investments*. ***Cash, cash equivalents and short-term interest-bearing investments, totaled $983.9 million as of September 30, 2020***, compared to $471.6 million as of September 30, 2019. The increase was mainly attributable to $643.9 million net proceeds from issuance of debt, $450.0 million borrowing under financing arrangement, $658.1 million in positive cash flow from operations and $97.9 million of proceeds from stock option exercises, partially offset by $360.9 million used to repurchase of our ordinary shares, $350.0 million payments under financing arrangement, $249.4 million of payments for business and intangible assets acquisitions, $205.5 million for capital expenditures, net, $164.1 million of cash dividend payment. Net cash provided by operating activities amounted to $658.1 million and $656.4 in fiscal years 2020 and 2019, respectively.
>
> ***Our free cash flow for fiscal year 2020, was $452.6 million***, and is calculated as net cash provided by operating activities of $658.1 million for the period less $205.5 million for capital expenditures, net (which included capital expenditures of $62.7 million as part of our investment in our new campus in Israel).
>
> Free cash flow is a non-GAAP financial measure and is not prepared in accordance with, and is not an alternative for, generally accepted accounting principles and may be different from non-GAAP financial measures with similar names used by other companies. Non-GAAP measures such as free cash should only be reviewed in conjunction with the corresponding GAAP measures. We believe that free cash flow, when used in conjunction with the corresponding GAAP measure provides useful information to investors and management relating to the amount of cash generated by the Company's business operations.
>
> ***We believe that our current cash balances, cash generated from operations, our current lines of credit, loans, Senior Notes and our ability to access capital markets will provide sufficient resources to meet our operational needs, fund the***

construction of the new campus in Israel, loan and debt repayment needs, fund share repurchases and the payment of cash dividends for at least the next fiscal year.

28. The FY20 20-F further stated that Amdocs had had zero debt outstanding as of September 30, 2019.

29. On December 23, 2020, Amdocs mailed to shareholders a Notice of Annual General Meeting ("AGM") of Shareholders to be held on Friday, January 29, 2021. The Notice stated that at the AGM, shareholders would be asked to: (i) approve the election of the ten members of its Board of Directors, including defendant Sheffer; (ii) approve an increase in the quarterly dividend rate from $0.3275 per share to $0.36 per share; (iii) approve Amdocs' Consolidated Financial Statements for FY20; and (iv) ratify and approve the appointment of Ernst & Young LLP ("E&Y") as its independent registered public accounting firm for the fiscal year ending September 30, 2021 ("FY21"). The Notice of the 2021 AGM implicitly incorporated the FY20 20-F by reference by repeatedly directing shareholders to consult it for additional information.

30. The Class Period starts January 29, 2021, the day that Amdocs conducted its 2021 AGM based on the false and misleading FY20 20-F. At the AGM that day, based on the false and misleading statements in the FY20 20-F, all ten directors were elected to the Board of Directors, the quarterly dividend rate increase was approved, the FY20 20-F was approved and E&Y was retained as the Company's FY21 outside audit firm. Amdoc common stock traded as high as $72.38 per share that day.

31. On February 2, 2021, after the close of trading, Amdocs issued a press release announcing its first quarter FY21 financial results for the interim period ended December 31, 2021 ("1Q21"). In addition to reporting operating income of $140 million calculated under Generally Accepted Accounting Principles ("GAAP") and $188 million in non-GAAP operating income, the

release went on to quote defendant Sheffer again touting the Company's "'best ever performance in North America'" and increased profitability, further stating in pertinent part as follows:

> "I am pleased to report a strong quarter to start the fiscal year, with record revenue ***reflecting our best-ever performance in North America*** and Europe, and ***profitability slightly improved on a sequential and year ago basis***. Our sales momentum was strong, and included a multi-year strategic agreement with T-Mobile, a managed services agreement to support Charter's Spectrum mobile business, a new logo award with WINDTRE in Italy and several wins in respect to Openet's 5G charging and policy solutions. To further align Amdocs around strategic growth pillars such as 5G and the cloud, we also completed the previously announced divestiture of OpenMarket for roughly $300 million gross cash, the majority of which we plan to allocate towards share repurchases over the next several months". . . .
>
> . . . "Following last year's merger of T-Mobile and Sprint, we are today proud to announce a new multi-year agreement with T-Mobile, which further strengthens our long-term strategic partnership. As part of the engagement, we will implement our amdocsONE portfolio, which T-Mobile has selected to provide next-generation communication and media services for its consumer and business customers. Additionally, we will provide extended next generation hybrid-cloud operations in a multi-year managed services engagement for T-Mobile's digital platforms. Overall, we look forward to supporting T-Mobile through a complex integration process and empowering its 5G and cloud transformation journey across all lines of business."

32. The release also affirmed previously provided financial guidance and provided more comments from defendant Sheffer claiming the Company remained on track to achieve that guidance based on its then-stellar business metrics:

> [Sheffer:] "We remain on-track with our guidance to deliver accelerated growth in fiscal 2021 on a pro forma basis, adjusting for the divestiture of OpenMarket. Moreover, we continue to expect a stronger second half as we execute on our strategy and ramp-up recent customer awards, our confidence in which has further improved as a result of our continued sales momentum, 12-month backlog, our ability to execute and the healthy pipeline of opportunities we see ahead of us."

* * *

Second Quarter Fiscal 2021 Outlook

- Revenue of approximately $1,015-$1,055 million, assuming approximately $4 million sequential positive impact from foreign currency fluctuations as compared to the first quarter of fiscal 2021

- GAAP diluted EPS of approximately $0.87-$0.95

- Non-GAAP diluted EPS of approximately $1.09-$1.15, excluding amortization of purchased intangible assets and other acquisition-related costs, changes in certain acquisitions related liabilities measured at fair value, and approximately $0.07-$0.09 per share of equity-based compensation expense, net of related tax effects

Full Year Fiscal 2021 Outlook

- Full year fiscal 2021 revenue guidance is updated to reflect the divestiture of OpenMarket as of December 31, 2020 and incorporates an expected positive impact from foreign currency fluctuations of about 1.2% year-over-year as compared with a positive impact of about 0.5% year-over-year previously

- Expects revenue growth of (0.3)%-3.7% year-over-year on a reported basis as compared with 4.0%-8.0% year-over-year previously

- Expects revenue growth of (1.5%)-2.5% year-over-year on a constant currency basis as compared with 3.5%-7.5% year-over-year previously

- Reiterates pro forma revenue growth of 3.5%-7.5% year-over-year on a constant currency basis, unchanged as compared with 3.5%-7.5% year-over-year on a constant currency basis previously

- Expects GAAP diluted earnings per share growth of roughly 37.5%-44.5% year-over-year, including gain, net of tax, from divestiture of OpenMarket, as compared with 1.5%-8.5% year-over-year previously

- Expects non-GAAP diluted earnings per share growth of roughly 4.0%-8.0% year-over-year as compared with 5.0%-9.0% year-over-year previously, excluding amortization of purchased intangible assets and other acquisition-related costs, changes in certain acquisitions related liabilities measured at fair value, approximately $0.31-$0.37 per share of equity-based compensation expense, and gain from divestiture of OpenMarket, net of related tax effects

- Expects pro forma non-GAAP diluted earnings per share growth of roughly 5.5%-9.5% year-over-year as compared with 5.0%-9.0% year-over-year previously

- Expects free cash flow of approximately $600 million, comprised of cash flow from operations, less net capital expenditures and other, as compared with $470 million previously

- Expects normalized free cash flow of approximately $800 million as compared with $620 million previously; normalized free cash flow excludes expected capital expenditure of $140 million related to the new campus

> development in Israel, $40 million of capital gains tax to be paid in relation to the divestiture of OpenMarket, and other items

(Footnotes omitted.)

33. The release also stated that the Company had more than $1.3 billion in cash and cash equivalents on hand.

34. Later that afternoon, Amdocs conducted a conference call with investors and stock analysts where it provided additional positive statements about the Company's then-present business metrics and financial prospects.

35. On February 16, 2021, Amdocs filed with the SEC its 1Q21 quarterly financial report on Form 6-K which provided the same financial results reported on February 2, 2021.

36. The statements referenced above in ¶¶23-35 were materially false and misleading when made because they misrepresented and failed to disclose the following adverse facts which were known to defendants or recklessly disregarded by them:

(a) that Amdocs had been losing customers and that its U.S. business in particular had been declining;

(b) that Amdocs had been borrowing undisclosed sums in the past in order to meet its capital needs but concealing that borrowing from investors;

(c) that Amdocs was concealing the restrictions on the cash it held;

(d) that Amdocs had been overstating its operating profits by up to 50%; and

(e) as a result of the foregoing, defendants lacked a reasonable basis for their positive statements about the Company, its prospects and revenue growth rate.

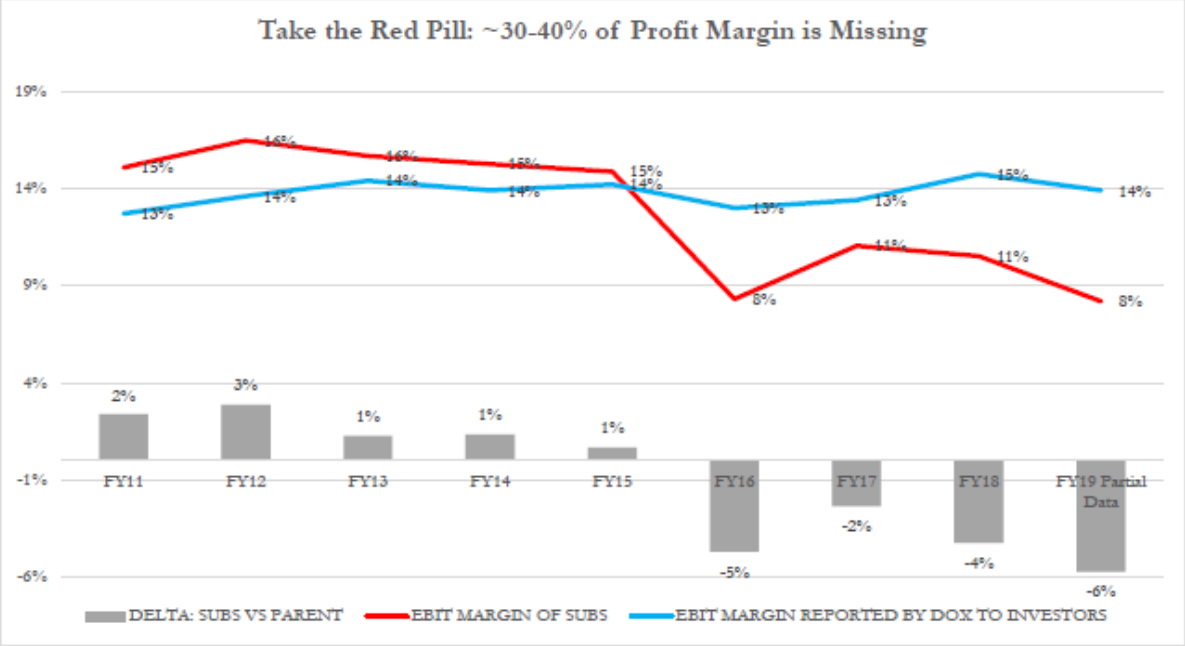
37. On March 31, 2021, before the opening of trading, stock research firm Jehoshaphat Research issued a report entitled "WHERE DID AMDOCS' PROFITS AND AUDITORS GO?," "reveal[ing] the results of a months-long investigation into what [that firm] believe[s] is a massive financial deception taking place at Amdocs," and further representing that "[t]he information [it was]

revealing ha[d] never before been seen by investors." The Jehoshaphat Research report, a copy of which is attached hereto and incorporated herein by reference, opens by describing its extensive research methods and initial conclusions and stating in pertinent part as follows:

> We have gathered extensive evidence from the national corporate registry filings of dozens of subsidiaries from around the globe, which we then compared to DOX's public filings. We found wildly overstated profit margins, a balance sheet that is far from the cash-rich fortress it appears to be, and a revolving door of company auditors resigning from their posts in multiple countries. These enormous discrepancies between DOX's true business health and the mirage that is its reported finances simply do not reconcile.

38. The report's "Executive Summary" went on to disclose in pertinent part as follows:

Profits Overstated by ~40-50% as Subsidiaries Have Irreconcilable Differences With Parent:



- Using Amdocs' international subsidiary filings, we have uncovered an ugly truth: ***DOX's operating profitability appears to be overstated by ~40-50%, or as much as $200m***.

- Years ago, DOX's major and minor corporate subsidiaries had profit margins that reconciled reasonably closely with the profit margins reported by the public company parent. However, beginning in FY16, sub profits began to exhibit a sharp decline . . . but DOX continued to report steady, healthy profit margins at the parent level.

- Numerous accounting "red flags" started appearing more visibly in the parent financials around the same time as this breakdown, and some of these corroborate our findings. Serious investors should already be familiar with these items: unbilled DSOs, bad debt allowance games, reserve releases, etc. **But this report is <u>not</u> about those red flags.**

- DOX's <u>true</u> margin from its subsidiaries, which our work uncovers, is consistent with its BPO (Business Process Outsourcing) business model. The public company financials betray the truth, which is a BPOtype, single-digit EBIT margin.

- DOX's cash tax payments are <u>consistently</u> lower than all of the following: the tax rates of its low-tax jurisdictions; the rates of a wide variety of comparable peers in comparable tax jurisdictions; its GAAP effective tax rate; and the level at which we'd expect it to pay taxes on its supposed pretax income.

- We tried to reconcile the differences we uncovered using explanations involving intercompany revenues, tax considerations, etc., but those explanations still defied economic logic. The numbers just don't add up.

- It isn't just profit margins. Amdocs' revenue per employee is dramatically higher than a broad set of peers, including that of world-leading, high-margin IT services players . . . two standard deviations higher, in fact.

<u>Auditors Resigning in Concerning Pattern</u>:

- DOX has experienced a spate of recent and unusual auditor resignations at various subsidiaries. As multiple Big Four auditing firms have resigned, DOX has replaced them with scandal-plagued or tiny shops.

- One of these audit firms is notorious for helping none other than Donald Trump inflate his net worth to the public. Another, which took PWC's place, appears to be a 9-person outfit based out of Switzerland.

- In the case of one DOX sub, an auditor resigned, and then its replacement resigned only a year later.

- We have investigated these auditor relationships and do not believe that normal auditor turnover or mere coincidence can explain these resignations. The "legit" auditors are quitting for a reason.

<u>Undisclosed Debt a Growing Problem Alongside Trapped Cash</u>:

- ***Approximately 1/3 of Amdocs' stated cash (around $500m) is practically unavailable for use***, but the company has hidden and misrepresented this problem in a variety of ways. Bondholders especially have been misled by the illusion of safety in this new-to-market, investment-grade issuer.

- Either cash is "trapped," or it is not there at all. The latter scenario would be reminiscent of Wirecard.

- Unbeknownst to investors, ***Amdocs has been secretly borrowing a large amount of money for years but avoiding showing any debt as of each quarter-end***. This is known as "window-dressing" the balance sheet.

- Such is why this company needed to begin selling receivables at a discount in FY18, as well as to utilize more value-destructive measures to raise cash since, despite claiming to have a huge excess cash pile. Of course, the company now shows $1bn in debt but claims not to need any of it – this is utterly false.

- Do the math yourself: If DOX's EBITDA is overstated by $200m, and its available cash is overstated by $500m, what is the true EV/EBITDA multiple of this business? 15x, using consensus 2021 EBITDA.

Former Employee Interviews Confirm Our Findings of Decline and Misrepresentation:

- Our key findings were consistent with what former employees and direct competitors told us.

- These disparate individuals tell the same story: DOX has been losing business for years but has made up for these losses by inflating financials, sometimes to a point beyond recognition by the country managers.

- One former American DOX executive told us that he and his colleagues had no idea how DOX managed to report stability in the US in the quarterly earnings results shown to Wall Street: "***The US business was declining at a rate of [around] 7% annually . . . but then we would see the company [publish results that] say North America is stable*** . . . We would send [our quarterly numbers] to Israel . . . and somehow everything all comes out as favorable . . . every quarter [from 2016-on], that came as a big surprise."

- Other formers/peers describe a business that is ***losing customers, most notably AT&T, piece by piece***.

39. In response to this news, the market price of Amdocs common stock declined more than $9.00 per share, more than 10%, closing down at $70.15 per share on March 31, 2021, on extremely heavy trading of more than 6.6 million shares trading, or eight times the average daily volume over the preceding ten trading days.

40. Though Amdocs issued a press release on April 1, 2021 purporting to respond to the Jehoshaphat Research report, ***it did not contradict a single one of the very detailed accusations in***

the report. Instead it provided further generalized glowing statements about its business and stated in pertinent part as follows:

> We remain fully confident in our accounting and business practices. We caution shareholders from making investment decisions based on this report.
>
> Amdocs delivered record revenue of more than $4.2B for the full fiscal year 2020, with stable non-GAAP operating margins. Our financial outlook remains strong.
>
> Amdocs is well positioned to continue to benefit from secular trends driving customer demand for digital modernization solutions, particularly in the adoption of 5G technology and the journey to the cloud. We are continuously expanding our leading position with our key customers across the world and we are proud of our track record of meeting global customer commitments, building on our base of stable, recurring revenues and delivering shareholder value.

41. The markets for Amdocs common stock were open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, Amdocs securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired Amdocs common stock relying upon the integrity of the market price of Amdocs common stock and market information relating to Amdocs, and have been damaged thereby.

42. During the Class Period, defendants materially misled the investing public, thereby inflating the price of Amdocs common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

43. At all relevant times, the material misrepresentations and omissions particularized in this complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by plaintiff and other members of the Class. As described herein, during the

Class Period, defendants made or caused to be made a series of materially false or misleading statements about Amdocs' business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Amdocs and its business, prospects and operations, thus causing the Company's common stock to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in plaintiff and other members of the Class purchasing the Company's common stock at artificially inflated prices, thus causing the damages complained of herein.

ADDITIONAL SCIENTER ALLEGATIONS

44. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding Amdocs, their control over, and/or receipt and/or modification of Amdocs' allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Amdocs, participated in the fraudulent scheme alleged herein.

45. Defendants were further motivated to engage in this course of conduct in order to obtain shareholder approval of the dividend increase and the FY20 20-F and the election of the Amdocs Board of Directors.

NO SAFE HARBOR

46. The "Safe Harbor" warnings accompanying Amdocs' reportedly forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability. To the extent that projected revenues and earnings were included in the Company's financial reports prepared in accordance with GAAP, including those filed with the SEC on Form 6-K, they are excluded from the protection of the statutory Safe Harbor. *See* 15 U.S.C. §78u-5(b)(2)(A).

47. Defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of Amdocs who knew that the FLS was false. None of the historic or present-tense statements made by defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by defendants expressly related to or stated to be dependent on those historic or present-tense statements when made.

LOSS CAUSATION AND ECONOMIC LOSS

48. During the Class Period, as detailed herein, defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the prices of Amdocs common stock and operated as a fraud or deceit on purchasers of Amdocs common stock. As detailed above, when the truth about Amdocs' misconduct was revealed, the value of Amdocs common stock declined precipitously as the prior artificial inflation no longer propped up the common stock price. The decline in the price of Amdocs common stock was the direct result of the nature and extent of defendants' fraud finally being revealed to investors and the market. The timing and magnitude of the share price decline negate any inference that the losses suffered by plaintiff and other members

of the Class were caused by changed market conditions, macroeconomic or industry factors, or Company-specific facts unrelated to defendants' fraudulent conduct. The economic loss, *i.e.*, damages, suffered by plaintiff and other Class members was a direct result of defendants' fraudulent scheme to artificially inflate the prices of Amdocs common stock and the subsequent significant decline in the value of Amdocs common stock when defendants' prior misrepresentations and other fraudulent conduct were revealed.

49. At all relevant times, defendants' materially false and misleading statements or omissions alleged herein directly or proximately caused the damages suffered by plaintiff and other Class members. Those statements were materially false and misleading through their failure to disclose a true and accurate picture of Amdocs' business, operations and financial results as alleged herein. Throughout the Class Period, defendants issued materially false and misleading statements and omitted material facts necessary to make defendants' statements not false or misleading, causing the price of Amdocs common stock to be artificially inflated. Plaintiff and other Class members purchased Amdocs common stock at those artificially inflated prices, causing them to suffer damages as complained of herein.

APPLICABILITY OF PRESUMPTION OF RELIANCE

50. Plaintiff and the Class are entitled to a presumption of reliance under *Affiliated Ute Citizens v. United States*, 406 U.S. 128 (1972), because the claims asserted herein against defendants are predicated upon omissions of material fact for which there was a duty to disclose.

51. Plaintiff and the Class are also entitled to a presumption of reliance pursuant to *Basic Inc. v. Levinson*, 485 U.S. 224 (1988), and the fraud-on-the-market doctrine because the market for Amdocs common stock was an efficient market at all relevant times by virtue of the following factors, among others:

(a) Amdocs common stock met the requirements for listing, and was listed and actively traded on NASDAQ, a highly efficient market;

(b) Amdocs regularly communicated with public investors via established market communication mechanisms, including the regular dissemination of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(c) Amdocs was followed by a number of securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. These reports were publicly available and entered the public marketplace.

52. As a result of the foregoing, the market for Amdocs common stock promptly incorporated current information regarding the Company from publicly available sources and reflected such information in the prices of the common stock. Under these circumstances, all those who transacted in Amdocs common stock during the Class Period suffered similar injury through their transactions in Amdocs common stock at artificially inflated prices and a presumption of reliance applies.

53. Without knowledge of the misrepresented or omitted material facts, plaintiff and other Class members purchased or acquired Amdocs common stock between the time defendants misrepresented and failed to disclose material facts and the time the true facts were disclosed. Accordingly, plaintiff and other Class members relied, and are entitled to have relied, upon the integrity of the market prices for Amdocs common stock, and are entitled to a presumption of reliance on defendants' materially false and misleading statements and omissions during the Class Period.

COUNT I

Violation of §10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants

54. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

55. During the Class Period, defendants disseminated or approved the materially false and misleading statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

56. Defendants: (i) employed devices, schemes and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's common stock during the Class Period.

57. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Amdocs common stock. Plaintiff and the Class would not have purchased Amdocs common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

58. As a direct and proximate result of defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Amdocs common stock during the Class Period.

COUNT II

Violation of §20(a) of the Exchange Act
Against the Individual Defendants

59. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

60. The Individual Defendants acted as controlling persons of Amdocs within the meaning of §20(a) of the Exchange Act as alleged herein. By reason of their positions as officers and/or directors of Amdocs, and their ownership of Amdocs stock, the Individual Defendants had the power and authority to cause Amdocs to engage in the wrongful conduct complained of herein. By reason of such conduct, the Individual Defendants are liable pursuant to §20(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, designating plaintiff as Lead Plaintiff and certifying plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff hereby demands a trial by jury.

DATED: April 9, 2021

CUNEO GILBERT & LADUCA, LLP
MICHAEL J. FLANNERY, 52714 (MO)

s/ MICHAEL J. FLANNERY
MICHAEL J. FLANNERY

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Attorneys for Plaintiff

CERTIFICATION OF NAMED PLAINTIFF PURSUANT TO FEDERAL SECURITIES LAWS

Everett Glover ("Plaintiff") declares:

1. Plaintiff has reviewed a complaint and authorized its filing.

2. Plaintiff did not acquire the security that is the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action or any other litigation under the federal securities laws.

3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.

4. Plaintiff has made the following transaction(s) during the Class Period in the securities that are the subject of this action:

Security	Transaction	Date	Price Per Share

See attached Schedule A.

5. Plaintiff has not sought to serve or served as a representative party in a class action that was filed under the federal securities laws within the three-year period prior to the date of this Certification except as detailed below:

None.

6. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 6th day of April, 2021.

DocuSigned by:
Everett Glover
7E303C476C624C7...
Everett Glover

SCHEDULE A

SECURITIES TRANSACTIONS

Stock

Date Acquired	Amount of Shares Acquired	Price
3/19/2021	30	$80.79
3/23/2021	100	$78.90

WHERE DID AMDOCS' PROFITS AND AUDITORS GO?

Please see our Disclaimer at the end of this report before reading.

Today, we reveal the results of a months-long investigation into what we believe is a massive financial deception taking place at Amdocs (DOX). The information we are revealing has never before been seen by investors.

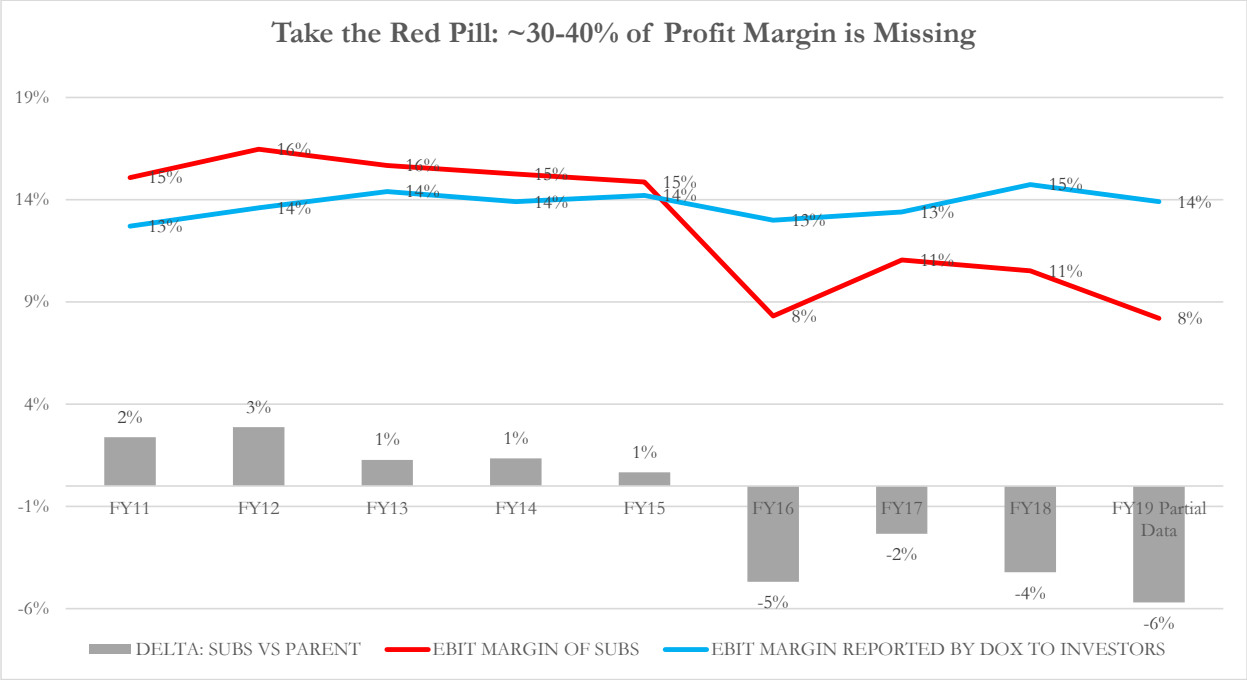
We have gathered extensive evidence from the national corporate registry filings of dozens of subsidiaries from around the globe, which we then compared to DOX's public filings. We found wildly overstated profit margins, a balance sheet that is far from the cash-rich fortress it appears to be, and a revolving door of company auditors resigning from their posts in multiple countries. These enormous discrepancies between DOX's true business health and the mirage that is its reported finances simply do not reconcile.

We have alerted DOX's auditors, the press, and others who will be interested in these discoveries. We are available at info@jehoshaphatresearch.com for questions.

In our view, this stock is uninvestable.

EXECUTIVE SUMMARY

Profits Overstated by ~40-50% as Subsidiaries Have Irreconcilable Differences With Parent:



- Using Amdocs' international subsidiary filings, we have uncovered an ugly truth: DOX's operating profitability appears to be overstated by ~40-50%, or as much as $200m.
- Years ago, DOX's major and minor corporate subsidiaries had profit margins that reconciled reasonably closely with the profit margins reported by the public company parent. However, beginning in FY16, sub profits began to exhibit a sharp decline…but DOX continued to report steady, healthy profit margins at the parent level.
- Numerous accounting "red flags" started appearing more visibly in the parent financials around the same time as this breakdown, and some of these corroborate our findings. Serious investors should already be familiar with these items: unbilled DSOs, bad debt allowance games, reserve releases, etc. **But this report is not about those red flags.**
- DOX's true margin from its subsidiaries, which our work uncovers, is consistent with its BPO (Business Process Outsourcing) business model. The public company financials betray the truth, which is a BPO-type, single-digit EBIT margin.
- DOX's cash tax payments are consistently lower than all of the following: the tax rates of its low-tax jurisdictions; the rates of a wide variety of comparable peers in comparable tax jurisdictions; its GAAP effective tax rate; and the level at which we'd expect it to pay taxes on its supposed pretax income.
- We tried to reconcile the differences we uncovered using explanations involving intercompany revenues, tax considerations, etc., but those explanations still defied economic logic. The numbers just don't add up.
- It isn't just profit margins. Amdocs' revenue per employee is dramatically higher than a broad set of peers, including that of world-leading, high-margin IT services players…two standard deviations higher, in fact.

Auditors Resigning in Concerning Pattern:

- DOX has experienced a spate of recent and unusual auditor resignations at various subsidiaries. As multiple Big Four auditing firms have resigned, DOX has replaced them with scandal-plagued or tiny shops.
- One of these audit firms is notorious for helping none other than Donald Trump inflate his net worth to the public. Another, which took PWC's place, appears to be a 9-person outfit based out of Switzerland.

- In the case of one DOX sub, an auditor resigned, and then its replacement resigned only a year later.
- We have investigated these auditor relationships and do not believe that normal auditor turnover or mere coincidence can explain these resignations. The "legit" auditors are quitting for a reason.

Undisclosed Debt a Growing Problem Alongside Trapped Cash:

- Approximately 1/3 of Amdocs' stated cash (around $500m) is practically unavailable for use, but the company has hidden and misrepresented this problem in a variety of ways. Bondholders especially have been misled by the illusion of safety in this new-to-market, investment-grade issuer.
- Either cash is "trapped," or it is not there at all. The latter scenario would be reminiscent of Wirecard.
- Unbeknownst to investors, Amdocs has been secretly borrowing a large amount of money for years but avoiding showing any debt as of each quarter-end. This is known as "window-dressing" the balance sheet.
- Such is why this company needed to begin selling receivables at a discount in FY18, as well as to utilize more value-destructive measures to raise cash since, despite claiming to have a huge excess cash pile. Of course, the company now shows $1bn in debt but claims not to need any of it – this is utterly false.
- Do the math yourself: If DOX's EBITDA is overstated by $200m, and its available cash is overstated by $500m, what is the true EV/EBITDA multiple of this business? 15x, using consensus 2021 EBITDA[1].

Former Employee Interviews Confirm Our Findings of Decline and Misrepresentation:

- Our key findings were consistent with what former employees and direct competitors told us.
- These disparate individuals tell the same story: DOX has been losing business for years but has made up for these losses by inflating financials, sometimes to a point beyond recognition by the country managers.
- One former American DOX executive told us that he and his colleagues had no idea how DOX managed to report stability in the US in the quarterly earnings results shown to Wall Street: "The US business was declining at a rate of [around] 7% annually...but then we would see the company [publish results that] say North America is stable…We would send [our quarterly numbers] to Israel…and somehow everything all comes out as favorable…every quarter [from 2016-on], that came as a big surprise."
- Other formers/peers describe a business that is losing customers, most notably AT&T, piece by piece.

Amdocs is, ironically, perceived as a defensive name. It is also bizarrely expensive on an FCF basis compared to far-superior IT services companies such as Accenture or Genpact.[2]

[1] Bloomberg info using sell-side consensus EBITDA for FY21 of $892m, reported EV of $10.2bn, then adjusting as stated above

[2] Bloomberg info on latest closing prices, most recent fiscal year's free cash flow, 5-year FCF growth, and 5-year average ROE:

- Accenture: 23x FY20 FCF; 5-year FCF growth of 101%; 42% ROE
- Genpact: 16x FY20 FCF; 5-year FCF growth of 94%; 20% ROE
- Amdocs: 23x FY20 FCF; 5-year FCF decline of -31%; 13% ROE

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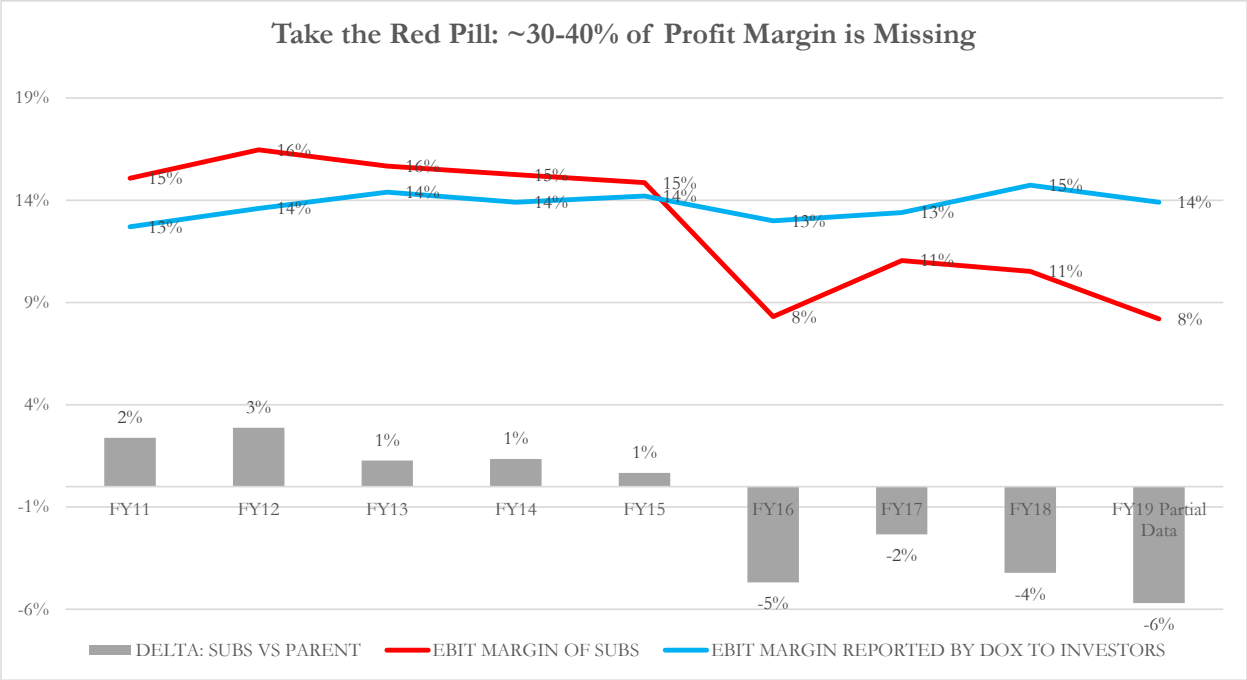
AMDOCS' PROFITABILITY INFLATED BY ~40-50%: SUBSIDIARY FILINGS REFLECT THE REALITY

Amdocs has been vastly overstating the profitability of its business in its SEC filings and presentations to investors, and it has been doing so for years.

Over a period of months, we've dug up dozens of Amdocs' subsidiaries from countries around the globe and counted up their revenues, profits, cash balances, etc. We found that while there was once a relationship between these subsidiaries' operating profit margins and the profit margins the parent company reports in its SEC filings, this relationship no longer holds. The parent margins have held steady, but the subs' margins have been deteriorating for a decade. We believe this difference is irreconcilable and is due to accounting aggression.

The underlying reality of Amdocs' profits is a far-lower-profit business than what's represented to investors. This reality happens to coexist neatly alongside the truth of Amdocs' business: It is an India-based, BPO/offshoring business that competes with other single-digit-operating-margin, BPO businesses. **What we have found about Amdocs' true profitability shouldn't be shocking to anybody who understands what this company actually does.** *Of course* Amdocs is not a mid-teens operating margin business and hasn't been for a very long time; what separates Amdocs from the pack isn't a better business model, but creative accounting to manufacture the appearance of much more profitability than its true peers. We estimate this "magically created profit" totals as much as $200m annually for DOX.

The relationship between the profits of these subs and the profits of the parent has broken down completely through the latest available subsidiary filings:



Note: In FY18, both values include the add-back of $55m in legal settlement and fees, per 20-F and Cyprus subsidiary filing

Sources: Filings of DOX subsidiaries as detailed later in this report

The red line in the chart above shows the truth about the business' profitability – the "Desert of the Real" for Matrix fans. The blue line is the result of Amdocs keeping investors in Wonderland with accounting magic tricks.

The source for this chart above is as follows:

LTM REVENUE BY SUBSIDIARY:		FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Partial Data	FY20
Key:	**Amdocs Development Ltd (Cyprus - Owner of Core DOX IP)**	$1,017	$1,051	$1,087	$1,096	$1,184	$1,117	$1,313	$1,523	NA	NA
	Amdocs Software Systems Ltd (IE)	$1,006	$995	$944	$963	$1,056	$1,182	$1,246	$1,227	NA	NA
	Amdocs Development Centre India Pvt Ltd (IN)	*$243*	*$243*	*$243*	$243	$288	$257	*$257*	*$257*	NA	NA
Non-Key:	Amdocs Astrum Ltd (IE)	$0	$0	$0	$0	$0	$0	$0	$0	NA	NA
	Amdocs UK Ltd (UK)	$64	$62	$68	$68	$93	$80	$73	$75	$62	NA
	Amdocs Management Ltd (UK)	$56	$48	$51	$54	$55	$59	$39	$52	$49	NA
	Amdocs Systems Group Ltd (UK)	$0	$0	$0	$0	$14	$30	$25	$23	$21	NA
	Amdocs Systems Europe Ltd (UK)	$29	$28	$29	$26	$13	$0	$0	$0	$0	NA
	Ignis UK Investment Ltd (UK)	$0	$0	$0	$0	$0	$0	$0	$0	$0	NA
	Openmarket Ltd (UK)	$16	$15	$13	$16	$14	$20	$48	$62	$62	NA
	European Support Limited (UK)	$26	$22	$22	$25	$22	$22	$19	$15	$13	NA
	Vubiquity Mgmt Ltd (UK - Acq FY18)	NM	NM	NM	NM	NM	NM	NM	NM	$55	NA
	Cvidya Networks UK Ltd (UK - Acq FY16)	NM	NM	NM	NM	NM	$4	$4	$4	$2	NA
	Amdocs Italy (IT)	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	$12	$19
	Amdocs BPO Pvt Ltd (IN - Created FY18)	NM	NM	NM	NM	NM	NM	NM	NM	$5	NA
	Amdocs Philippines Inc. (PH)	*$164*	*$164*	*$164*	*$164*	*$164*	*$164*	*$164*	*$164*	$164	NA
	Amdocs Singapore Pte Ltd (SG)	*$49*	*$49*	*$49*	*$49*	*$49*	*$49*	$49	$43	$42	NA
	TOTAL REVENUES OF THESE SUBSIDIARIES	**$2,680**	**$2,689**	**$2,681**	**$2,715**	**$2,964**	**$2,996**	**$3,248**	**$3,455**	**$486**	**NM**
	TOTAL DOX REPORTED REVENUES	**$3,178**	**$3,247**	**$3,346**	**$3,564**	**$3,644**	**$3,718**	**$3,867**	**$3,975**	**$4,087**	**NM**

LTM EBIT BY SUBSIDIARY:		FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Partial Data	FY20
Key:	**Amdocs Development Ltd (Cyprus - Owner of Core DOX IP)**	$267	$286	$307	$286	$295	$119	$232	$232	NA	NA
	Amdocs Software Systems Ltd (IE)	$45	$35	$39	$32	$40	$45	$16	$11	NA	NA
	Amdocs Development Centre India Pvt Ltd (IN)	*$54*	*$54*	*$54*	$54	$80	$42	*$42*	*$42*	NA	NA
Non-Key:	Amdocs Astrum Ltd (IE)	$0	$0	$0	$0	$0	($2)	$29	$34	NA	NA
	Amdocs UK Ltd (UK)	$10	$53	$6	$6	$4	$9	$6	$7	$4	NA
	Amdocs Management Ltd (UK)	$1	($2)	($3)	($5)	($5)	($4)	($4)	$10	$4	NA
	Amdocs Systems Group Ltd (UK)	($0)	($0)	($1)	$13	$1	$9	$9	$7	$6	NA
	Amdocs Systems Europe Ltd (UK)	$2	($5)	$0	$6	$3	$0	$0	$0	$0	NA
	Ignis UK Investment Ltd (UK)	($0)	($0)	($0)	$0	$0	$0	$0	$0	$0	NA
	Openmarket Ltd (UK)	$7	$5	$3	$3	$2	$12	$12	$8	$7	NA
	European Support Limited (UK)	$4	$3	$1	$6	$6	$4	$1	$1	$1	NA
	Vubiquity Mgmt Ltd (UK - Acq FY18)	NM	NM	NM	NM	NM	NM	NM	NM	$2	NA
	Cvidya Networks UK Ltd (UK - Acq FY16)	NM	NM	NM	NM	NM	$0	$0	($0)	$0	NA
	Amdocs Italy (IT)	*$1*	*$1*	*$1*	*$1*	*$1*	*$1*	*$1*	*$1*	$1	$1
	Amdocs BPO Pvt Ltd (IN - Created FY18)	NM	NM	NM	NM	NM	NM	NM	NM	$1	NA
	Amdocs Philippines Inc. (PH)	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	$12	NA
	Amdocs Singapore Pte Ltd (SG)	*$2*	*$2*	*$2*	*$2*	*$2*	*$2*	$2	$0	$2	NA
	TOTAL ESTIMATED VALUE	**$404**	**$443**	**$420**	**$414**	**$441**	**$249**	**$359**	**$363**	**$40**	**NA**
	EBIT MARGIN OF SUBS	***15%***	***16%***	***16%***	***15%***	***15%***	***8%***	***11%***	***11%***	***8%***	**NA**
	EBIT MARGIN REPORTED BY DOX TO INVESTORS	***13%***	***14%***	***14%***	***14%***	***14%***	***13%***	***13%***	***15%***	***14%***	***14%***
	DELTA: SUBS VS PARENT	***2%***	***3%***	***1%***	***1%***	***1%***	***-5%***	***-2%***	***-4%***	***-6%***	

FY18 numbers for both the Cyprus sub and the DOX reported EBIT margin add back $55m in legal settlement and fees, per 20-F

FY11 Cyprus numbers are annualized due to 5-quarter reporting period

Cells in Italics are assumed no-growth values used to estimate sums at bottom

For Philippines, only gross profit available, assume no opex such that this equals EBIT (generous)

If we gross up the missing profit margin from the subs above, it implies ~$200m of EBIT overstatement by the parent company, or ~50%:

- Reported annual DOX EBIT: ~$600m
- Reported annual DOX EBIT margin over past 2 years: ~14%
- Actual EBIT margin of subs over two most recent available years[3]: 9.4%
- **"Deflated" DOX EBIT (9.4%/14% * $600m) = ~$400m**

Let's now walk through the appearance of Amdocs' profitability, followed by the reality of its (far lower) profitability, and then look at some of the ways Amdocs has been able to create this mirage.

[3] Subs totaling $3.5bn in revenue and including, but not limited to, key front-, middle-, and back-office DOX subsidiaries

A. What we're told: Amdocs has a "mid-teens operating margin," magically outperforming its competitors

The "official story" is simply that which we see in the SEC filings: Amdocs is a stable, sleepy company with consistent, unremarkable margins for an "IT services" company:

	2020	2019	2018	2017	2016
	(in thousands, except share data)				
Statement of Operations Data:					
Revenue	$ 4,169,039	$ 4,086,669	$ 3,974,837	$ 3,867,155	$ 3,718,229
Operating income	594,758	569,746	428,307	517,333	483,141
Net income	497,840	479,446	354,396	436,826	409,331

Source: DOX 20-F

Aside from FY18, when the company was hit with a one-time legal settlement charge and lost a couple points of margin, DOX has had remarkably consistent EBIT margins in the 13-14% range. In fact, holding aside the modest anomaly in FY18, DOX's GAAP EBIT margin has been in this same 13-14% range in every year since 2006. Obviously, investors value this apparent consistency and predictability in DOX's profit margins. And of course, we think that's why DOX management has manipulated the numbers so aggressively to keep them looking nice and stable.

B. Reality: Amdocs is a single-digit operating margin company, aptly reflecting its BPO business model

Before we get into the nitty-gritty of documenting DOX's single-digit, deteriorating operating margin profile via its corporate subsidiary filings, let us take a bird's-eye view of the typical margin of companies who do what Amdocs does. The point of this minor digression is to establish that a single-digit EBIT margin is not surprising at all for an Amdocs-type business in today's world. After this section, we will expose Amdocs' margin deterioration over the past decade, using information gleaned from its many global subsidiaries.

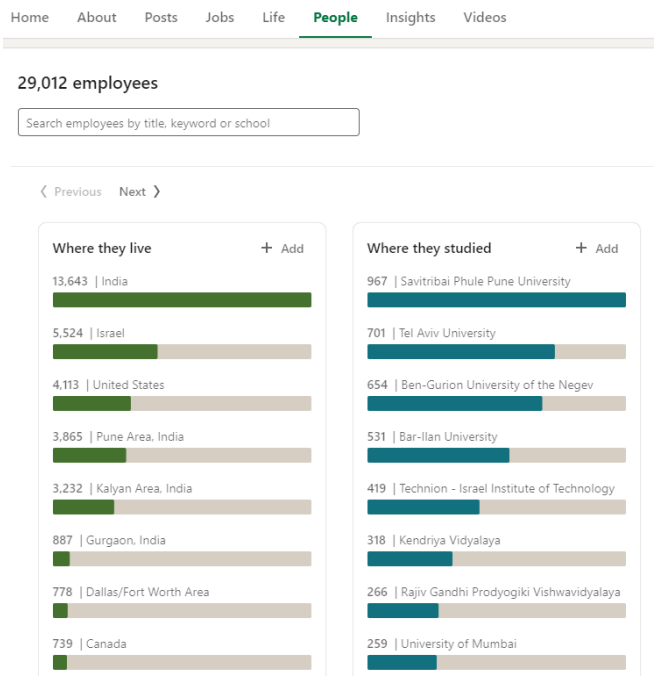
We can summarize this business informally as "business process outsourcing, managed services, and IT consulting, with a customer experience focus." We'll pick four companies in this business area to compare their 10-K business descriptions to DOX's:

- Exlservice (US): Business process management, operations management and analytics services; outsourcing/managed services; providing digital technologies to clients
- Virtusa (US): Digital engineering and IT outsourcing services; consulting, tech, user experience design; development of IT applications; systems integration; managed services
- Sykes (US): Customer experience management services; customer service and technical support to clients' customers; enterprise support services to help with internal operations; outsourced help desks
- TTEC (US): Customer experience service; platforms to support clients' customer interaction delivery infrastructure; managed services to support customer interaction delivery
- **DOX (Israel):** Customer experience services, managed services for business processes, business process outsourcing, digital services, IT consulting and systems integration

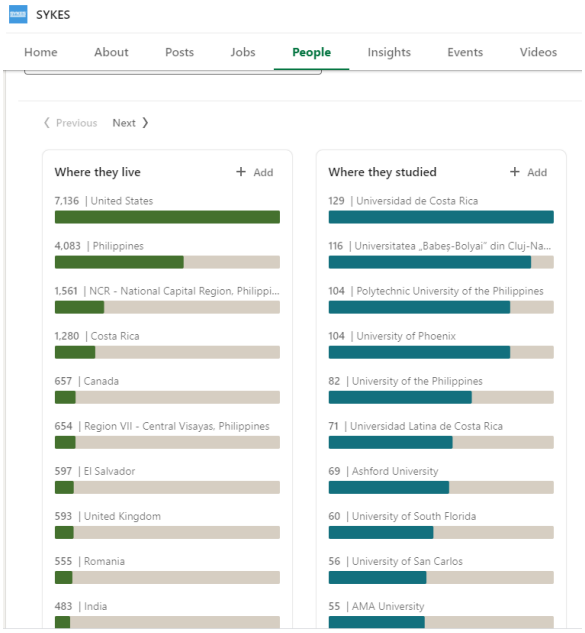
Amdocs isn't only a BPO company, but you'd struggle to find many companies who describe themselves as "BPO-only." For instance, all of the companies in the list above – single-digit EBIT margin companies, mind you – describe themselves as offering things like digital transformation, "X-as-a-service," analytics, etc. It isn't exactly fashionable to describe oneself to American investors as an offshoring business, and it hasn't been for many years.

If you open the DOX 20-F and go to the Business Description section, you'll find that it calls itself a "Software and Services" company. Let's be very clear about one thing: DOX is about as much of a software company as

Wal-Mart is. In fact, in FY15 DOX decided to stop breaking out License revenues from Services revenues, because the software license component of its business was so insignificant. Nearly half of the company's labor force is in India, a nation that is the outsourcing/call-center capital of the world, because Amdocs is first and foremost an outsourced business process management company:



Compare Amdocs to Sykes, which is more "unapologetically" an outsourcing/help desk company. Sykes has more employees in the US than Amdocs does, despite having less than half of Amdocs' revenues. It also has a general employee profile similar to Amdocs, with a large percentage in regions with low labor costs (call centers):



More to the point, the Master Services Agreement[4] between AT&T and Amdocs lists "Call Center Work" as a key part of the services provided by Amdocs ("Supplier"):

2.10 Call Center Work

"Call Center Work" means work centralized in a physical place where telephone calls are handled by Supplier, usually with some amount of computer automation, as agreed by the Parties in an Order.

The rules for Amdocs' India call center employees – CSRs, or Customer Service Representatives - include prohibitions on things like using vulgar language, yelling, or flirting with AT&T customers:

Customer Protection Policy

i. In addition to the reporting and notification requirements contained elsewhere in this Agreement, Supplier also agrees to take all appropriate steps to prevent and respond to these specific type of Incidents involving the mistreatment of AT&T's customers. To protect AT&T's customers, as well as AT&T, its Affiliates and its services, from the effects of such mistreatment, Supplier will not permit any of its Customer Service Representatives (CSRs) or other employees (e.g., trainers, supervisors) to engage in any of the following actions:

1. Using vulgar, offensive, abusive, or sexually oriented language in communications with Customers.
2. Making derogatory references to race, color, religion, national origin, sex, age, sexual orientation, marital status, veteran's status or disability in communications with Customers.
3. Yelling or screaming, making rude, argumentative, abrasive, or sarcastic comments in communications with Customers.
4. Flirting or making social engagements with Customers or AT&T representatives, including the exchange of personal email addresses.
5. Intentional acts of call avoidance, including but not limited to:
   - A) Intentional disconnect of a Customer during a call.
   - B) Intentional transfer of a call back into the queue that the CSR is trained to handle.
   - C) Intentional dissemination of inaccurate information or troubleshooting steps in order to release a call without assisting the Customer.
   - D) Intentionally ignoring a Customer that has been presented to the CSR from a call queue.

Amdocs as an outsourced business process/customer service manager and user experience designer is plenty similar to the four companies listed above. Those companies have a ~7% EBIT margin on average over the past 3 years, but supposedly Amdocs' margin is much higher:

	Bloomberg EBIT Margin		
	2018	2019	2020
Exlservice	6%	8%	11%
Virtusa (US	5%	6%	6%
Sykes (US)	4%	6%	5%
TTEC (US	6%	8%	11%
DOX	15%	14%	14%

(Note: DOX's 15% EBIT margin in 2018 is after crediting back a one-time legal expense; excluding this, reported margin was 11%)

The sell-side analyst community has always accepted Amdocs' margins at face value, and in turn, never had reason to ask whether Amdocs' business is anything different from what the company represents it as. If Amdocs claims to be a high-value-added, "digital transformation" business, what's the problem with taking that claim at face value? After all, Amdocs has mid-teens EBIT margins, consistent with other high-value IT businesses like Accenture and Infosys, right?

As we explain how Amdocs does not actually generate the mid-teens EBIT margins it claims to have, but rather generates a high-single-digit EBIT margin that it then inflates through creative accounting, keep in mind that high-single-digit EBIT margins are actually quite normal for modern business process management/outsourcing/customer experience development companies with nearly half their workforce in India. **There's nothing particularly unusual about Amdocs having a single-digit EBIT margin, given the nature of its business.**

[4] https://www.sec.gov/Archives/edgar/data/1062579/000119312517366393/d419646dex4b6.htm

C. Primer on Amdocs parent/subsidiary corporate structure (and how we figured this all out)

We will start by boiling everything down into one simple concept: A typical public company is nothing but a group of corporate subsidiaries. All the subsidiaries, when put together, should add up to the consolidated total that public companies file (minus some minor differences for transfer pricing, accounting differences, etc.). Our review of a large swath of Amdocs subsidiaries for a long time allowed us to reconcile the sub and parent financials approximately. **But over time, the profit at virtually all of these subs has deteriorated while the profit reported by the parent in the SEC filings has actually *improved*.** Today, the profitability of these subs and that of the parent bear no relationship to one another, and the disparity appears to be worth as much as 40-50% inflation to Amdocs' profit margin, depending on which of the last several years you want to examine. This deterioration in so many subs alongside strength in the consolidated group makes no sense, and we tried hard to find realistic alternative explanations to reconcile this difference. We couldn't. The disparity has been caused by aggressive accounting. (But remember – the subs' margins look a lot like typical BPO company margins.)

The rest of this section is just us explaining the above paragraph in greater detail.

When we provide snapshots of financials or letters from Amdocs subsidiaries in a given country, those documents were in all cases purchased or otherwise obtained from the local corporate registries in the respective countries. Please note also that different subs have different fiscal years, and not all subsidiaries are up to date on their filings, so for some subs we end at FY18, and for some we end at FY19 (FY20 is available almost nowhere as of this writing).

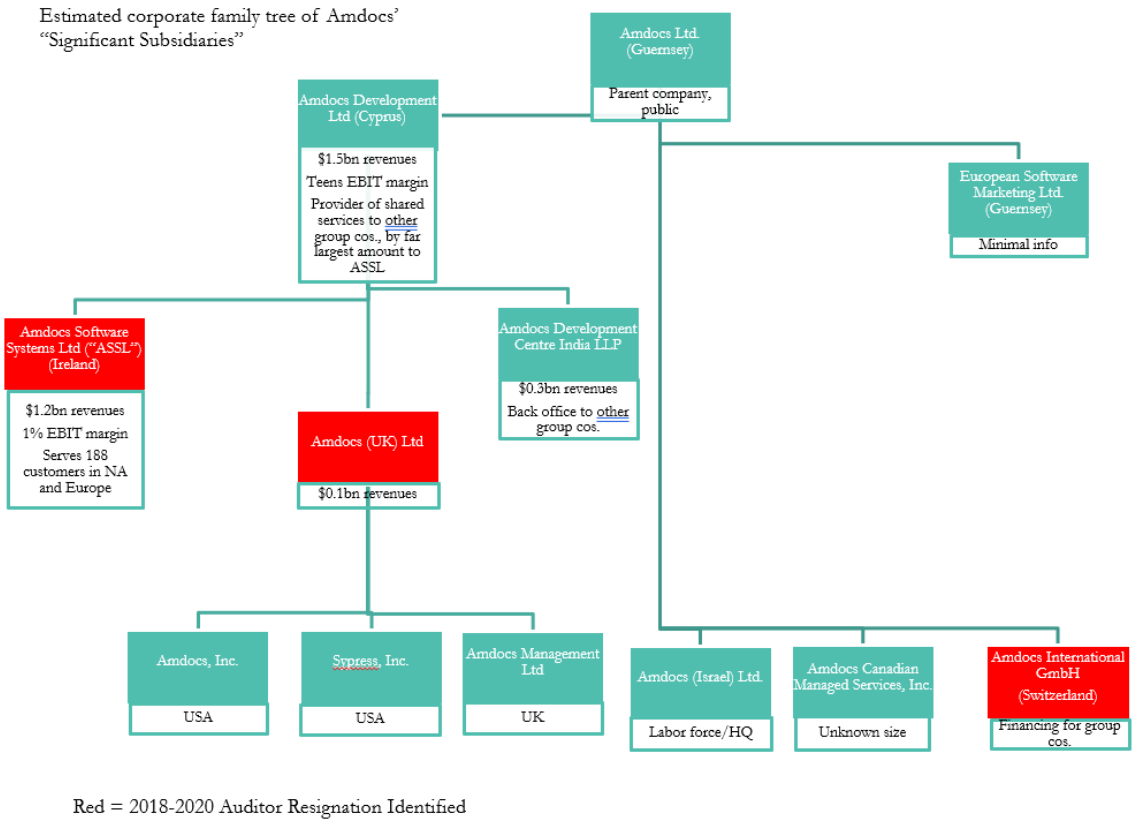
Let's start with the subsidiaries that Amdocs' 20-F lists as "significant":

Significant Subsidiaries of Amdocs Limited

List of the Subsidiaries*	Jurisdiction of Incorporation or Organization	Business Name
Amdocs Development Centre India LLP	India	Amdocs Development Centre India LLP
Amdocs Development Limited	Republic of Cyprus	Amdocs Development Limited
Amdocs, Inc.	State of Delaware, USA	Amdocs, Inc.
Amdocs International GmbH	Switzerland	Amdocs International GmbH
Amdocs (Israel) Limited	Israel	Amdocs (Israel) Limited
Amdocs Management Limited	United Kingdom	Amdocs Management Limited
Amdocs Software Systems Ltd.	Ireland	Amdocs Software Systems Ltd.
Amdocs (UK) Limited	United Kingdom	Amdocs (UK) Limited
Amdocs Canadian Managed Services, Inc.	Canada	Amdocs Canadian Managed Services, Inc.
Sypress, Inc.	State of Delaware, USA	Sypress, Inc.
European Software Marketing Ltd.	Island of Guernsey, Channel Islands	European Software Marketing Ltd.

* Each subsidiary listed is directly or indirectly wholly-owned by Amdocs Limited.

We think the "family tree" of these corporations above looks like this:



Source: Our estimates based on reading of the subsidiary filings, which include discussions of subsidiaries' ownership of other subsidiaries

(Note that Amdocs also has dozens of other apparently "insignificant" subsidiaries around the world, many of which we've nonetheless analyzed and on which we report herein. There is no complete list of all the company subsidiaries to be found in the DOX annual report, unfortunately.)

It so happens that three of the "significant" subsidiaries generate ~$3bn of revenues: Amdocs Development Ltd. (Cyprus, $1.5bn of revenues in FY18), Amdocs Software Systems Limited (Ireland, $1.2bn), and Amdocs Development Centre India Private Ltd. (India, $0.3bn of revenues in FY16**). Importantly, some of the revenues in these subsidiaries are from one Amdocs subsidiary to another** - for instance, the Cyprus subsidiary is a shared services center providing its services to other Amdocs companies, such as Ireland, which is external-facing (serves end customers rather than other Amdocs companies). In the image below, from the Cyprus subsidiary's corporate registry filing, you can see that "Transactions with related parties" identifies about 4/5 of the Cyprus revenues as being generated by sales to other Amdocs companies:

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

26. Related party balances and transactions

Related parties exist if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related companies are the parent company, the subsidiaries and companies under common control i.e. companies which are directly or indirectly controlled by the parent company ("the Amdocs Group").

The related party balances and transactions are as follows:

26.1 Transactions with related parties

	2018	2017
	$	$
Sales	1.256.853.218	1.245.977.482
Cost of sales	1.144.423.016	967.791.727
Loan interest receivable from related companies and cash pool balances	4.700.618	2.756.916
Loan interest payable to related parties	115.355.170	119.791.093
Additions to intangible assets	14.951.109	13.077.638
Administration expenses - professional fees	74.081.240	-

26.2 Receivables from related parties (Note 19)

Name	2018	2017
	$	$
Amdocs (UK) Ltd	6.289.266	19.472.388
Amdocs (USA) Inc.	224.550	846.484
Amdocs Software Systems Ltd	225.389.585	144.317.631
Amdocs Software Solutions Kft	98.161.790	68.304.818
Amdocs Canadian Managed Services Inc.	17.387.308	17.052.589
Amdocs Advertising and Media Emea APS	276.639	590.320
Amdocs South Africa Joint Enterprises (PTY) Ltd	5.521.032	9.083.062
Amdocs Management Ltd UK	1.510.073	7.392.287
Hungarian Innovation Systems Kft	6.032.638	3.479.382
Amdocs Solutions Ltd	2.739.301	5.084.127
Amdocs (France) SAS	-	1.456
Pontis Ltd	5.892.371	3.559.485
Amdocs (CR) Sro	-	73.879
cVidya Networks Inc.	1.039.275	843.180
cVidya Networks UK	3.638.776	1.866.846
Amdocs Ecuador S.A.	4.046.608	3.754.227
Amdocs Australia	-	525.347
Amdocs Singapore Pte Ltd	8.660.078	11.624.271
Utiba India	-	500.000
Actix INC	210.120	1.002.414
Brite Bill Limited	3.082.522	-
Amdocs Tethys LTD	77.636.881	-
	467.738.813	299.374.193

Also, note that the receivables balance from Amdocs Software Systems Ltd. (or "ASSL"), the major Irish subsidiary, makes up by far the largest portion of related party receivables owed to Cyprus. This is evidence that when we capture ASSL's financials, we are capturing the largest – and most important – customer-facing subsidiary in the company, because there isn't much in the way of Amdocs operations that doesn't go through Cyprus eventually.

(Notice also that Cyprus appears to be selling very little "shared services" to Amdocs USA. This is further evidence that Ireland is booking far more revenues than the US sub, aside from the enormous, direct, external revenues going straight to Ireland. This may be counterintuitive because the US is the country where Amdocs earns the most revenues, but the corporate structure is set up such that low-tax Ireland books revenues directly from customers in high-tax America. We think the US sub is a cost center for the most part, doing work for the US customers while some other sub contracts with those customers, such as with the Cyprus sub being the contract supplier to AT&T in the Master Services Agreement as we will describe shortly.)

A note on intercompany sales

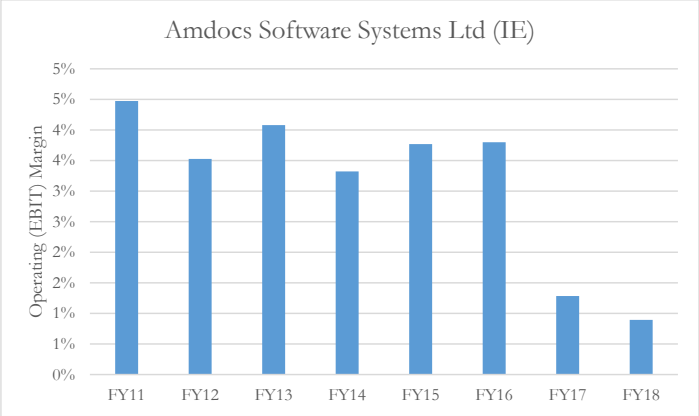
It's important to understand that while revenues can be duplicated inter-company, profits cannot. If Sub A makes excess profit selling to Sub B, Sub B loses that much more profit on the transaction. Therefore, when we see the overall dollar profits declining at the various subsidiaries over this past decade, that's very significant insofar as it contrasts with Amdocs' supposedly increasing dollar profits over this time. We don't think it's feasible to have declining profits in a variety of subs but rising profits at the consolidated level, for obvious reasons…without illegitimate accounting, that is.

The concept of intercompany sales is important also because it helps us understand what complexities transfer pricing can introduce into this system, and what it cannot. Amdocs could have a trillion dollars of "revenues" going back and forth between its subs, but it can't have a trillion dollars of profits. One sub's profit on an intercompany transaction is another sub's loss. **This is why capturing a large swath of subsidiaries and studying their EBIT margins over time is useful, especially when those subs in aggregate have been a good proxy for Amdocs' total margins…even if the**

> **<u>revenues</u> are in some cases duplicated by intercompany transfers. And if we have massive subs all doing different things – selling to customers, selling back office labor to other subs, selling "shared services" to other subs which we suspect is just tax arbitrage (low-tax Cyprus sub sells a ten-thousand dollar hammer to high-tax Canada sub…), or just simply existing to hold other subs – all the better for our analysis.**

Let's discuss three of the "significant" subsidiaries above – Amdocs Software Systems Limited or "ASSL" (Ireland), Amdocs Development Limited (Cyprus) and Amdocs Development Centre India LLP. We purchased the filings for each from the national government corporate registers in Cyprus, Ireland, and India.

Starting with ASSL, which sits in Ireland, a country known for a very low corporate tax rate: this massive sub, which reports earnings $1.3bn in revenues earned by serving 188 customers mainly in North America and Europe, did a 1% EBIT margin in both years[5]. Just to be sure this wasn't some fluke, we looked back at this Ireland subsidiary's operating margins over the past decade. They have always been lower than you might expect, but they've also deteriorated over time:



Source: Company filings of Irish subsidiary Amdocs Software Systems Ltd, which currently go only to 2018 (most of Amdocs' 2019 filings are delayed).

ASSL's tanking operating margins, even without any other context, are an enormous red flag by themselves and beg some obvious questions.

Let's go next to Cyprus, also a jurisdiction with a famously low 12.5% corporate tax rate like Ireland. In Cyprus, an even larger sub (measured by revenues) sits. Could it be that the Cyprus sub has all the margin that Ireland is clearly missing?

In 2018, this large sub generated a 12% EBIT margin[6], but profits were depressed in this year because of a one-time legal expense - excluding that, it was 15%. We also noticed in the disclosure around this expense that the Cyprus sub is the owner of Amdocs' core intellectual property, and "the principal entrepreneur with respect to the Amdocs' core business," so our view is that this sub is by far the most important in the family (perhaps aside from the parent itself in Guernsey):

[5] Image 1 in "Sources" Appendix
[6] Image 2 in "Sources" Appendix

During fiscal year 2018, the Company incurred non-recurring charges to settle a legal dispute brought against the Amdocs Group in the United States. As a result of the settlement, the lawsuit was dismissed with prejudice on November 13, 2018. The Company, as the principal owner of the Amdocs core IP and the principal entrepreneur with respect to the Amdocs core business, incurred the entire cost of the settlement including all associated legal expenses.

15% is certainly a much higher margin than Ireland, but it isn't anything fantastic either, and certainly not high enough to offset the 1% EBIT margin in Ireland and still get to Amdocs' reported operating margin level.

These low margins in Ireland and Cyprus were surprising to us, because we were expecting profit margins in such low-tax nations to be *higher* than the corporate average, not *lower*. After all, Ireland and Cyprus are well known for their exceptionally low corporate tax rates of 12.5%. **This should rule out the possibility that corporate tax strategy can explain this disparity. The other "Significant" subsidiaries are mostly in higher-tax jurisdictions, e.g. the United States, Canada and Israel. We have a hard time imagining that Amdocs is going out of its way to suppress its profits in Ireland or Cyprus.** Ideally, you want most of your profits generated in your lowest-tax jurisdictions.

So, we were still puzzled. We now have two enormous subsidiaries, both in low-tax jurisdictions where we would expect Amdocs to want to locate most of its profits, such as by selling high-cost services from Cyprus to subs in higher-tax jurisdictions, and booking the profits in Cyprus rather than in the high-cost country. Same goes for the last several years of these subs' profit margins.

Cyprus is a critical subsidiary in the Amdocs family for another reason – per the Amdocs-AT&T Master Services Agreement previously referenced, we see that the Cyprus sub is the contracted supplier to AT&T:

AMENDMENT NO.2

TO

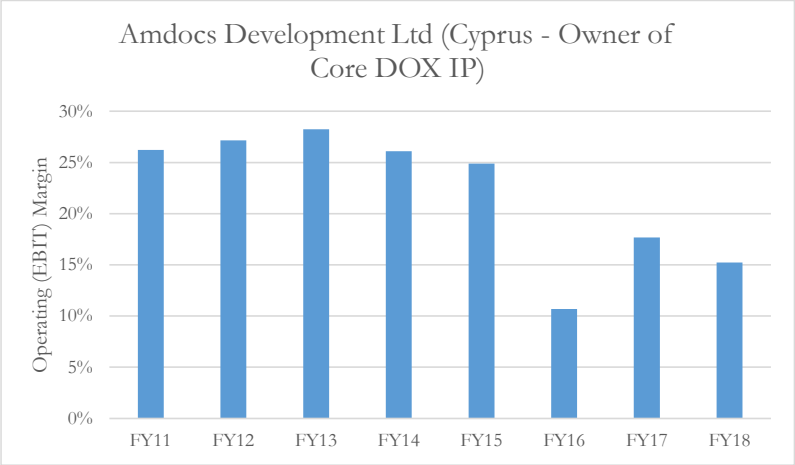
AGREEMENT NO. 53258.C

This Amendment No. 2, effective as of the last date signed by a Party ("Effective Date") and amending Agreement No. 53258.C, is by and between Amdocs Development Limited, a Cyprus corporation (hereinafter referred to as "Supplier" or "Amdocs"), and AT&T Services, Inc., a Delaware corporation (hereinafter referred to as "AT&T"), each of which may be referred to in the singular as a "Party" or in the plural as the "Parties."

WITNESSETH

WHEREAS, Supplier and AT&T are parties to the Master Services Agreement No.53258.C entered into on/with the effective date of on February 28, 2017 (as previously amended, the "Agreement"); and

Cyprus' EBIT margins historically read as follows – does this trend look directionally familiar?



(Again, FY18 adds back the one-time legal expense.)

Cyprus is the nerve center of Amdocs. It owns all the key intellectual property; it provides shared services to basically the whole group; it is the last stop via which most sub ownership goes up the corporate tree before going to the parent in Guernsey; it owns a great many lower companies in the Amdocs family. Cyprus is big, and it is critical.

Cyprus' tanking operating margins, even without any other context, are an enormous red flag by themselves too.

By now you may be wondering, *Well, if Amdocs is making razor-thin operating margins in the actual provision of services to its customers, but isn't making particularly high operating margins in its massive "shared services" (tax arbitrage?) center either, is it possible that the company is conducting other subcontracting activities of some kind through other subs, in large volumes, with enormous margins?* This wouldn't make a ton of sense to us, but for the sake of thoroughly vetting our suspicions, we next ventured to India to pursue this line of inquiry. Recall that **India has almost half the Amdocs labor force.**

Enter Amdocs Development Centre India LLP, one of only two currently operating "Amdocs" companies in India's corporations register and by far the larger of the two. Amdocs' 20-F lists this India sub among its handful of "Significant" subsidiaries.

We were surprised to find that this company generated less than $0.3bn in revenues in the FY ending March 2016[7]. There is no hidden EBIT surprise there either. But note: This does not mean that India the *country*, where ten thousand Amdocs employees are housed, is anything less than a critical sub for Amdocs. It's just that, consistent with the Master Services Agreement with AT&T, customers don't contract directly with India necessarily. They contract sometimes with Cyprus, where the corporate tax rate is 12.5%, or sometimes with Ireland which has the same tax rate. India, with a much higher corporate tax rate, does the work. Then Cyprus "sells shared services" to India, effectively transferring profits to low-tax Cyprus. (Just think about this intuitively: India has half of the Amdocs workforce but only ~7% of its revenues? Obviously, this isn't the case. The revenues just show up in other places. We wonder whether the Indian government is fully informed about this setup.)

Is this starting to make sense? As we go from key sub to key sub and business function to business function (front office, shared services hub, back office), Amdocs is running out of places to hide some treasure trove of massive-margin activity.

The major India sub did 7.7 billion rupees of turnover in FY16 which is equal to about $260m. And its 2.8 billion rupees of operating profit is equal to about $41m. The margins here are actually pretty close to what Amdocs reports as a whole. But the dollar size of India is tiny compared to Ireland and Cyprus…and as we'll see, most Amdocs subsidiaries have margins in between those of Ireland (low single digits) and those of Cyprus (low double digits). The critical sub in India is not offsetting the tiny margins that Ireland and Cyprus have been posting in recent years.

Almost all of India's revenues were accounted for by "Transaction[s] with holding company," which of course is Amdocs Cyprus – so India can't make enormous profit margins either, otherwise these would be at the expense of Cyprus' profits:

[7] Image 3 in "Sources" Appendix

Annexure 4 : Related party Transactions

I List of related parties and nature of relationship where control exists:

Sr. no.	Nature of relationship	Name of company
i.	Ultimate holding company	Amdocs Limited, Guernsey
ii.	Holding company	Amdocs Development Limited, Cyprus

II
Transactions during the year between the company and related parties and the status of outstanding balances as at March 31, 2015

Nature of transaction	2014 - 15	2013 - 14
Transaction with holding company		
Sale of services	17,049,764,939	14,357,986,110
Repayment of borrowings	-	348,680,000
Interest on borrowings	-	1,540,523
Buy-back of shares	-	1,424,776,470
Transaction with ultimate holding company		
Reimbursement of expenses (ESOP)	218,864,610	66,570,080

The subcontracting relationship also makes sense intuitively to us. Cyprus uses the sub in India as a subcontractor, accounting for the Indian services as a cost at the Cyprus company. The Indian company's revenues, therefore, should be classified as intercompany revenues that get netted out at the parent level. There's not a lot of profit to be made by selling to yourself.

What's also relevant for our investigation is the tax considerations of the businesses of each of these subsidiaries. **If you're an investor who is inspired to ask Amdocs management about the topics covered in this report, it's likely you'll get a non-response along the lines of: *our global network of subsidiaries is complex and has to do with tax optimization across different jurisdictions*.**

We're going to ask you to think about this point when they say that: **Why would Amdocs "optimize" its tax structure to show profits that are too *low* in low-tax jurisdictions like Ireland and Cyprus? We cannot imagine it would. We think that these "low" margins are actually fairly representative of the business – <u>and those margins happen to be typical BPO-type margins, as we have discussed.</u>**

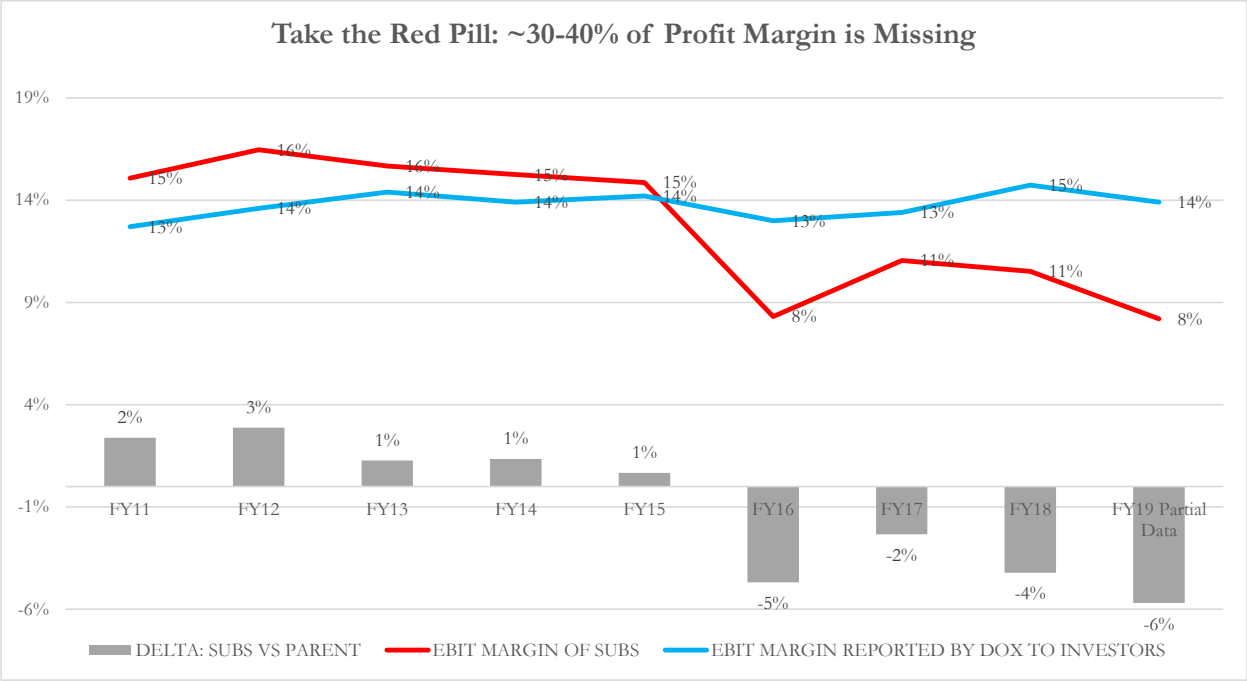
This led us to go down a number of new paths to find as many subsidiaries, and their profits, as we could. What we found was that Amdocs is really a family of companies whose margins have deteriorated over the years, and this family is now generating EBIT margins in the high-single-digit range. We have put together a composite of all the subsidiaries whose financials are available publicly, and we develop these findings in the next subsection of this report. We've found a long tail of small Amdocs subs in many countries, ranging in revenue size from $164m (Amdocs Philippines) all the way down to zero (shell companies, or non-trading entities who merely hold ownership of other companies). All in all we've found dozens of subs, but of these, 19 have financial statement information in recent years.

As a group but also on an individual sub-by-sub basis, these subs have seen a general deterioration in margins over the past decade, with a particularly sharp inflection point in FY16. Given that DOX's reported margins have stayed basically the same over this period, this has necessitated increasingly aggressive accounting games – which also inflected around FY16. **There is nothing spectacularly important about FY16, fundamentally speaking** – Amdocs' business has been organically stagnant or shrinking for many years as we demonstrate later. Increasing competition has been pressuring margins as well. Things just got worse in FY16 in a little more of an obvious way.

This isn't a coincidence. As Amdocs' business has gotten worse, the accounting games have gotten more aggressive. You can't see the problems at all in the revenue and EPS headline numbers; you can sort of see them in the parent cash flow statement, balance sheet, and financial ratios; but you can see them plain as day in the many subsidiary filings from local corporate registries around the world.

D. Amdocs' true margins have been deteriorating for a decade

To repeat this chart for convenience:



And to repeat the source data:

LTM REVENUE BY SUBSIDIARY:		FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Partial Data	FY20
Key:	**Amdocs Development Ltd (Cyprus - Owner of Core DOX IP)**	$1,017	$1,051	$1,087	$1,096	$1,184	$1,117	$1,313	$1,523	NA	NA
	Amdocs Software Systems Ltd (IE)	$1,006	$995	$944	$963	$1,056	$1,182	$1,246	$1,227	NA	NA
	Amdocs Development Centre India Pvt Ltd (IN)	*$243*	*$243*	*$243*	$243	$288	$257	*$257*	*$257*	NA	NA
Non-Key:	Amdocs Astrum Ltd (IE)	$0	$0	$0	$0	$0	$0	$0	$0	NA	NA
	Amdocs UK Ltd (UK)	$64	$62	$68	$68	$93	$80	$73	$75	$62	NA
	Amdocs Management Ltd (UK)	$56	$48	$51	$54	$55	$59	$39	$52	$49	NA
	Amdocs Systems Group Ltd (UK)	$0	$0	$0	$0	$14	$30	$25	$23	$21	NA
	Amdocs Systems Europe Ltd (UK)	$29	$28	$29	$26	$13	$0	$0	$0	$0	NA
	Ignis UK Investment Ltd (UK)	$0	$0	$0	$0	$0	$0	$0	$0	$0	NA
	Openmarket Ltd (UK)	$16	$15	$13	$16	$14	$20	$48	$62	$62	NA
	European Support Limited (UK)	$26	$22	$22	$25	$22	$22	$19	$15	$13	NA
	Vubiquity Mgmt Ltd (UK - Acq FY18)	NM	NM	NM	NM	NM	NM	NM	NM	$55	NA
	Cvidya Networks UK Ltd (UK - Acq FY16)	NM	NM	NM	NM	NM	$4	$4	$4	$2	NA
	Amdocs Italy (IT)	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	$12	$19
	Amdocs BPO Pvt Ltd (IN - Created FY18)	NM	NM	NM	NM	NM	NM	NM	NM	$5	NA
	Amdocs Philippines Inc. (PH)	*$164*	*$164*	*$164*	*$164*	*$164*	*$164*	*$164*	*$164*	$164	NA
	Amdocs Singapore Pte Ltd (SG)	*$49*	*$49*	*$49*	*$49*	*$49*	*$49*	$49	$43	$42	NA
	TOTAL REVENUES OF THESE SUBSIDIARIES	**$2,680**	**$2,689**	**$2,681**	**$2,715**	**$2,964**	**$2,996**	**$3,248**	**$3,455**	**$486**	**NM**
	TOTAL DOX REPORTED REVENUES	**$3,178**	**$3,247**	**$3,346**	**$3,564**	**$3,644**	**$3,718**	**$3,867**	**$3,975**	**$4,087**	**NM**

LTM EBIT BY SUBSIDIARY:		FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	Partial Data	FY20
Key:	**Amdocs Development Ltd (Cyprus - Owner of Core DOX IP)**	$267	$286	$307	$286	$295	$119	$232	$232	NA	NA
	Amdocs Software Systems Ltd (IE)	$45	$35	$39	$32	$40	$45	$16	$11	NA	NA
	Amdocs Development Centre India Pvt Ltd (IN)	*$54*	*$54*	*$54*	$54	$80	$42	*$42*	*$42*	NA	NA
Non-Key:	Amdocs Astrum Ltd (IE)	$0	$0	$0	$0	$0	($2)	$29	$34	NA	NA
	Amdocs UK Ltd (UK)	$10	$53	$6	$6	$4	$9	$6	$7	$4	NA
	Amdocs Management Ltd (UK)	$1	($2)	($3)	($5)	($5)	($4)	($4)	$10	$4	NA
	Amdocs Systems Group Ltd (UK)	($0)	($0)	($1)	$13	$1	$9	$9	$7	$6	NA
	Amdocs Systems Europe Ltd (UK)	$2	($5)	$0	$6	$3	$0	$0	$0	$0	NA
	Ignis UK Investment Ltd (UK)	($0)	($0)	($0)	$0	$0	$0	$0	$0	$0	NA
	Openmarket Ltd (UK)	$7	$5	$3	$3	$2	$12	$12	$8	$7	NA
	European Support Limited (UK)	$4	$3	$1	$6	$6	$4	$1	$1	$1	NA
	Vubiquity Mgmt Ltd (UK - Acq FY18)	NM	NM	NM	NM	NM	NM	NM	NM	$2	NA
	Cvidya Networks UK Ltd (UK - Acq FY16)	NM	NM	NM	NM	NM	$0	$0	($0)	$0	NA
	Amdocs Italy (IT)	*$1*	*$1*	*$1*	*$1*	*$1*	*$1*	*$1*	*$1*	$1	$1
	Amdocs BPO Pvt Ltd (IN - Created FY18)	NM	NM	NM	NM	NM	NM	NM	NM	$1	NA
	Amdocs Philippines Inc. (PH)	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	*$12*	$12	NA
	Amdocs Singapore Pte Ltd (SG)	*$2*	*$2*	*$2*	*$2*	*$2*	*$2*	$2	$0	$2	NA
	TOTAL ESTIMATED VALUE	**$404**	**$443**	**$420**	**$414**	**$441**	**$249**	**$359**	**$363**	**$40**	**NA**
	EBIT MARGIN OF SUBS	***15%***	***16%***	***16%***	***15%***	***15%***	***8%***	***11%***	***11%***	***8%***	**NA**
	EBIT MARGIN REPORTED BY DOX TO INVESTORS	***13%***	***14%***	***14%***	***14%***	***14%***	***13%***	***13%***	***15%***	***14%***	***14%***
	DELTA: SUBS VS PARENT	***2%***	***3%***	***1%***	***1%***	***1%***	***-5%***	***-2%***	***-4%***	***-6%***	

FY18 numbers for both the Cyprus sub and the DOX reported EBIT margin add back $55m in legal settlement and fees, per 20-F
FY11 Cyprus numbers are annualized due to 5-quarter reporting period
Cells in Italics are assumed no-growth values used to estimate sums at bottom
For Philippines, only gross profit available, assume no opex such that this equals EBIT (generous)

(Sources: National corporate registries from each country, except Amdocs Philippines which required a third-party collection service.)

And since FY16, almost no material subs have posted consistent EBIT margins at or above the low end of the Amdocs range (13%). The one clear exception is Amdocs Systems Group, a sub with only $6m of revenues:

EBIT MARGIN BY SUBSIDIARY:		FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Key:	**Amdocs Development Ltd (Cyprus - Owner of Core DOX IP)**	26%	27%	28%	26%	25%	11%	18%	15%		
	Amdocs Software Systems Ltd (IE)	4%	4%	4%	3%	4%	4%	1%	1%		
	Amdocs Development Centre India Pvt Ltd (IN)				22%	28%	16%				
Non-Key:	Amdocs Astrum Ltd (IE)										
	Amdocs UK Ltd (UK)	16%	29%	9%	8%	5%	11%	8%	9%	7%	
	Amdocs Management Ltd (UK)	1%	-4%	-5%	-9%	-8%	-7%	-9%	19%	7%	
	Amdocs Systems Group Ltd (UK)					4%	31%	36%	29%	31%	
	Amdocs Systems Europe Ltd (UK)	8%	-18%	1%	23%	25%					
	Ignis UK Investment Ltd (UK)										
	Openmarket Ltd (UK)	46%	32%	21%	16%	15%	59%	26%	12%	11%	
	European Support Limited (UK)	14%	14%	3%	22%	26%	18%	8%	4%	11%	
	Vubiquity Mgmt Ltd (UK - Acq FY18)									4%	
	Cvidya Networks UK Ltd (UK - Acq FY16)						2%	3%	-8%	0%	
	Amdocs Italy (IT)									6%	6%
	Amdocs BPO Pvt Ltd (IN - Created FY18)									13%	
	Amdocs Philippines Inc. (PH)									7%	
	Amdocs Singapore Pte Ltd (SG)							4%	1%	4%	

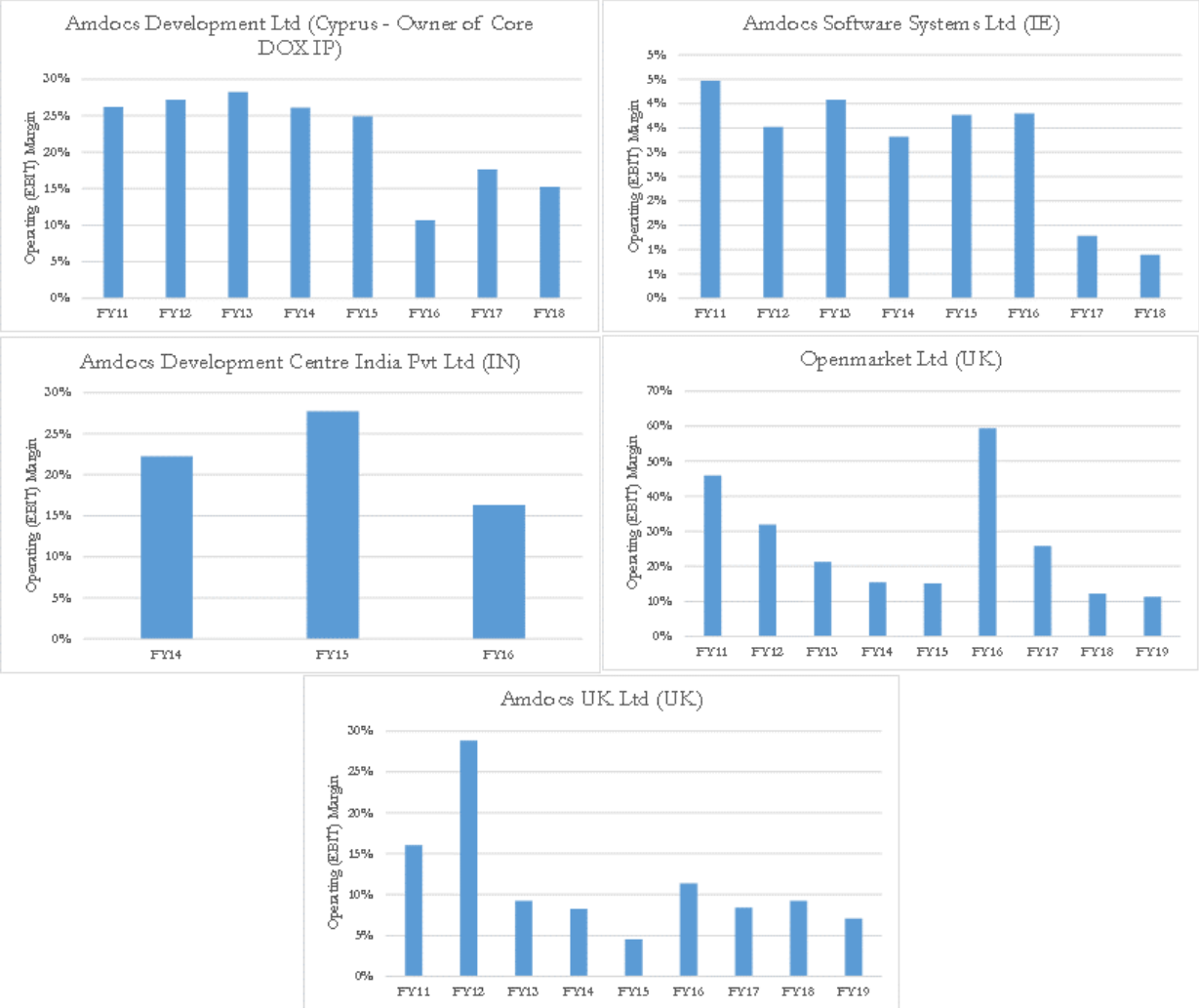
FY12 Amdocs UK Ltd. Margin removes a $35m exceptional one-time item
FY18 for the Cyprus sub adds back $55m in legal settlement and fees, per 20-F

It's clear that these subsidiaries' margins tracked pretty nicely against DOX's overall reported margins for years, until they didn't. As a group, these subs were historically a good model for how the overall company was doing.

This led us to ask was whether there was some strange reshuffling of profits within subs that might explain the breakdown in the relationship between these subs' margin and the parent's – perhaps the growing margin disparity was just due to one sub changing its accounting or something like that? In the next section, we answer this question.

E. The margin deterioration is consistent over time and across subsidiaries

We've isolated the subsidiaries with over $50m in revenues and multiple years of financial statements available, and plotted their margin trajectories over time. This next series of graphs is based on the data on EBIT margin by sub in the chart above. It demonstrates that the decay in operating margins isn't driven by some odd reshuffling of profits. **The profitability decay is happening across every single one of the meaningful subs in this group.** The subs are in order of size, from the largest ($1.5bn) to the smallest ($62m):



The fact that profits have been deteriorating at large and small subs, at subs selling services to external customers as well selling to as other Amdocs subs, and at subs across different geographies, tells us that this margin deterioration over time is broad-based and endemic to the business. **As we discovered this consistency of decline across the subs, we realized that we had not simply captured a uniquely deteriorating set of subsidiaries**. The truth of Amdocs' profits is that they are deflating across the business, but then re-inflated in the auditors' final consolidation that is presented to public investors.

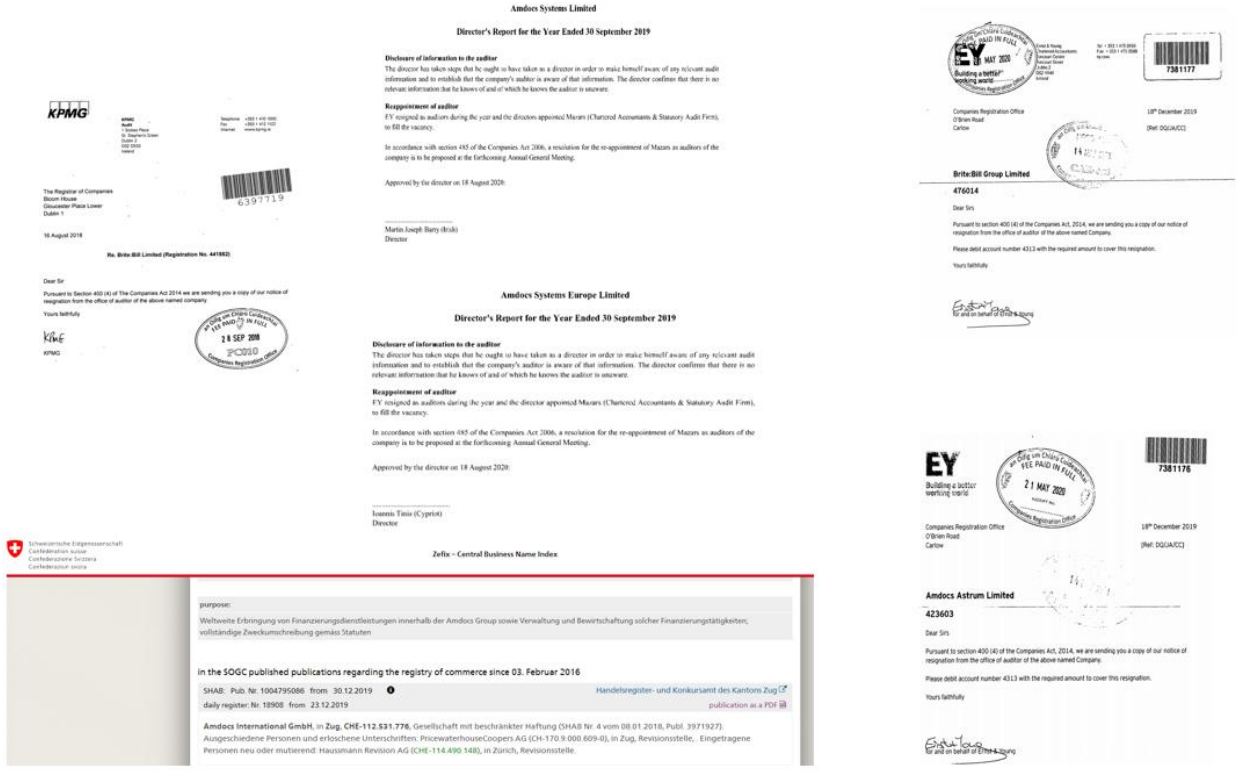
F. Amdocs' auditors have started resigning across different subsidiaries

Amdocs uses local auditors at each of its country subsidiaries. Perhaps unusually, Amdocs has different auditing firms at different subsidiaries (i.e. a local sub of EY in one country, but a local sub of KPMG in another). Amdocs' Big Four auditors at these subs started resigning approximately two years ago, and the number of annual resignations that we could find has grown since.

First, in chronological form, a summary of the recent resignations we've found at subsidiaries. These have occurred as lately as Amdocs' fiscal 2020:

	(Based on Amdocs parent company fiscal years)					
	FY16	FY17	FY18	FY19	FY20	*Auditor Since*
Astrum (IE)					EY resign	*2007 (or longer)*
Brite:Bill (IE)			KPMG resign		EY resign	*2018*
Amdocs Systems Europe Ltd (UK)				EY resign		*2014*
Amdocs Systems Ltd (UK)				EY resign		*2014*
Amdocs Intl GmBH (Switz)					PWC resign	*2016 (or longer)*

Second, the auditor resignation letters/updates or mentions of such in subsidiary annual reports appear in the composite image below. In case you're not inclined to zoom in 200% or visit Google Translate: all of them indicate the auditor did indeed resign (as opposed to being dismissed).



Sources: https://www.zefix.ch/en/search/entity/list/firm/803897?name=amdocs&searchType=exact
United Kingdom Companies House
Irish Companies Registration Office

In real life, auditors turn over occasionally for perfectly harmless reasons. What should catch your eye about the set of auditor resignations above is that it involves three parent auditor firms (EY, KPMG, and PWC), and five Amdocs subsidiaries across three different countries in Europe (UK, Ireland, Switzerland).

In fact, one sub (Brite:Bill in Ireland) had two different auditors resign (top left and top right images) in just over one year – as in, one resigned, another replaced them, and then the second one resigned soon after. What did EY find in Ireland that made them want to leave so shortly after, and was it the same issue that scared off KPMG? Is EY going to resign from the Guernsey parent next, or is it easy to look the other way when all you're auditing at the Guernsey holdco is the numbers provided to you by other auditors at lower subsidiaries?

All of these auditor resignations apparently occurred between September 2018 and December 2019. We can't help but suspect, strongly, that there has been some sort of phase shift in auditors' perception of Amdocs within the past year or two.

We wonder if the increasing focus on auditors in Europe during the building Wirecard fraud saga may have chastened some auditors, forcing them to rethink their less-defensible auditing choices. EY in particular, which has resigned from at least four Amdocs subs in the past two years, has had to reckon with embarrassing fallout that would force tough questions at any auditing firm. From an article in 2020 about EY's new challenges:

Forbes

Jul 6, 2020, 04:50pm EDT | 20,410 views

EY's Shameful Year – NMC Health, Luckin, Wirecard And A Failed Attack On A Whistleblower

https://www.forbes.com/sites/erikakelton/2020/07/06/eys-shameful-year--nmc-health-luckin-wirecard-and-a-failed-attack-on-a-whistleblower/?sh=1f44c2e569e0

- *"After a series of critical news reports and questions raised by investors, NMC disclosed in early March that it had more than $4 billion of hidden debts. It then was forced into administration by its largest lender, Abu Dhabi Commercial Bank. In May, the Financial Reporting Council, the UK's accounting watchdog, announced it was investigating EY's audit of NMC's 2018 accounts…*
- *"Most recently, EY has been dealing with the fall-out from the revelations that Wirecard included in financial statements roughly $2.1 billion in cash— or roughly a quarter of its assets — that never existed…*
- *Germany's auditor oversight body, APAS, is reportedly investigating EY's audits of Wirecard."*

Now normally, when a Big Four auditor resigns from one of your subsidiaries, your go-to response might be to replace that auditor with another Big Four auditor for that subsidiary. And Amdocs clearly has preferred in the past to use Big Four auditors, as we'd certainly expect given a company of such enormous, international complexity.

So color us surprised when Amdocs chose to replace its resigning Big Four auditors with two eyebrow-raising firms:

1. Mazars LLP, of Trump Foundation asset-inflation fame[8]:

PROPUBLICA Meet the Shadowy Accountants Who Do Trump's Taxes and Help Him Seem Richer Than H... Newsletters

TRUMP, INC.

Meet the Shadowy Accountants Who Do Trump's Taxes and Help Him Seem Richer Than He Is

The Supreme Court fight over Donald Trump's tax returns has pushed his accounting firm into the limelight. In various episodes over 30 years, partners — including the CEO — have run into trouble for fraud, misconduct or malpractice.

by Peter Elkind, ProPublica, and Meg Cramer, WNYC, with Doris Burke, ProPublica, May 6, 2020, 4 a.m. EDT

2. Haussmann Revision AG, of absolutely no fame whatsoever.

Let's start with a brief discussion of Mazars, before we move onto what will necessarily be an even briefer discussion of Haussmann Revision AG. The following is a selection of quotations from the ProPublica article on Mazars shown above:

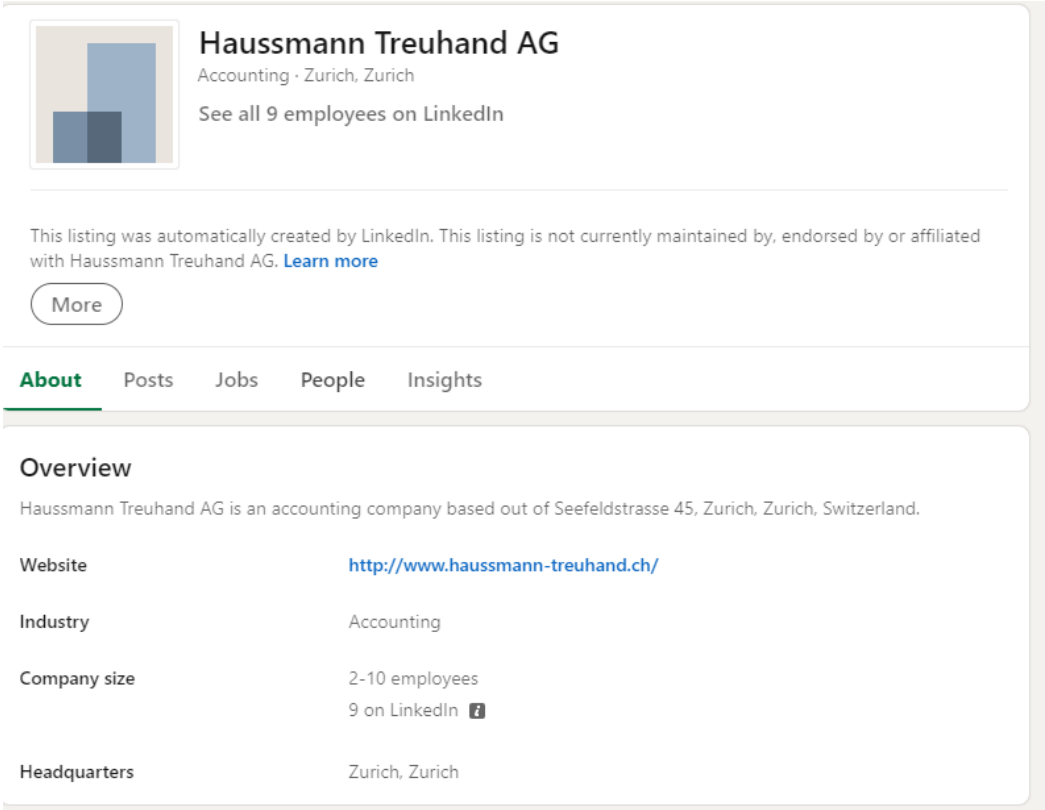
> *By this point, Mazars had become [Trump's] accountants of record…and the disclaimers in the financial statements had grown to exclude anything involving the finances of Trump's large hotels in Las Vegas and Chicago. The 2011 and 2012 statements placed Trump's net worth at $4,261,590,000 and $4,558,680,000, respectively.*
>
> *They included multiple false claims…*
>
> *"To pay an auditor to say 'we have not checked the numbers, and the numbers don't follow any rules' — you just don't see that," said George Washington University assistant accountancy professor Kyle Welch. "This is not a real financial statement. This is a promotional document." Welch said the sweeping disclaimer protects the accountants from legal liability or industry sanctions.*
>
> ***He doubts a larger firm* [than Mazars] *would have been willing to affix its name to such statements. "I don't think any of the Big Four would put their name on those financial statements," Welch said. "I don't think they could have been paid enough to get it done."***
>
> *…According to the SEC, [future Mazars subsidiary] Weiser had failed to properly monitor its client, a financial advisory firm called Sagam Capital Management, that was already operating under a cease-and-desist order for securities fraud and thus, as Weiser knew, warranted "heightened scrutiny." These failures, the SEC found, had "willfully aided and abetted" more misconduct. (Sagam's CEO later went to prison for stealing millions from his customers.)*
>
> ***Victor Wahba, the Weiser partner in charge of the assignment, was barred from SEC practice for a minimum of four years.*** *(He didn't admit or deny wrongdoing.) But Wahba remained at the firm, and was promoted, just one year later, to run its New York office.* ***In 2012, 15 months after being reinstated by the SEC, Wahba was named co-CEO of Mazars. He became chairman and CEO of Mazars USA in 2015…***
>
> *This extends to the* ***Donald J. Trump Foundation****, whose annual tax returns Bender has regularly prepared and signed. For 2016 and 2017, before the foundation's dissolution,* ***Mazars also audited its financial statements,***

[8] https://www.propublica.org/article/meet-the-shadowy-accountants-who-do-trumps-taxes-and-help-him-seem-richer-than-he-is

> ***filed with the New York attorney general's office. Among these documents, there is no indication the firm did anything to spotlight or curtail the financial abuses that eventually forced the charity's shutdown.***
>
> ***The Mazars accountants were complicit in the foundation's illegal practices, according to Marcus Owens, an attorney and expert in nonprofit law who ran the IRS' exempt-organizations division for a decade. "I cannot fathom how they would not know," he said.*** *Owens called the firm's role in the foundation's misconduct "extraordinary. ... I've been practicing charity law for 45 years, including 25 at the IRS, and I've never seen anything like it." Added Owens: "This is aiding and abetting someone doing something that is in clear violation of federal tax law.* ***It really calls into question what's going on with every other tax return that firm prepared."***

So Amdocs lost a Big Four auditor and decided to replace them with…the guys who forever seemed unable to get Trump's tax returns finished, and who the whole world knows was helping Trump hide God knows what? A firm whose American operation was run by someone barred by the American securities regulator? This is the auditor for multiple subs of a ten-billion-dollar company?

Now as for Haussmann Revision – there's not much we can say about this firm. Their parent company has 9 employees on LinkedIn:



The parent company has a nice website, which shows the relationship to the "Revision" sub. We don't mean to belittle the Haussmann team – we have never heard of them and, let's be honest, neither have you – we merely ask the question, "Why them?"

The subsidiary that Amdocs has chosen for tiny Haussmann to audit, Amdocs International GmbH, is the financing center of the entire Amdocs corporate network. It makes loans to numerous Amdocs subsidiaries and our guess is that its operations are at least as complex as any other entity within the corporate family. PWC

was the auditor of choice for Amdocs in Switzerland. They quit. We are guessing that the other three members of the Big Four were…eh…unavailable, as two of those three had only recently quit from auditing other Amdocs subs in the UK and Ireland.

Are all of these clustered auditor resignations, in some cases known to be followed by the appointment of a scandal-plagued and/or tiny auditor at a given sub, a giant coincidence? If you believe that they are, give us a call, because we've got a solar-powered bridge to a cannabis farm in in SPACzakhastan to sell you.

We would also note the bizarre fact that **EY, despite resigning from multiple Amdocs subsidiaries, has remained as the auditor for the parent company in Guernsey. EY has been the auditor for Amdocs Ltd. since the Reagan administration**, so perhaps the two parent companies have an especially cozy relationship. We wonder if the local EY offices saw things they didn't like, while the EY office responsible for auditing the parent felt that the main Amdocs relationship was too lucrative to abandon so easily?

G. How has Amdocs kept the consolidated numbers so inflated for so long?

So, what's going on here? These major operating subsidiaries, in whole and in individual pieces, have seen across-the-board profit deterioration. While the deterioration has generally been consistent over time, it has been faster or slower at various points with a clear inflection for the worse around FY16. So, we'll revisit a summary of the classic accounting red flags we've noticed in the overall Amdocs financial picture, which we think provides clues as to how Amdocs has kept the profits up:

QUESTIONABLE ACCOUNTING METRICS:	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
YOY Change in Bad Debt Allowance	0%	6%	22%	79%	-7%	17%	-27%	-26%	70%	-35%
YOY Change in Project-Related Provisions (Reserves)	NA	NA	NA	40%	70%	3%	9%	-31%	-10%	-13%
Unbilled DSO on Project Revenues	16d	32d	25d	28d	17d	29d	47d	52d	48d	44d
Deferred Revenue Days (DRDO)	21d	20d	20d	19d	24d	20d	13d	15d	13d	12d
Cash Interest Payments (millions)	$0.4	$0.4	$0.5	$0.6	$0.5	$0.6	$1.1	$2.0	$7.3	$5.4
Identified Subsidary Auditor Resignations	0	0	0	0	0	0	0	1	2	3
Non-GAAP Adjustments/Non-GAAP Net Income	20%	15%	14%	17%	16%	24%	22%	39%	19%	16%
Factoring Receivables	No	No	No	No	No	No	No	Yes	Yes	Yes
Est. Capitalization of Software/Revenues		0.9%	0.7%	0.6%	0.8%	1.1%	1.2%	1.4%	1.3%	1.1%
Organic Growth if M&A Done at 1x Revs	1%	2%	0%	1%	-5%	-6%	4%	-6%	1%	-4%

"Project Revenues" refer to all non-managed-services revenues; trend of this metric is similar if all DOX revenues are used

Organic growth calculation assumes cash spent on M&A = equivalent inorganic revenue growth in same year; 1x multiple is same as Openmarket divestiture by DOX

Unbilled DSO and DRDO use ST&LT unbilled A/R and deferred revenues. Prior to FY18, only ST was broken out; analysis assumes prior LT values were consistent fraction of total (~10%)

Software capitalization calculated as change in software asset minus 1/5 of year balance (assume 5 yrs useful life)

We will expand upon these classic accounting red flags later in this report. What's important to take away from this section is simply the following: Amdocs' underlying subsidiary profits have been declining for years and inflected for the worse in FY16, but the consolidated profits that investors see have been growing, while the timing of the disparity is neatly coincident with more traditional accounting red flags that have manifested in the parent financials.

These melting profits at a great many subs cannot be explained by transfer pricing, tax avoidance, or other non-public subs having the 50%+ EBIT margins necessary to offset billions of dollars of single-digit-margin revenues.

If management is willing to massage their numbers to such a massive extent that not a single analyst on the Street had any clue about these issues before today, we can only dream about the things that we *can't* see. For all we know, we've caught only the tip of an awful iceberg.

H. Has Amdocs also been inflating the numbers at these subsidiaries with sham intercompany transactions?

While we believe the main misbehavior by Amdocs has been manifested outside of these many subsidiaries whose earnings we have tracked over time, it's also instructive to note that Amdocs has completed some very strange transactions within and across various subsidiaries in its network of companies. Some of these transactions appear to lack any economic substance but create gains at one subsidiary when they occur. We don't see any evidence that these transactions create offsetting losses elsewhere in the network; **if this were the case, then Amdocs would be essentially manufacturing profits out of thin air by selling a piece of paper from one sub to another.**

Let's examine two recent examples of these transactions in turn.

1. Openmarket UK Limited, 2019:

7 Other gains and losses

The analysis of the company's other gains and losses for the year is as follows:

	2019 £	2018 £
Gain from changes in investment valuation	3,579,826	-

Other gains relate to the increase in fair value attributable to a minority equity investment held by the company.

Here is a pretty straightforward technique companies can use to manufacture earnings when earnings are otherwise running low: *Mark up the valuation of a minority investment without any apparent explanation and record the gain in your income statement.* We would note that Amdocs' disclosure of its gains from markups on minority investments is extremely thin in the 20-F:

> *Interest and Other Expense, Net. Interest and other expense, net, changed from a net loss of $6.8 million in fiscal year 2018 to a net loss of $1.9 million in fiscal year 2019.* ***The decrease in Interest and other expense, was primarily attributable to the realized and unrealized net gains relating to minority equity investments.***

We don't know what the minority investment is, why Amdocs marked it up, whether the majority owner of the investment feels the same way, etc. It's a very nice four-million dollar gain without explanation, buried in the footnotes of a document buried in a UK sub of the Amdocs corporate family. But it's not even the most egregious-looking transaction we've found in this circus.

2. Amdocs Software Systems Limited (ASSL), FY19:

On 1 November 2018 , ASSL sold certain US based customer contracts amounting to US$35,071,000 to Amdocs Tethys Limited ("Tethys"). As part of the transaction ASSL transferred all of the revenue related balances to Tethys and recognised a gain on the sale of US$35,071,000.

This one is cute. One subsidiary (ASSL) sold a set of contracts to its customers to another subsidiary (Tethys). Tethys paid $35m for the contracts, and since those contracts were ostensibly originated by ASSL such that they had no cost basis, ASSL recognized a gain on the sale for the full $35m purchase price.

Given that Tethys was simply purchasing an asset, there's no reason we can think of why Tethys would have booked any sort of loss on this transaction. (Tethys' financials are not available yet.)

Further notable is the fact that Tethys was incorporated only weeks before this transaction took place. Even the proposal to incorporate Tethys was made as late as only two months prior:

cro COMPANIES REGISTRATION OFFICE
AN OIFIG UM CHLÁRÚ CUIDEACHTAÍ

A1 Submission Number: 12969142

A1 -Application to incorporate a company

Company Details

Date	05 September 2018
Company Details	
Company Name	AMDOCS TETHYS LIMITED
Company Address	First Floor Block S East Point Business Park Dublin 3
Company Type	LTD - Private Company Limited by Shares

We wonder whether the Irish company Tethys was created solely for the purpose of acquiring these contracts from another Irish company, ASSL. It certainly doesn't seem to be a tax-optimizing strategy, given both companies are based in Ireland. Was it an "earnings-optimizing" strategy? (We would encourage investors to ask Amdocs whether the Tethys gain is definitively omitted from the GAAP financials.)

I. Amdocs' actual tax payments indicate a far less profitable company than what investors are shown

In this subsection we will explain how we think DOX's long history of ultralow cash tax payments (as opposed to accrued taxes investors see on the GAAP income statement) illuminates our view of the company's true profits.

We understand that when the tax authorities want to get paid, they usually do, at least eventually. Therefore, the fact that Amdocs pays so little in taxes, and has done so for so long, is suspicious to us. But the fact that DOX stands out so uniquely for its low tax payments amongst a huge field of comparable companies is more strongly suggestive that something is wrong with the profit numbers we're seeing.

(Yes, of course we realize that Amdocs has located its major subs in low-tax jurisdictions such as Cyprus and Ireland and has special tax treatment in Israel. Its tax payments are uniquely low even in comparison to other taxpayers in those countries, and to those countries' low tax rates.)

A quick glance at DOX's effective tax rates in the 20-F will show annual rates in the 15-16% zone consistently. And on the surface, that certainly makes sense – DOX operates in a variety of low-tax jurisdictions, making a huge portion of its profit in Cyprus and Ireland, two jurisdictions with attractive corporate tax rates of 12.5%. And after all, its ultimate parent's location in low-or-no-tax Guernsey has to help, right? We can't beat up on companies for optimizing their tax structures, after all.

The "problem" with the numbers we've dug up is that DOX's tax structure seems to be *really* optimized. In fact, it's so amazingly optimized that it tells us the tax authorities are seeing far less profit from DOX than a reasonable investor would expect. And we can't find a good explanation for why ("clever tax accountants" is not sufficient here, although we suspect DOX's answer to an inquiring investor on this topic would be something similarly vague, trite, and useless). Comparing DOX to a global set of peers in its main jurisdictions brings this part of the story to life.

While DOX may have an "effective" tax rate of ~15%, it pays far less in actual cash payments to the tax authorities. In fact, DOX's "cash tax rate," which frequently flirts with the single digit percentage level, is both:

- remarkably *low* compared to a wide variety of comparable peers operating in overlapping tax jurisdictions, and
- remarkably *disparate from its effective tax rate* when compared to those same peers' disparities from their own effective tax rates

First, note that DOX makes no profits in Guernsey. Amdocs Ltd., the parent company, is simply a holding company for all the other subs. If DOX made any money in tax-free Guernsey, its blended effective tax rate would be lower than its non-Guernsey effective tax rate, but it isn't. Guernsey isn't helping DOX reduce taxes, at least not that we can see:

The effective income tax rate varied from the statutory Guernsey tax rate as follows:

	Year Ended September 30,		
	2020	2019	2018
Statutory Guernsey tax rate	0%	0%	0%
Foreign taxes(1)	14.7	15.6	15.9
Effective income tax rate	14.7%	15.6%	15.9%

As a Guernsey company subject to a corporate tax rate of zero percent, the Company's overall effective tax rate is attributable to foreign taxes. The Company's income before income tax expense is considered to be foreign income .

Second, DOX's low cash tax payments, which have been almost absurdly low over many years, are especially notable given that the company has ostensibly been profitable basically forever (no NOLs) and has an asset-light business model (no major, recurring depreciation opportunities).

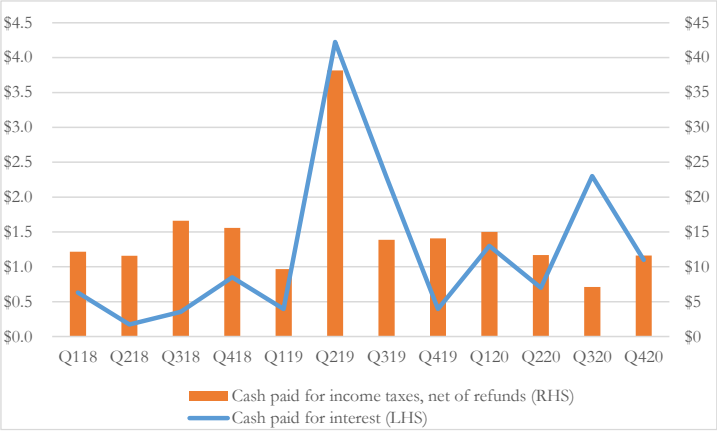
It's important to note one adjustment we've made to our cash tax payment numbers: In Q219, the company had an abnormally large cash income tax payment, and paid an abnormally large amount of cash interest. Later, in the 20-F for 2019, the footnotes indicate that a small subset of the 2019 cash interest payments included payments to tax authorities (the following numbers are for 2019, 2018, and 2017 in order):

Supplementary Cash Flow Information			
Interest and Income Taxes Paid			
Cash paid for:			
Income taxes, net of refunds	$ 75,790	$ 55,938	$ 67,544
Interest(2)	7,348	2,009	1,145

(1) The amounts under "Purchase of property and equipment, net", include proceeds of $9,676 relating to refund of betterment levy for the year ended September 30, 2019 ($4,776 of which was a refund to the noncontrolling interest), proceeds from sale of property and equipment of $151, $459 and $57 for the year ended September 30, 2019, 2018 and 2017, respectively.

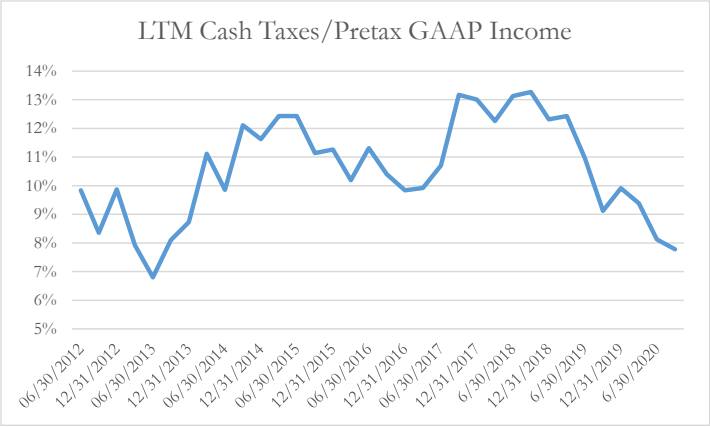
(2) The amounts under "Interest", include payments of interest to financial institution, tax authorities and other.

You can plainly see that cash paid for interest, while still substantial both before and after this quarter, spiked notably along with cash paid for income taxes in Q219:



We point all this out about Q219 because it's clear that this quarter was one in which the company was assessed back taxes (higher income taxes paid), and when this occurred, interest on the back taxes was due as well (higher cash interest paid). Our adjustment is merely to look through that Q219 tax assessment, which likely reflects back taxes owed over many years, and "deflate" the Q219 cash paid for income taxes to $15m which is consistent with other quarters around this time. This isn't a big needle-mover in the grand scheme of this analysis, but you need to understand it. (If we just used the reported cash payment number in Q219, that quarter's cash tax rate is 13%. With our adjustment, it's 9%.)

That minor adjustment noted, our numbers below show that every year, DOX has actually paid less than 12.5% of its pre-tax income in cash taxes, a remarkable achievement for any mature, profitable, global company in today's day and age. Over this period, DOX's cash tax rate as a % of pretax GAAP income has averaged about 10%, and over the past two fiscal years, about 8%:



Don't misunderstand: We are not accusing DOX of tax fraud. We are reasonably confident that the global tax authorities get the money they're owed over long time periods such as the one above. **What we think is happening is that the cash taxes are real, and that DOX's *real* cash tax rate is higher than 12.5%. These cash taxes are appropriate…they're just appropriate for a company with significantly smaller profits than what DOX reports in its GAAP financials.** Here's some additional evidence that makes us confident in this assertion, and helps explain why we don't think this is the result of DOX just having really sharp tax attorneys:

- Almost no large, multinational companies (a peer set of 400) incorporated in the US, Ireland, Cyprus, Guernsey or Israel, and excluding special tax situations such as master limited partnerships and REITs, have cash tax rates this low, year after year

- Almost no companies from this same peer set have cash tax rates that are consistently lower than their effective GAAP tax rates, year after year
- **Only ONE company of the >400 names besides Amdocs has met both conditions above for all of the past six years**: SiriusXM, a company with an enormous amount of tax loss carryforwards thanks to many years of negative profitability in the 1990s and 2000s. DOX, on the other hand, has been profitable basically forever. *No carryforwards for you!*

Here's how you can replicate this screen on Bloomberg or any other screening tool to see for yourself just how unusually low DOX's cash tax payments are, given its "supposed" profits. The tail end of the results, where DOX and SIRI sit, looks like this:

Exclude: Investment companies and financials
Utilities, Real Estate, Energy, and Financials
Companies without 6 yrs of numbers available
Companies with years of negative cash tax rates
Non-India, Israel, US, Cyprus, Guernsey and Ireland domiciled companies
Market cap under $5bn

Selected Screening Criteria	Matches
Security Universe	1489538
51) Trading Status: Active	518847
52) Security Attributes: Show Primary Security of company only	96568
53) Country of Domicile: India, Israel, United States, Cyprus, Guernsey, I...	25103
54) Sector (ICB): -Financials, -Real Estate, -Utilities, -Energy	17311
55) Current Market Cap [USD] > 5000 Million	831

(Sorted by)

		Yrs Below 14% Cash Tax Rate:	Yrs of Cash Tax Less Than Effective Tax:	Cash Tax Less Effective Tax:						Cash Tax Rate (Cash Taxes/Pretax GAAP Income):						Effective Tax Rate:		
Ticker	Short Name			Current	1yr Ago	2yrs Ago	3yrs Ago	4yrs Ago	5yrs Ago	Current	1yr Ago	2yrs Ago	3yrs Ago	4yrs Ago	5yrs Ago	Current	1yr Ago	2yrs Ago
USFD US Equity	US FOODS HOLDING	4	2	0%	2%	-2%	3%	4%	-9%	0%	27%	16%	3%	4%	4%	0%	25%	18%
HELE US Equity	HELEN OF TROY	4	2	6%	-5%	-13%	3%	3%	0%	14%	2%	4%	10%	16%	11%	8%	7%	17%
WAT US Equity	WATERS CORP	4	3	1%	0%	10%	-86%	-5%	-4%	16%	13%	23%	11%	8%	10%	15%	13%	13%
FB US Equity	FACEBOOK INC-A	4	4	1%	-5%	2%	-12%	-9%	-36%	13%	21%	15%	10%	10%	4%	12%	25%	13%
EW US Equity	EDWARDS LIFE	4	4	11%	-5%	24%	-30%	-9%	-7%	22%	5%	29%	14%	14%	14%	10%	10%	5%
PYPL US Equity	PAYPAL HOLDINGS	4	4	-6%	4%	0%	-13%	-11%	-3%	11%	22%	14%	5%	3%	15%	17%	18%	13%
UHAL US Equity	AMERCO	4	4	2%	-21%	11%	-31%	-18%	-2%	2%	1%	11%	6%	18%	35%	0%	22%	0%
FICO US Equity	FAIR ISAAC CORP	4	4	-4%	-2%	-11%	5%	-17%	10%	4%	9%	9%	21%	8%	31%	8%	11%	19%
AMZN US Equity	AMAZON.COM INC	4	5	-5%	-11%	0%	5%	-26%	-43%	7%	6%	11%	25%	11%	17%	12%	17%	11%
MLM US Equity	MARTIN MAR MTLS	4	5	-6%	-5%	-13%	25%	-9%	-19%	13%	14%	5%	25%	20%	11%	19%	18%	18%
ILMN US Equity	ILLUMINA INC	4	5	-9%	3%	-1%	-21%	-13%	-19%	14%	15%	11%	14%	11%	3%	23%	11%	13%
SAIA US Equity	SAIA INC	4	5	-16%	-12%	-21%	19%	-29%	-17%	6%	10%	1%	19%	7%	19%	22%	22%	23%
COO US Equity	COOPER COS INC	5	2	9%	6%	-52%	-1%	3%	1%	19%	8%	6%	4%	10%	6%	11%	2%	58%
VRSY US Equity	VERSA SYSTEMS-A	5	3	0%	2%	2%	0%	-20%	-29%	4%	6%	5%	9%	16%	2%	4%	4%	4%
RYA ID Equity	RYANAIR HLDGS	5	3	15%	6%	-3%	0%	-2%	-3%	18%	12%	7%	11%	7%	9%	3%	7%	10%
SNPS US Equity	SYNOPSYS INC	5	3	1%	0%	4%	-63%	-18%	1%	1%	2%	4%	2%	1%	21%	0%	2%	0%
NOC US Equity	NORTHROP GRUMMAN	5	4	-6%	1%	-6%	-20%	2%	-24%	8%	13%	7%	12%	26%	4%	14%	12%	14%
ANET US Equity	ARISTA NETWORKS	5	4	-3%	4%	6%	-2%	-8%	-13%	11%	4%	6%	9%	16%	5%	14%	0%	0%
LRCX US Equity	LAM RESEARCH	5	4	-4%	2%	-20%	-5%	-1%	4%	9%	12%	5%	2%	4%	15%	13%	10%	24%
TXN US Equity	TEXAS INSTRUMENT	5	5	5%	-2%	-6%	-10%	-27%	-29%	12%	10%	11%	30%	0%	0%	7%	12%	17%
MSI US Equity	MOTOROLA SOLUTIO	5	5	-3%	1%	-1%	-103%	-26%	-18%	15%	14%	11%	11%	8%	11%	19%	13%	12%
VRSN US Equity	VERISIGN INC	5	5	18%	-7%	-9%	-19%	-22%	-15%	18%	12%	12%	5%	2%	8%	0%	19%	20%
PLNT US Equity	PLANET FITNESS-A	5	5	15%	-16%	-18%	-86%	-13%	-13%	15%	6%	4%	1%	8%	6%	0%	22%	22%
UI US Equity	UBIQUITI INC	5	5	1%	-4%	-34%	-1%	-3%	-2%	17%	11%	3%	9%	8%	9%	16%	15%	38%
PHM US Equity	PULTEGROUP INC	5	6	-3%	-14%	-18%	-51%	-35%	-39%	15%	10%	7%	2%	0%	1%	19%	24%	24%
GNRC US Equity	GENERAC HOLDINGS	5	6	-8%	-2%	-9%	-10%	-31%	-32%	14%	19%	13%	12%	6%	5%	22%	21%	22%
NVDA US Equity	NVIDIA CORP	6	3	4%	0%	2%	-4%	-12%	-15%	6%	6%	2%	1%	1%	2%	2%	6%	0%
EA US Equity	ELECTRONIC ARTS	6	3	11%	4%	-24%	-16%	4%	-5%	11%	9%	4%	4%	4%	0%	0%	6%	28%
SWKS US Equity	SKYWORKS SOLUTIO	6	4	4%	2%	-21%	-7%	-3%	-10%	12%	13%	10%	13%	14%	12%	9%	11%	31%
ABMD US Equity	ABIOMED INC	6	4	-17%	0%	-27%	-41%	-41%	4%	4%	2%	3%	2%	1%	4%	21%	2%	30%
GM US Equity	GENERAL MOTORS C	6	4	-13%	-1%	2%	-92%	-17%	9%	9%	9%	8%	6%	6%	9%	22%	10%	6%
DISH US Equity	DISH NETWORK-A	6	5	-21%	-22%	-23%	2%	-35%	-31%	6%	2%	1%	2%	1%	1%	27%	23%	24%
TMUS US Equity	T-MOBILE US INC	6	5	-16%	-23%	-25%	1%	-36%	-20%	6%	2%	1%	1%	1%	6%	22%	25%	26%
AER US Equity	AERCAP HOLDINGS	6	5	1%	-12%	-12%	-12%	-9%	-12%	1%	0%	0%	2%	5%	1%	0%	13%	13%
MPWR US Equity	MONOLITHIC POWER	6	5	-2%	6%	-5%	-17%	-6%	-9%	1%	9%	6%	4%	2%	8%	3%	4%	11%
KYG ID Equity	KERRY GROUP-A	6	5	-1%	-1%	-5%	5%	-3%	-6%	12%	12%	7%	9%	9%	6%	13%	12%	13%
SIRI US Equity	SIRIUS XM HOLDIN	6	6	-61%	-23%	-17%	-47%	-30%	-41%	9%	1%	0%	2%	2%	1%	70%	24%	17%
DOX US Equity	AMDOCS LTD	6	6	-7%	-7%	-3%	-2%	-5%	-3%	8%	0%	13%	13%	10%	10%	15%	16%	16%

Note: FY19 DOX cash tax rate modified to exclude a back taxes payment; excluding this adjustment, rate was 13%

Our criteria was relatively simple. We weeded out all smallcaps by keeping market cap over $5bn, and we stuck to the countries where DOX has its apparently most important subs: the US, Israel, India, Ireland, Cyprus, and Guernsey. Aside from Guernsey, the lowest standard corporate tax rate of any of these countries is 12.5% (Ireland and Israel). As we have seen, these countries account for most of DOX's business activities, most especially Cyprus and Ireland, and no profits appear to be generated in zero-tax Guernsey.

We excluded financial services companies, closed-end funds, utilities, real estate, and energy companies, as all of these have large swaths of their subsectors with special (or no) taxes for different reasons. As a consistently profitable, low-capital-intensity, IT services company, DOX is not comparable to things like MLPs, REITs, etc.

We also stuck to companies who had full financials available for the current year and through 5 years prior. The screenshot above captures just the very bottom of the list, but there are 423 results in the whole screen.

We then looked at cash taxes paid, effective GAAP tax rates, and GAAP pretax income. We sorted the group first by how many of the past 6 years had a cash tax rate of less than 14% of pretax income, and second by how many of the past 6 years had cash tax rates that were less than that year's GAAP effective tax rate.

What we found was that only two companies went 6 for 6 in both criteria: DOX and SIRI. And in SIRI's case, this makes a lot of sense. From the SIRI 10-K:

Table of Contents

SIRIUS XM HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Dollars and shares in millions, except per share amounts)

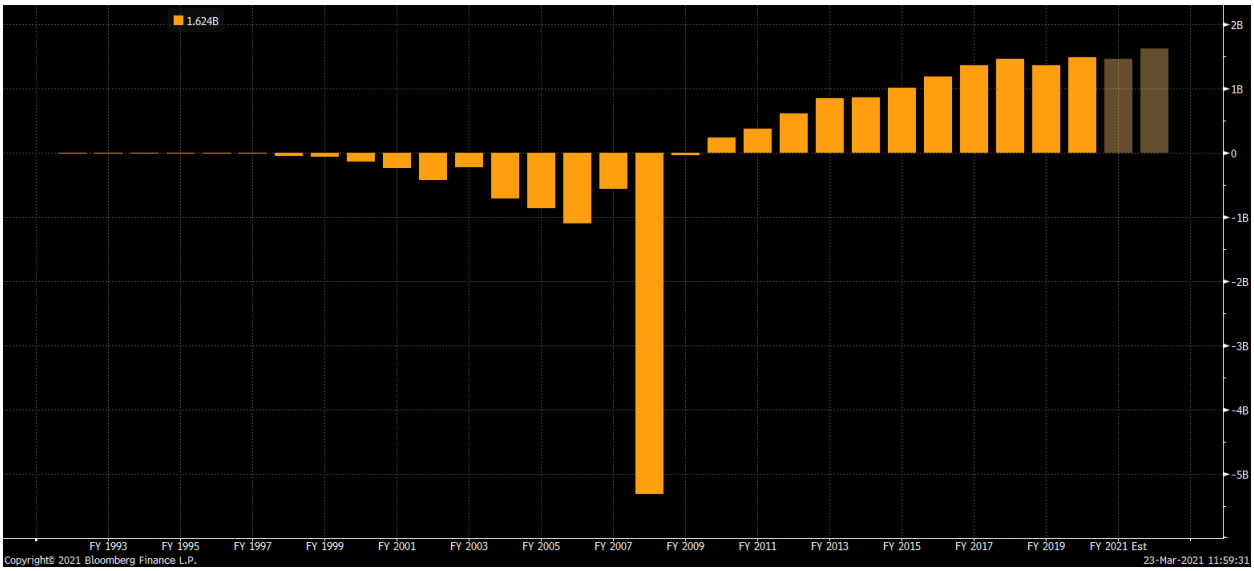
(18) Income Taxes

There is no current U.S. federal income tax provision, as all federal taxable income was offset by utilizing U.S. federal net operating loss carryforwards. The current state income tax provision is primarily related to taxable income in certain states that have suspended or limited the ability to use net operating loss carryforwards or where net operating losses have been fully utilized. Income tax expense is the sum of current income tax plus the change in deferred tax assets and liabilities.

We file a consolidated federal income tax return for all of our wholly owned subsidiaries, including Sirius XM and Pandora. Income tax expense consisted of the following:

	For the Years Ended December 31,		
	2020	2019	2018
Current taxes:			
Federal	$ —	$ —	$ —
State	(61)	(24)	12
Total current taxes	(61)	(24)	12
Deferred taxes:			
Federal	(219)	(229)	(259)
State	(19)	(30)	2
Total deferred taxes	(238)	(259)	(257)
Total income tax expense	$ (299)	$ (283)	$ (245)

What we can see from the image above is that SIRI – *the only other company in the relevant universe, besides DOX, to pay this low of a cash tax rate, pay less in cash taxes than it records in GAAP taxes, and do both for six years in a row* – defers most of its taxes thanks to massive net operating loss (NOL) carryforwards. And the image below shows why – this is SIRI's pretax income for the past 25 years:



SIRI lost enough money in the first half of its life to shelter nearly all of its taxes through the second half. So when SIRI pays this little in taxes, it has an obvious excuse. **What is DOX's excuse?**

We think it has none – and for that matter, doesn't need one. Our view, as articulated previously, is that investors are being shown overstated income. DOX doesn't owe tax money on profits it doesn't make. **DOX is not avoiding taxes, it's avoiding showing investors the truth.**

J. <u>What's the difference between Amdocs Ltd. and Burford Capital Ltd.?</u>

What's the difference between ignorance and apathy? I don't know and I don't care. - Anonymous

We wonder whether investors understand just how unusual it is for a company of Amdocs' size and business focus to have its parent company incorporated in Guernsey. Nearly all public companies of billion-dollar size that choose to incorporate their ultimate parent in Guernsey are closed-end funds or otherwise essentially passive investment companies (such as real estate holding companies). In fact, a quick search of companies whose ultimate parent is incorporated in Guernsey ("GG") yields the following:

	Selected Screening Criteria	Matches
	Security Universe	1489538
51)	Trading Status: Active	518847
52)	Security Attributes: Show Primary Security of company only	96568
53)	Ultimate Parent Country of Incorporation = "gg"	104
	Display Only Fields	104
54)	Current Market Cap [USD]	104
55)	ICB Subsector Name	104
56)	Add screening criteria	

Custom Universe (Equity Sc Actions Export Settings

Refine By <Countries, Sectors, etc.> Group By Securities

Overview Returns Valuation Estimates Actuals Credit Technicals

Page 1

	Name	Ult Prnt Cntry Incorp	Market Cap	ICB Subsector Name
			<Enter Filter>	
	Investable Universe (104)		723.90M	
31)	AMDOCS LTD	GG	10.47B	Software
32)	~~TEAMVIEWER AG~~	~~GG~~	~~9.00B~~	~~Software~~
33)	RENEWABLES INFRASTRUCTU...	GG	3.28B	Closed End Inv...
34)	SYNCONA LTD	GG	2.41B	Closed End Inv...
35)	BURFORD CAPITAL LTD	GG	1.85B	Mortgage Fina...
36)	HIPGNOSIS SONGS FUND LTD	GG	1.79B	Closed End Inv...
37)	GLOBALWORTH REAL ESTATE ...	GG	1.56B	Real Estate Ho...
38)	SIRIUS REAL ESTATE LTD	GG	1.35B	Real Estate Ho...
39)	UK COMMERCIAL PROPERTY R...	GG	1.32B	Diversified REI...
40)	APAX GLOBAL ALPHA LTD	GG	1.31B	Closed End Inv...
41)	CHRYSALIS INVESTMENTS LTD	GG	1.17B	Closed End Inv...

(Note: We crossed out Teamviewer AG, as Bloomberg made a mistake including this in the list. Teamviewer's ultimate parent company is in Germany.)

This list shows all of the companies with over US$1bn in market cap whose ultimate parent sits in Guernsey. There are only two companies on the list who are not either closed-end funds or real estate investment companies: **Amdocs, and Burford Capital.**

If Burford Capital sounds familiar, it's because short seller Muddy Waters publicly accused the company of financial fraud in August 2019. The stock price has yet to recover nearly two years later:

We don't mean to cast aspersions on the island of Guernsey as a haven for companies to do things as they see fit. We merely question the fact that a company of DOX's size, maturity, and business orientation would choose to incorporate, and remain incorporated, in this tiny island, when virtually no other sizeable, reputable, non-investment companies *in the entire world* have done so. We wonder if this decision is based on optimizing not for taxes, but for secrecy.

This observation dovetails nicely with our next section, which asks the questions: Where is all this excess cash DOX claims to have, anyway?

WHERE DID ALL THE CASH IN AMDOCS' SUBSIDIARIES GO, AND WHY DID AMDOCS HIDE ITS BORROWING?

Cash Balances: ($millions)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	
	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	13/31/19	
Amdocs Development Ltd (Cyprus - $1.5bn Revs)	$16.0	$61.0	$7.9	$43.1	$71.3	$10.9	$0.3	$0.4	$0.4	*assumed to be equal to FY18*
Amdocs Software Systems Ltd (IE - $1.2bn Revs)	$34.0	$35.0	$64.6	$30.4	$36.3	$41.7	$5.5	$0.4	$0.4	*assumed to be equal to FY18*
Amdocs Astrum Ltd (IE - Holding Company Only)	$0.1	$9.0	$1.0	$0.5	$0.2	$0.7	$0.0	$0.1	$0.1	*assumed to be equal to FY18*
	9/30/2011	9/30/2012	09/30/2013	9/30/2014	9/30/2015	9/30/2016	9/30/2017	9/30/2018	9/30/2019	
Amdocs UK Ltd (UK - $62m Revs)	$4.0	$2.0	$19.4	$20.7	$13.3	$6.7	$0.0	$0.0	$0.0	
Amdocs Management Ltd (UK - $49m Revs)	$6.0	$9.0	$12.5	$28.6	$15.8	$18.0	$8.0	$3.9	$0.7	
Amdocs Systems Group Ltd (UK - $21m Revs)	$0.4	$0.0	$0.2	$0.2	$9.2	$5.0	$0.0	$0.0	$0.0	
Amdocs Systems Ltd (UK)	$1.0	$0.7	$2.2	$11.1	$5.9	$0.0	$0.0	$0.0	$0.0	
Amdocs Systems Europe (UK)	$3.0	$7.0	$6.6	$3.6	$3.6	$0.0	$0.0	$0.0	$0.0	
Cvidya Networks UK Ltd (UK - Acq FY16 - $2m Revs)	NM	NM	NM	NM	NM	$1.0	$0.0	$0.0	$0.0	
Ignis UK Investment Ltd (UK - Holding Company Only)	$0.2	$0.3	$0.3	$0.3	$0.3	$0.4	$0.0	$0.0	$0.0	
Vubiquity Management Ltd (UK - Acq FY18 - $55m Revs)	NM	NM	NM	NM	NM	NM	$6.5	$2.2	$0.1	
Openmarket Ltd (UK - $62m Revs)	$9.0	$4.0	$6.8	$6.8	$8.3	$1.5	$1.0	$0.0	$0.1	
European Support Ltd (UK - $13m Revs)	$7.0	$11.0	$7.4	$10.1	$14.2	$8.8	$7.8	$5.6	$3.4	
Total Cash Balance Identified in Subs	**$81**	**$139**	**$129**	**$155**	**$178**	**$95**	**$29**	**$13**	**$5**	
Amdocs Consolidated Cash Interest Payments on Cash Flow Statement (Cal Yr)	**$0.5**	**$0.5**	**$0.5**	**$0.6**	**$0.5**	**$0.6**	**$1.4**	**$1.8**	**$8.2**	
Amdocs Implied Debt Value if Borrowing at 2%	**$25**	**$25**	**$25**	**$30**	**$27**	**$32**	**$69**	**$89**	**$410**	
Cash Balance Reported by Amdocs to Investors (SEC Filings)	**$925**	**$961**	**$1,212**	**$1,269**	**$1,186**	**$940**	**$966**	**$459**	**$486**	

If profits are missing *and* a balance sheet is weak *and* opqaue, that's when problems start brewing for stockholders and bondholders alike.

The full story of Amdocs' misrepresentations has not been limited to matters of its earnings, but rather extends to that most sanctified section of the balance sheet as well: the cash balance. We believe that Amdocs has either a problem with its cash being trapped or a problem with its cash balance being outright overstated (although admittedly lower likelihood, you can think of Wirecard as an analogy for the latter scenario). In the former scenario, this would be a problem in that it has not been communicated to investors and means the company has little to no net cash, despite recently selling a division; in the latter it would be even worse.

It is impossible to know exactly what has been transpiring with Amdocs' cash, but we are confident in two things:

1. Amdocs has taken numerous, expensive, and even bizarre steps to procure cash that are completely inconsistent with supposedly having ~$500m in cash freely available for its use; and
2. Amdocs has consistently misrepresented to investors the state of its balance sheet with respect to its cash and debt levels. On this point, we believe the misrepresentation is intentional, as it would be difficult to achieve this degree of misrepresentation by accident.

A. What we're told: Amdocs needs $500m minimum cash to "smoothly fund operations"

I got drunk and then got my picture taken. So that way, when I get pulled over for drunk driving I look the same as my license. – Peter Griffin

Amdocs supposedly wanting to keep **five hundred million dollars** sitting around idle for a rainy day…reminds us of Peter Griffin's getting his driver's license picture taken while drunk. In both cases the protagonist wants to have an excuse for what's likely to happen later: Peter Griffin will drive drunk, and Amdocs will "choose" not to return much capital, or do a bizarre and "unnecessary" bond issuance, below the $500m mark.

Amdocs management has periodically alluded to a curious $500m "minimum cash required" to run their business and have a buffer against business challenges. Interestingly, despite the size of the balance sheet not changing dramatically from the early 2000s to the mid-2010s, management started mentioning this supposed

minimum required cash balance publicly only in early 2011. (Quotes to this extent can be found in the "Sources" appendix.[9])

Let us be crystal clear in saying that we see absolutely nothing wrong, nefarious, suspicious or even unusual about a company indicating that it likes to keep some extra cash on hand for a rainy day. We do think keeping half a billion dollars of cash on hand, for a company of Amdocs' size and operations, is a little excessive, but it's not newsworthy. The problem we have is that as Amdocs' stated cash balance got close to this stated floor, some very strange things started happening that **conflict with the idea that there was still $500m left.** Let's start with what the subsidiary filings tell us.

B. Problem: Subsidiary cash balances around the world run down to virtually nothing

If Amdocs believes that it needs all this cash in its business to run things smoothly, why would it strip virtually all the cash out of so many of its subsidiaries? Wouldn't that be exactly where you'd want this "idle buffer cash" to sit – at the operating companies which need working capital, and which operated for years prior with substantial cash balances?

Let's look at two pairs of balance sheets of major subs, right next to one another. Notice the sharp drop in cash at both companies from FY15 to FY18. First, Cyprus:

Amdocs Development Ltd
STATEMENT OF FINANCIAL POSITION
As at 31 December, 2016

	Note	2016 US$	2015 US$
ASSETS			
Non - current assets			
Intangible assets	7	257.976.414	267.870.799
Fixed assets	8	1.510.183	1.158.730
Investments in subsidiary companies	9	3.676.630.493	1.535.552.532
Derivative financial instruments	10	1.117.997	-
Long term debtors	11	216.577	253.953
Loans receivable	12	632.184	500.166.138
		3.938.083.848	2.305.002.152
Current assets			
Taxation refundable	5	1.439.697	-
Inventory	6	1.437.104	-
Derivative financial instruments	10	3.079.341	-
Loans receivable	12	82.702.262	156.191.439
Accounts receivable and prepayments	13	195.048.278	242.910.577
Restricted bank deposit		59.333	61.127
Cash and cash equivalents	14	10.874.817	71.304.235
		294.640.832	470.467.378
Total assets		4.232.724.680	2.775.469.530

[9] "Quotes from Management about cash minimum" section of Appendix II

AMDOCS DEVELOPMENT LIMITED

STATEMENT OF FINANCIAL POSITION
31 December 2018

	Note	2018 $	2017 $
ASSETS			
Non-current assets			
Property, plant and equipment	12	**4.817.686**	3.100.734
Intangible assets	13	**300.940.368**	282.830.016
Investments in subsidiaries	14	**3.270.433.400**	3.445.857.654
Financial assets at fair value through other comprehensive income	15	**4.055.000**	-
Derivatives	16	**222.674**	2.650.550
Trade and other receivables	19	**814.333**	245.426
Deferred tax assets	23	**2.186.171**	-
		3.583.469.632	3.734.684.380
Current assets			
Inventories	18	**1.651.092**	1.595.604
Trade and other receivables	19	**494.177.652**	325.981.172
Loans receivable	17	**311.941.841**	250.464.127
Derivatives	16	**593.145**	11.652.198
Refundable taxes	25	**1.428.514**	251.408
Cash at bank and in hand	20	**409.669**	263.189
		810.201.913	590.207.698
Total assets		**4.393.671.545**	4.324.892.078

Second, ASSL in Ireland, another huge sub, will show you the same thing, with cash dwindling rapidly over the last four years of data through 2018 (see appendix in the interest of saving space).[10] You can probably already see where this analysis is going. The cash balances at the two subs, from FY15 to FY18 respectively, were:

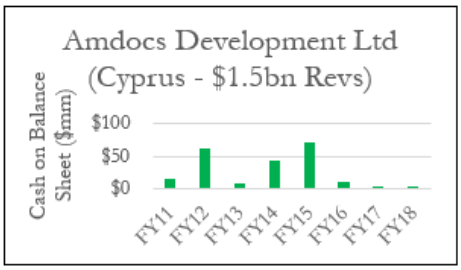
- Cyprus: $71m, $11m, $0m, $0m
- Ireland: $36m, $42m, $5m, $0m

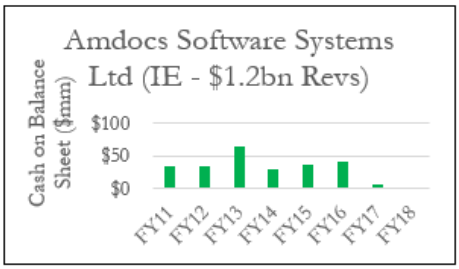
We looked at the historical trend in cash balances for a wide variety of subsidiaries of Amdocs. And, similar to the results of the analysis we did on the mismatch between subsidiary and parent profits, we found that FY16 was the beginning of a concerning inflection in the numbers.

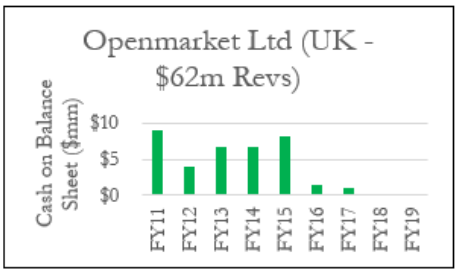
Most concerningly, it didn't matter whether a subsidiary was large, small, or even tiny – virtually all followed the same trend. The sub with $65m in cash in 2013 was down to $6m at year-end 2017; the sub with $500k in cash in 2014 was down to $2k in cash by year-end 2017. Look at the table at the front of this section and tell us you don't see a business running low on cash in every corner by the end of FY18 and into FY19. Where is the "comfortable cash cushion" Amdocs likes to keep on hand?

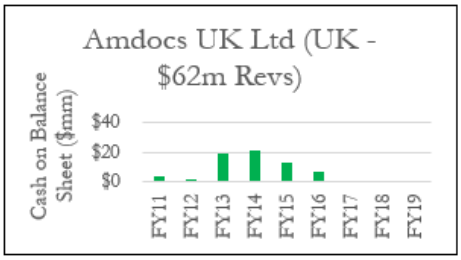
For more visual learners, we turned the table at the beginning of this section into individual charts below, but only for the subs that have meaningful histories available. Each chart ends in the last fiscal year for which that sub has an available balance sheet **– therefore, yes, if you see nothing in a given year, it does in fact mean there was too little cash on the balance sheet to show up in the chart in that year**:

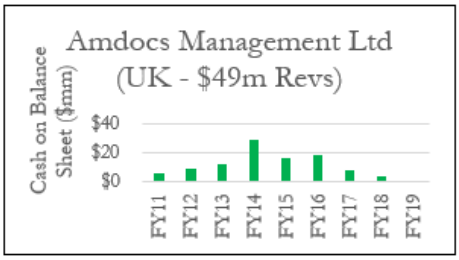
[10] Image 4 and 5 in "Sources" Appendix

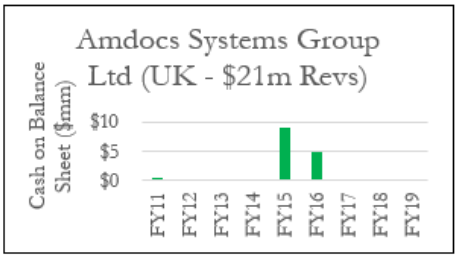


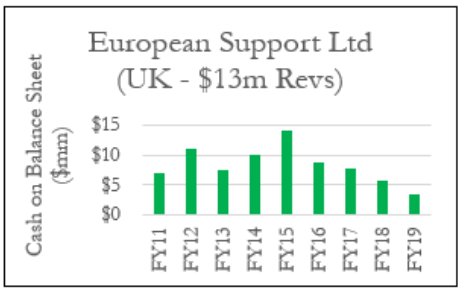


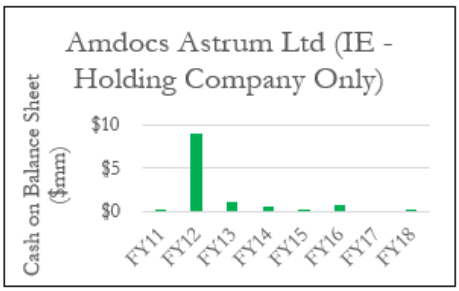


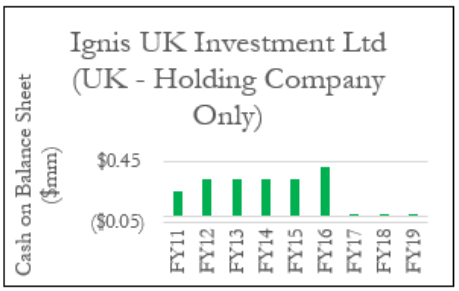


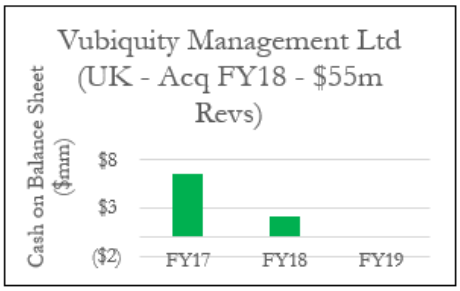


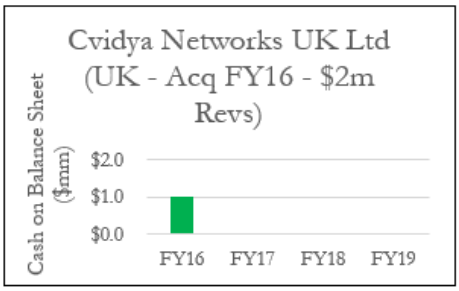








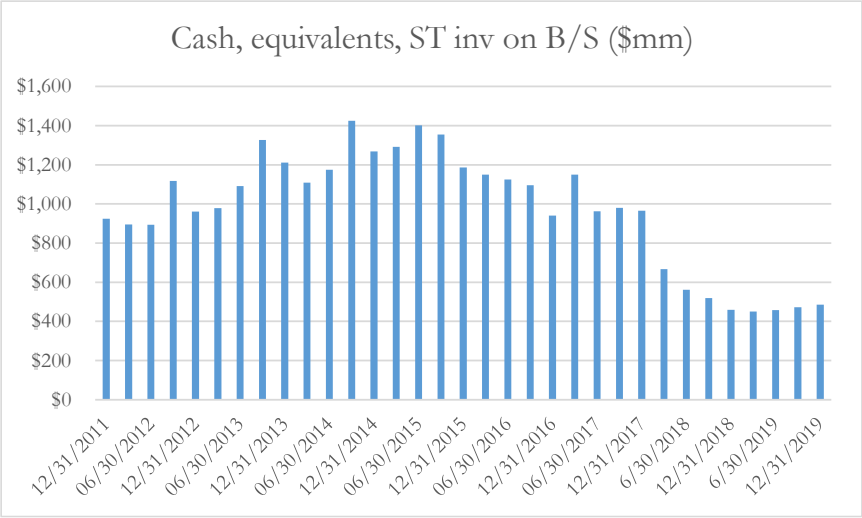




Now, aside from the fact that all of these companies have dwindling or even virtually no cash and all are part of the Amdocs family, what do these companies all have in common? Not a lot, actually – and that's the point. They're in different countries, they're of widely differing sizes, they serve different functions, some are non-trading, shell companies, etc. **Yet in or around FY16, cash started flowing out of all of these subsidiaries, which left most of them with nearly no cash. Does this look to you like a company that's got hundreds of millions of dollars in cash sitting on the balance sheet…or inclined to keep "extra" cash on hand at its businesses?**

(Before you ask: No, we didn't cherry-pick these subs. We presented the cash balances for every sub we could find with more than one financial statement available in the past three years – hence why the large Amdocs sub in India, for instance, is not presented in chart form. But India hasn't historically held a lot of cash either – approximately $15m in its last available balance sheet in March 2016.)

Here's the "official" cash and short-term investments balance for DOX, the parent company's consolidated financials, through the last quarter before COVID (we'll explain shortly why COVID changed things):



Source: DOX 20-Fs and 6-Ks

If you've been following closely you might immediately notice something: At around the same time when the cash in the subs started falling, the reported cash on the consolidated/parent company balance sheet started falling too. No surprise there. And by late 2018, at which time the largest subs had basically run out of cash, the cash balance at the parent company had fallen just below the "stated minimum floor" that DOX says it needed to run its business smoothly. **We don't think this is a coincidence – and in fact, we think it's the entire point.**

We believe that when Amdocs management says "we need a minimum of around $500m to run our business smoothly and fund operations," what they actually mean is, "our cash balance may say X, but the real number is X-minus-$500m, at least for all practical purposes that investors care about." In other words, we think there's a hole in the balance sheet.

Now, maybe the cash is "there" and just trapped in some way – we can't be sure – or maybe it's actually not there at all. This is why we say "for all practical purposes." Trapped cash that is technically sitting in, say, Guernsey with no practical way to access it for capital return, debt paydown, or other business purposes is useless. **We believe that Amdocs management has been misleading investors for years as to the availability of its cash.**

Management spoke specifically to this issue once, to our knowledge, on an earnings call in May 2012. This is nine years ago, but the denial of "trapped cash" is entirely pertinent today. As of 2012, management had already started talking about its "$500m minimum cash balance," which we believe is essentially code for the approximate amount of Amdocs' cash that is trapped:

> *Q - David Kaplan, Analyst:*
>
> *Can you talk a little bit now that you've increased your distribution by adding the dividend, can you talk about if there's any impact on the Israeli side from tax shelters that you have with the Office of Chief Scientist?*
>
> *A – Amdocs CFO:*
>
> *We don't have any problems with the Chief Scientist in Israel, not relevant to us at all.*
>
> *Q - David Kaplan:*

Okay. So as -- so you don't -- is that to say that you no longer have approved status there as an approved business?

A – CFO:

We have an approved enterprise established for tax -- income tax purposes, which is something else. Our cash is not held necessarily in Israel. ***We are domiciled in Guernsey and the bulk of the cash is actually under the ultimate parent company. So no limitations or no offshore trapped cash issues that should worry you.***

A – Amdocs CEO:

The short version David is we don't see any problem with that at all.

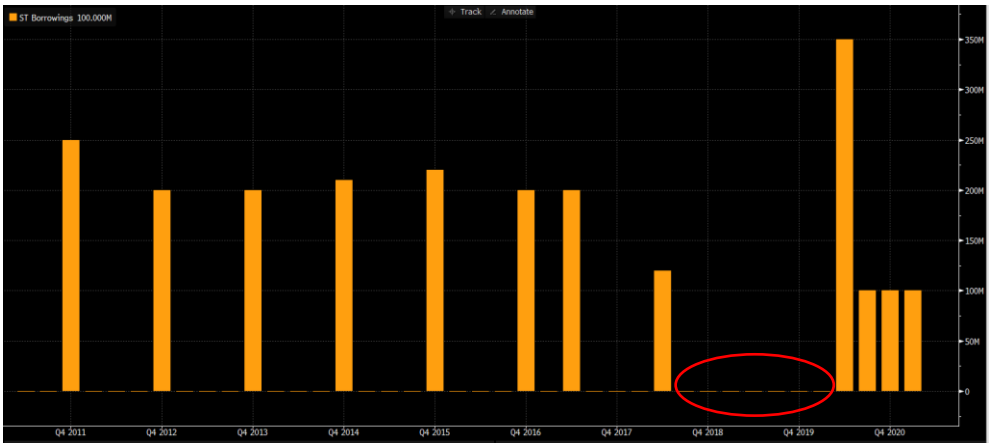
Here is the issue we see with this. We cannot say for sure whether all this cash simply doesn't actually exist in Guernsey or anywhere else, or that it does exist but is trapped and unavailable for use by Amdocs for some reason – but this is a distinction without a difference. **Amdocs has explicitly told investors that it has no trapped cash issues; it has made zero disclosure (to our knowledge) about any overseas cash being unavailable for corporate use or debt coverage; we are reasonably certain that Amdocs bondholders are not aware that a large, perhaps huge, chunk of the cash currently sitting on the balance sheet is unavailable due to tax, regulatory, or other reasons; and we are even more certain that virtually no Amdocs stockholders or bondholders have been informed by Amdocs of this concerning bleed-out of cash from so many subsidiaries.**

In the rest of this section, we will demonstrate the strange and, sometimes, desperate and value-destructive measures that Amdocs has taken both to shore up its flagging cash balances and to hide from investors its very need to do so. We have concluded that Amdocs has been quietly borrowing for years, and we believe that it has taken great pains to keep this fact secret from investors. We further believe that Amdocs' cash accessibility issues have only grown in importance since it borrowed $750m using vague and shifting justifications.

C. Solution: DOX begins borrowing to fill the hole in the subs, and hiding the debt

There is nothing wrong with borrowing money – but there is something wrong with hiding it from investors.

Aside from a handful of periodic (and poorly explained) borrowings around fiscal year-ends, the company never showed any debt on its balance sheet until the COVID pandemic hit in 2020. This is the last forty quarters of short-term debt as reported by DOX – note that there was no long-term debt until DOX's bond issuance in 2020 (not shown), and note the spike in debt in Q220 from the revolver draw prior to that bond issuance. Note also that there is a long period with no borrowings shown whatsoever:



(Source: Bloomberg)

According to management, all of these periodic borrowings were for "short-term funding purposes" and **repaid in weeks** between quarter-end and the earnings call. One such mention from Q416's earnings call:

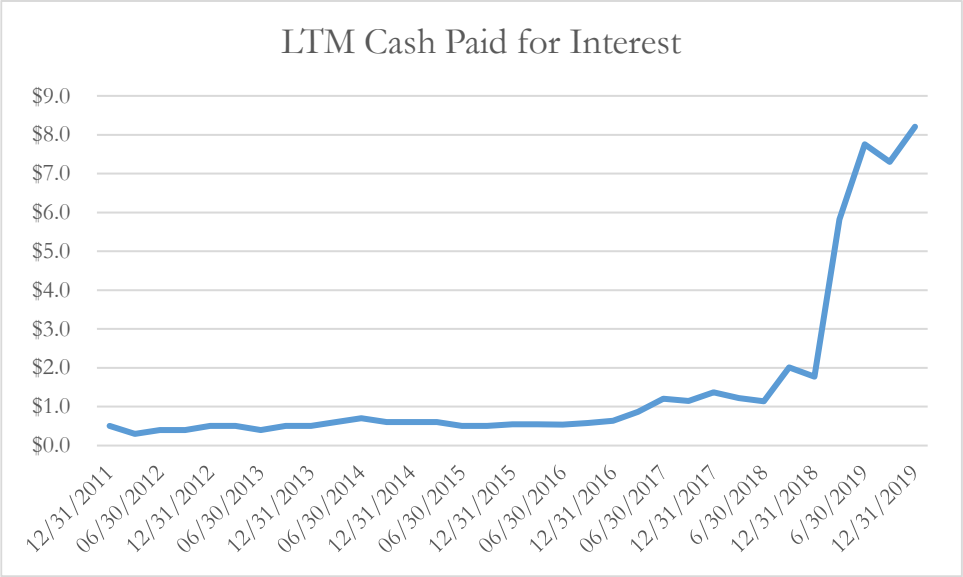
> *We drew down $200 million on our credit facility in Q4 for short-term funding purposes, and the balance has since been fully repaid.*

Amdocs management never elaborated on this, always addressing it with a sentence or two in the prepared remarks. The impression it leaves was that Amdocs had some one-off borrowing need for short periods at the end of each year. **Were this the case, it would be no big deal – but this is not the case.** In fact, we can show that Amdocs was borrowing tens and eventually hundreds of millions of dollars, and carrying that balance throughout the year. We know this because the company has been paying cash interest payments regularly. From the FY16 statement of cash flows, at the very bottom, showing FY16, 15 and 14 left to right:

Supplementary Cash Flow Information			
Interest and Income Taxes Paid			
Cash paid for:			
Income taxes, net of refunds	$ 50,407	$ 51,141	$ 59,216
Interest	576	548	628

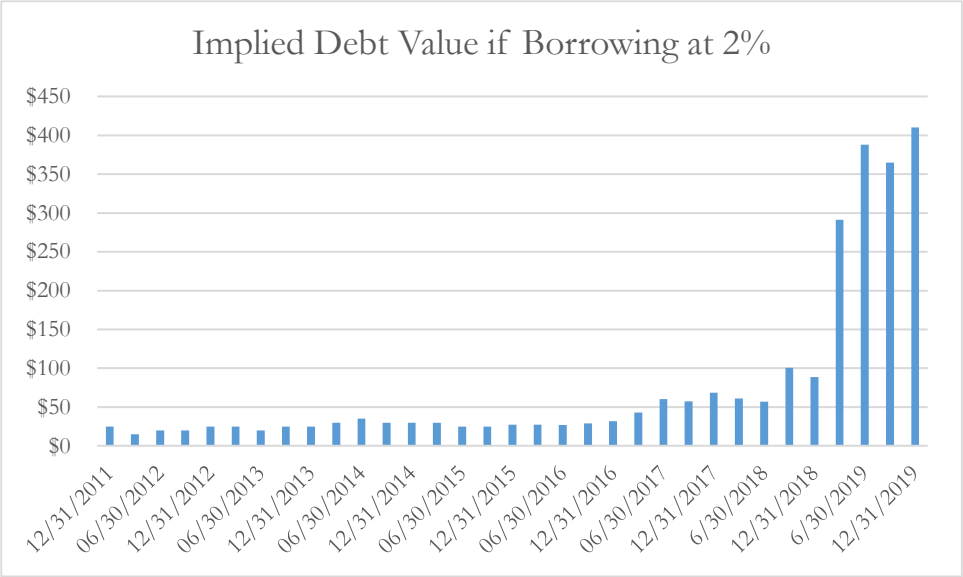
For a company of Amdocs' size, ~$600k in annual cash interest payments isn't exactly a needle-mover. What's a little odd about this is that, if we assume a 2% interest rate on DOX's borrowings during this time, it implies $30m or so of debt carried on the books for an entire year. The reason this fact alone is odd is that it doesn't exactly comport with the narrative above about DOX borrowing $200m just once a year, for a few weeks at a time, and then quickly paying it off. Weird, but not worth a lot of brain damage.

Here's where things get weird. Amdocs' cash interest payments hovered at that $500-600k range for years, but then began rising in – you guessed it – 2016. Here's the rolling LTM cash paid for interest in millions for Amdocs from 2011 through 2019 (so, right through the end of the pre-COVID era), during which time the company *ostensibly* had no meaningful debt:



Note: A minor but uncertain portion, as discussed previously in the section on income tax oddities, of the interest payment relates to back taxes for Q219. We estimate that up to ~$2m of LTM interest in 2019 may be due to this non-borrowing factor.

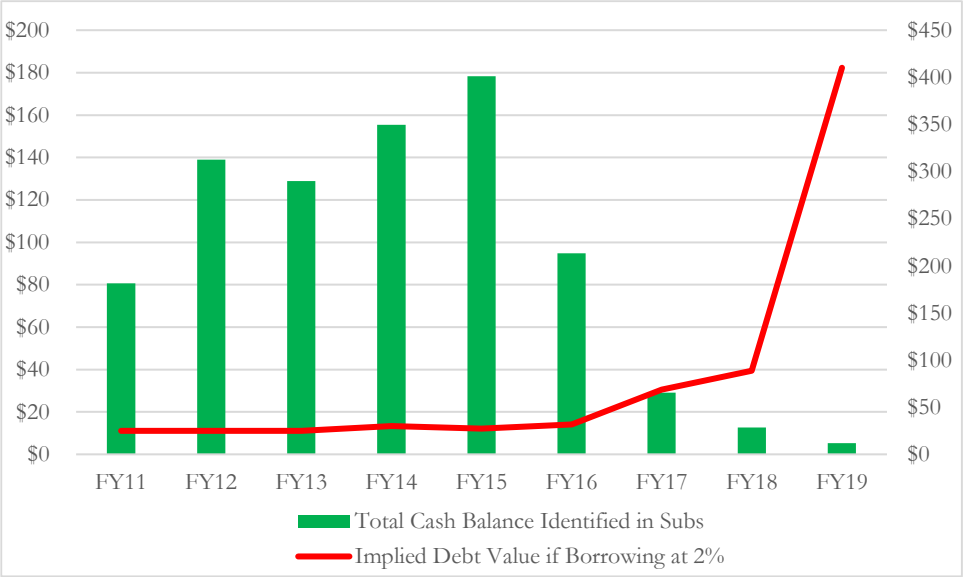
Here's what level of ongoing debt those cash interest payments imply if the company had been paying 2% on its debt this entire time:



Note: Similar to the prior chart, if up to ~$2m of interest payments in 2019 were for a non-borrowing reason, this debt balance could be deflated by up to ~$100m at its peak.

Again, these charts are all showing the years *before* Amdocs officially borrowed money using COVID as cover. Now why would Amdocs have gone from a basically immaterial level of debt through the first half of the 2010s…to around $100m in debt in 2018…to $300-400m exiting FY19…and yet continue to show ZERO debt on its balance sheet the entire time, except for these "short-term funding needs" mini-draws on its revolver…while ostensibly having north of $400m in idle cash and liquid investments on the books at all times?

Let's next look at the implied debt balance above, but on an annual rather than quarterly basis, overlaid with the known aggregate cash balance of our group of subs previously mentioned, in the same chart on two different axes:



And the source inputs:

Cash Balances:	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	
	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	13/31/19	
Amdocs Development Ltd (Cyprus - $1.5bn Revs)	$16.0	$61.0	$7.9	$43.1	$71.3	$10.9	$0.3	$0.4	$0.4	*assumed to be equal to FY18*
Amdocs Software Systems Ltd (IE - $1.2bn Revs)	$34.0	$35.0	$64.6	$30.4	$36.3	$41.7	$5.5	$0.4	$0.4	*assumed to be equal to FY18*
Amdocs Astrum Ltd (IE - Holding Company Only)	$0.1	$9.0	$1.0	$0.5	$0.2	$0.7	$0.0	$0.1	$0.1	*assumed to be equal to FY18*
	9/30/2011	9/30/2012	09/30/2013	9/30/2014	9/30/2015	9/30/2016	9/30/2017	9/30/2018	9/30/2019	
Amdocs UK Ltd (UK - $62m Revs)	$4.0	$2.0	$19.4	$20.7	$13.3	$6.7	$0.0	$0.0	$0.0	
Amdocs Management Ltd (UK - $49m Revs)	$6.0	$9.0	$12.5	$28.6	$15.8	$18.0	$8.0	$3.9	$0.7	
Amdocs Systems Group Ltd (UK - $21m Revs)	$0.4	$0.0	$0.2	$0.2	$9.2	$5.0	$0.0	$0.0	$0.0	
Amdocs Systems Ltd (UK)	$1.0	$0.7	$2.2	$11.1	$5.9	$0.0	$0.0	$0.0	$0.0	
Amdocs Systems Europe (UK)	$3.0	$7.0	$6.6	$3.6	$3.6	$0.0	$0.0	$0.0	$0.0	
Cvidya Networks UK Ltd (UK - Acq FY16 - $2m Revs)	NM	NM	NM	NM	NM	$1.0	$0.0	$0.0	$0.0	
Ignis UK Investment Ltd (UK - Holding Company Only)	$0.2	$0.3	$0.3	$0.3	$0.3	$0.4	$0.0	$0.0	$0.0	
Vubiquity Management Ltd (UK - Acq FY18 - $55m Revs)	NM	NM	NM	NM	NM	NM	$6.5	$2.2	$0.1	
Openmarket Ltd (UK - $62m Revs)	$9.0	$4.0	$6.8	$6.8	$8.3	$1.5	$1.0	$0.0	$0.1	
European Support Ltd (UK - $13m Revs)	$7.0	$11.0	$7.4	$10.1	$14.2	$8.8	$7.8	$5.6	$3.4	
Total Cash Balance Identified in Subs	**$81**	**$139**	**$129**	**$155**	**$178**	**$95**	**$29**	**$13**	**$5**	
Amdocs Consolidated Cash Interest Payments on Cash Flow Statement (Cal Yr)	**$0.5**	**$0.5**	**$0.5**	**$0.6**	**$0.5**	**$0.6**	**$1.4**	**$1.8**	**$8.2**	
Amdocs Implied Debt Value if Borrowing at 2%	**$25**	**$25**	**$25**	**$30**	**$27**	**$32**	**$69**	**$89**	**$410**	
Cash Balance Reported by Amdocs to Investors (SEC Filings)	**$925**	**$961**	**$1,212**	**$1,269**	**$1,186**	**$940**	**$966**	**$459**	**$486**	

(Source: National corporate registries for countries where subs are housed)

There is no question in our minds about what happened here: Amdocs ran low on cash across its business starting in FY17, responded to its cash needs by borrowing, never clarified to investors that its reported cash balance at the parent company was a misleading number, and found a way to keep debt from materializing on its balance sheet for many quarters in a row, and for most quarters prior to Q218. And we think it still is misrepresenting its cash balance – holes in balance sheets don't just disappear on their own. Hence why we're asking the question: Is the cash just trapped, or is it even there at all?

Now, given that Amdocs appears to have been borrowing up to hundreds of millions of dollars, we have to ask ourselves why it just so happened that Amdocs virtually never appeared to show any meaningful debt on its balance sheet for years and year. (Again, the periodic $200m borrowings were explained away as being very brief stopgaps for an unknown purpose. We hope this goes without saying, but there's no way that borrowing $200m for a few weeks once a year can explain this level of interest payments. And what should also go without saying is the fact that Amdocs' largest borrowings seem to have taken place in FY19, a year during which no debt showed up on any of the balance sheets, even at year-end.) **We think the continual absence of debt on Amdocs' balance sheets was by design, in order to trick investors into believing that Amdocs' cash position is something it's not.**

Given the magnitude of debt that Amdocs' interest payments suggest, we don't think the possibility of the company just coincidentally never needing to carry any of that debt through the last day of any quarters, for a dozen or more quarters at a time, makes any sense at all. We think the best explanation is that the company has been "window-dressing" the balance sheet – that is, paying down its debt just prior to the end of each quarter, therefore showing a debt-free balance sheet on that day, and then re-borrowing the money shortly thereafter. Otherwise, where do millions of dollars in annual interest payments come from in a low-rate world?

Aside from the remarkable surge in interest costs while Amdocs ostensibly had no debt on its balance sheet, there are some other actions that circumstantially demonstrate Amdocs' precarious funding position. In the rest of this section, we will learn plenty from Amdocs' interest (no pun intended) in acquiring more cash via methods that cost a little, or a lot, of money, and which we don't think the company would pursue if it had hundreds of millions in cash available.

D. Why has the Cyprus shared services center sent so little cash to the parent in the past decade?

Remember the quote above in which the CFO remarked that "the bulk" of DOX's cash is in Guernsey, where parent Amdocs Ltd. is located? We wonder how the parent company has been able to keep itself so flush with cash, when the sub seemingly responsible for funding the other subsidiaries has sent such a tiny amount of money to the parent over the years?

Recall, Amdocs' "shared services center," Amdocs Development Ltd., is in Cyprus, but the employee base of Amdocs is located primarily in India, Israel, and the US. Most other companies in the Amdocs family "buy" services from Cyprus, which we think is just a creative tax scheme meant to shift profits into the Cyprus sub. These other subsidiaries pay a lot for these services, such that the profit margin is shifted into Cyprus. Imagine Amdocs Inc., in the US, buying photocopying services from Cyprus for $500 a page. Cyprus makes a lot of money at the expense of US, therefore "shifting" profits out of the US (corporate tax rate high) and into Cyprus (corporate tax rate low). Amdocs not only offshores people, it offshores profits.

This structure results in Cyprus taking in a lot of money from Amdocs subs around the world, first and foremost from Ireland which is where the most money comes into (even though Ireland has very few employees):

26.2 Receivables from related parties (Note 19)

Name	2018 $	2017 $
Amdocs (UK) Ltd	**6.289.266**	19.472.388
Amdocs (USA) Inc.	**224.550**	846.484
Amdocs Software Systems Ltd	**225.389.585**	144.317.631
Amdocs Software Solutions Kft	**98.161.790**	68.304.818
Amdocs Canadian Managed Services Inc.	**17.387.308**	17.052.589
Amdocs Advertising and Media Emea APS	**276.639**	590.320
Amdocs South Africa Joint Enterprises (PTY) Ltd	**5.521.032**	9.083.062
Amdocs Management Ltd UK	**1.510.073**	7.392.287
Hungarian Innovation Systems Kft	**6.032.638**	3.479.382
Amdocs Solutions Ltd	**2.739.301**	5.084.127
Amdocs (France) SAS	**-**	1.456
Pontis Ltd	**5.892.371**	3.559.485
Amdocs (CR) Sro	**-**	73.879
cVidya Networks Inc.	**1.039.275**	843.180
cVidya Networks UK	**3.638.776**	1.866.846
Amdocs Ecuador S.A.	**4.046.608**	3.754.227
Amdocs Australia	**-**	525.347
Amdocs Singapore Pte Ltd	**8.660.078**	11.624.271
Utiba India	**-**	500.000
Actix INC	**210.120**	1.002.414
Brite Bill Limited	**3.082.522**	-
Amdocs Tethys LTD	**77.636.881**	-
	467.738.813	299.374.193

And then Cyprus, which has received all this cash from subs around the world, disburses these funds to the subs where the business costs (wages, mainly) are. Therefore, Cyprus sends the most money to where the most employees work: India, Israel, and the US (shout-out to Phillippines too):

26.4 Payables to related parties (Note 24)

Name	2018 $	2017 $
Amdocs Ltd	1	130.365
Amdocs (Israel) Ltd	316.300.126	194.349.130
Amdocs Development Centre India Private Ltd	96.415.839	26.434.940
Amdocs (France) SAS	14.264	-
Amdocs Spain S.L.U	158.219	1.466.777
Amdocs (Networks) Ltd	-	1.867.199
Amdocs Development Centre Delhi Ltd	27.201.446	22.163.512
Amdocs (CR) Sro	398.645	-
Amdocs Development Centre India Private Ltd SEZ (IT & ITES)	27.400.075	49.488.530
Amdocs Romania	32.986	-
Amdocs Australia	366.335	-
Amdocs Software (Beijing) Co. Ltd	1.091.239	699.722
Amdocs (Poland) Sp. Z.o.o.	301.864	324.718
Amdocs Management Ltd IL	12.182.998	465.051
PT Software Solution	635.551	764.318
Amdocs Bulgaria EOOD	1.337.636	1.029.374
Amdocs Systems Integration EPE	123.653	102.811
Amdocs Systems AB	220.140	390.997
Amdocs Philippines Ltd	10.976.751	4.188.727
Cramer Systems Group Ltd	4.154.809	2.581.090
Amdocs INC	93.191.219	27.379.246
Jnetx Software	222.729	46.878
Utiba India	2.418.234	-
UXP	2.866.244	-
Projekt202	1.050.033	-
Amdocs IT Services LLC	1.796.470	-
ESL South Africa	60.434	-
Amdocs Software Services Americas	9.352.900	-
	610.270.840	333.873.385

But wait…if Cyprus is sending all this money to these operating subs, ostensibly to pay the wages/rent/etc. associated with these many employees…how much money is left over to send to the parent in Guernsey?

Well, apparently $1 in 2018, and $130k in 2017.

These numbers struck us as remarkably small, so we went back and looked at old filings from Cyprus as well to see if 2017 and 2018 were just flukes. They weren't. **Cyprus has not sent meaningful cash to Guernsey in at least the past decade through the last available statement in FY18:**

Related parties (continued)

Amounts due to related companies (Note 18)	2016 US$	2015 US$
Amdocs Ltd	47.958	-
Amdocs (Israel) Ltd	125.824.888	121.190.289

Amounts due to related companies (Note 16)	2014 US$	2013 US$
Amdocs Ltd	13.432	-
Amdocs (Israel) Ltd	119.686.682	159.116.358

Amounts due to related companies	2012 US$	2011 US$
Amdocs Ltd	14.817	12.290
Amdocs (Israel) Ltd	170.117.917	177.552.728

So we're left wondering: **If Guernsey has all this cash, where is it coming from?** It wouldn't make very much sense for Cyprus to send money to Israel only to send it to Guernsey later. And Cyprus certainly isn't doing much to refill its own cash register, as we have seen.

Also, we have to ask this question: Amdocs has almost as many employees in the US as it does in Israel. So why does it appear that Cyprus is sending more than (sometimes far more than) THREE TIMES the amount of cash to Israel that it is to the US? Are Israeli employees really that highly paid? **Or is something else going on here, something that might explain why Amdocs ran out of cash in so many subs, yet claimed to be flush with cash?** Could this not be an issue of trapped cash, but…an issue of disappearing cash that found a home outside of the company?

E. Divesting the crown jewel for half the parent multiple, also known as a fire sale

Beyond the proof we've seen of disappearing cash in subs and borrowing at the parent, it also pays to look at Amdocs' strategic behavior and ask whether it is consistent with a company sitting on a pile of excess cash.

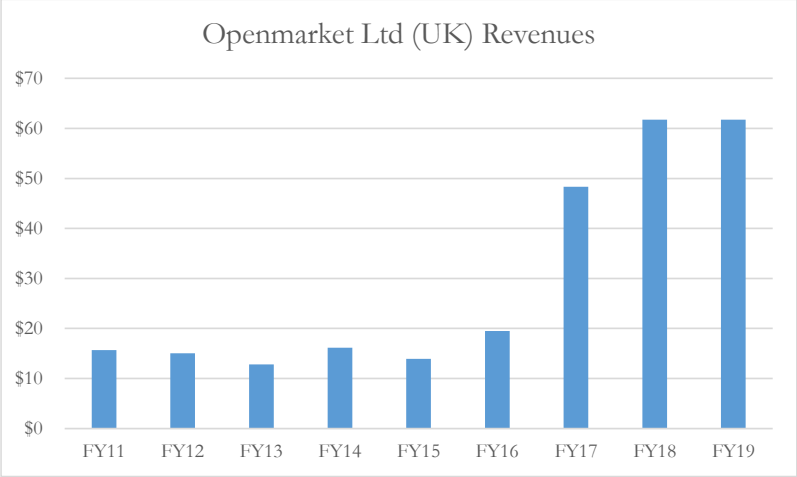
On November 10, 2020, Amdocs announced in its earnings press release that it had signed an agreement to divest OpenMarket, a longtime subsidiary business that it had purchased in 2006, for $300m. On the earnings call, management indicated that Openmarket was being sold for approximately 1x forward revenues:

> *Q - …[j]ust clarifying question on the OpenMarket divesture. Again, how much revenue maybe did that contribute to Amdocs in fiscal 2020? So we can get a sense for next year as well.*
>
> *A - …In terms of the revenue of the OpenMarket, we sold [for] revenue of the forward 12 months. Again, based on our current expectations.*

And on the following earnings call three months later, Amdocs clarified that this was the case:

> *As a final point to further help in your modeling, we remind you that we originally planned for OpenMarket fiscal 2021 annual revenues in the range of approximately $300 million, which represented more or less the same growth year-over year to the rest of the company.*

Additionally, while Amdocs said that Openmarket was growing at "more or less" the same growth rate as the rest of the company, we have some evidence that Openmarket was growing substantially faster. Let's look at the results of Openmarket Ltd., a subsidiary in the UK:



While this subsidiary captures only ~20% of Openmarket's revenue, the trend is unmistakable: Openmarket UK's revenues tripled in the past three available years, after nearly doubling in the three years prior to that. We can't be sure, but it doesn't make a lot of sense to us that Openmarket's UK business would be growing so rapidly while the rest of the Openmarket business were shrinking, which is what would have to be happening for Openmarket to have nearly stagnant growth.

In any event, don't let this point about Openmarket's growth distract you. Even if Amdocs were being honest and Openmarket were indeed growing at the same rate as the overall company, the point stands:

How does it make any sense for a company trading at 2x forward sales to divest a comparable-or-faster-growing business for 1x forward sales? Let alone when the seller has paid multiples of revenue for acquisitions, and even its own stock, in the recent past?

We don't think it makes economic sense – but it can make balance sheet sense. That is, selling an asset at a dirt-cheap price makes sense if you're really strapped for cash, **and levered,** such that taking in new cash in the short run is more important than maximizing shareholder value in the long run. You know this type of action by its common name in the distressed debt world: a fire sale. (We don't believe Amdocs management is simply comprised of the worst capital allocators in the world – if we did, that of course might be the other sensible explanation for buying back your stock at 2x revenues while selling a better piece of your company for 1x revenues.)

F. Factoring receivables is something to which analysts have previously been alerted, but still managed to misunderstand

Let us first say clearly that there is nothing inherently wrong or shady about factoring receivables. We don't care about factoring, *per se*.

Let us *also* make clear that we *don't* believe Amdocs started factoring receivables to manage the optics of its DSOs. Amdocs started factoring well before any analysts ever thought to ask a question about Amdocs' receivables collection.

What's notable about the factoring done by Amdocs is a) when it begins and b) the circumstances under which Amdocs ostensibly chose to start doing it.

In the FY18 20-F, Amdocs first mentioned the use of receivables factoring, which strongly suggests that it never used factoring prior to that year. This disclosure has appeared in every annual report since:

Accounts Receivable Factoring

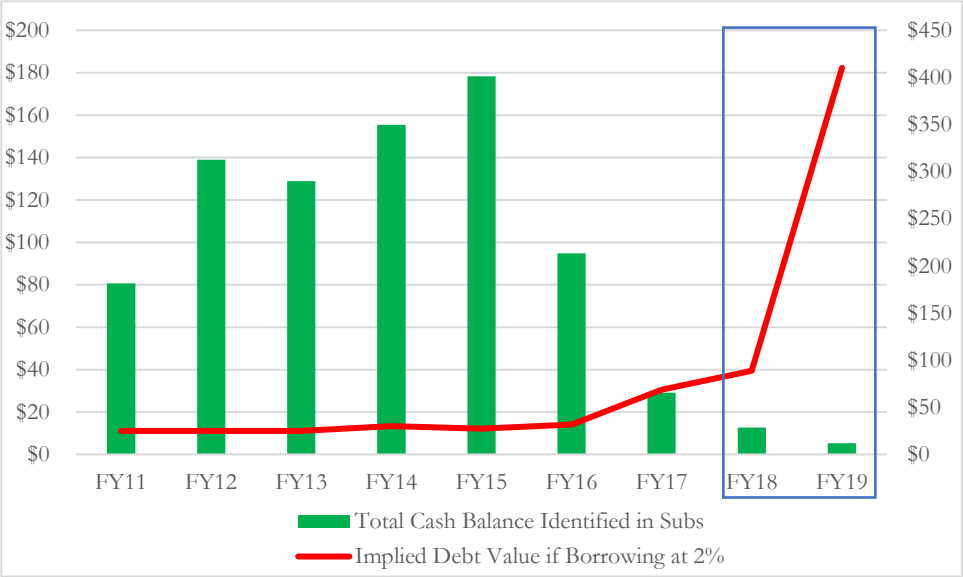
From time to time, the Company uses non-recourse factoring arrangements, to sell accounts receivable to third-party financial institutions. The sale of the receivables in these arrangements are accounted for as a true sale.

Factoring isn't a particularly expensive method of accelerating cash collections – a factoring partner will typically buy your highest-quality receivables at a slight discount to their par value – but it isn't free, and it isn't something a cash-flush company does for no reason. For a company to decide to sell its accounts receivable at a discount in order to receive cash somewhat more quickly, that company must believe that accelerating cash collections on its receivables is more important than receiving the full economic value for those receivables. **Why would Amdocs, a company that claimed to have over $500m in cash and liquid investments on its balance sheet as of FY18, spend money to get cash in the door a little more quickly?**

Let's put the timing of the initiation of factoring in context:

- Amdocs began factoring in FY18
- Amdocs' *reported* cash balance approached (fell toward) its minimum of $500m in FY18
- Amdocs' interest payments imply that its hidden/intra-quarter debt level began spiking in FY18

Look at the boxed years below, which begin when Amdocs begins factoring. Is this a coincidence?



We think that Amdocs' decision to begin factoring alongside these other developments was based on the same topic we've been arguing in this section: **Amdocs doesn't really have the cash its balance sheet suggests, because $500m or so of Amdocs' cash is trapped, missing, or otherwise unavailable to the company in practice.**

Amdocs was asked about factoring on its February 2019 earnings call:

> *Q - First question for you, [CFO], if we can have maybe a little bit of color on the company's factoring program and how much it contributed to cash flow in 2018 and then also how much we should be expecting for 2019.*
>
> *A - So, in 2018, we adopted the factoring program as part of expanding our liquidity vehicles. We've had before revolver facility of $500 million. We've always had cash on the balance sheet and obviously can use that as well. And we felt that having the attractive terms that we could achieve through the factoring program would be an interesting addition. The materiality of the factoring was not significant relative to the overall collection. And I can assure you that the improvement we are talking about in terms of normalized free cash flow in 2019 will result from normal business operations and not from any material use of the factoring. So, it's just another vehicle but not one that we expect to use in a material way.*

We count five separate times in this one answer when the CFO essentially implies that they're factoring just for fun, because they have plenty of cash anyway. So, apparently they're paying to factor even though they don't need to, and they're not touching their half-billion-dollar reserve of cash even though they're apparently borrowing tens and then hundreds of millions of dollars intra-quarter…and keeping it secret. Okay.

G. The COVID bailout: Amdocs can finally borrow overtly, from newbie bondholders

The balance sheet weakness of some companies was exposed by COVID. But in this case, the company's balance sheet weakness was *hidden* by COVID.

After years of quietly rising interest payments, implementing a receivables factoring program, and of course draining its many subs of cash, Amdocs' unseen leverage was getting to be ridiculous. In 2019, its subsidiaries' cash balances were bottoming out at practically zero in many cases. Amdocs was paying over $8 million in cash interest on its "zero" debt balances, and it had already been factoring receivables for well over a year. It had all but stopped doing M&A (one minor acquisition in FQ419 was its first in almost two years, a rare streak), despite a general lack of organic growth. It also continued to pay a dividend and operate a large buyback. Given the

way the cash and "debt" balances were trending, this was unsustainable. It appeared that Amdocs was going to have to start borrowing money overtly.

Indeed, the company even added a risk factor to its SEC filings, beginning in **May 2019**, about possibly needing to access the capital markets for new funding:

Old Text	New Text
We believe that our current cash balances, cash generated from operations and our current lines of credit will provide sufficient resources to meet our operational needs and to fund share repurchases and the payment of cash dividends for at least the next fiscal year.	We believe that our current cash balances, cash generated from operations, our current lines of credit and our ability to access capital markets will provide sufficient resources to meet our operational needs, fund the construction of the new campus in Israel, fund share repurchases and the payment of cash dividends for at least the next fiscal year.

So, going into 2020, Amdocs' charade of being a cash-rich, debt-free company was going to come to an end. And, in our opinion, had Amdocs started borrowing money simply to keep the business operating normally, it's safe to say investors would have been confused or alarmed by this decision, given the company's mountain of cash supposedly sitting there for a rainy day.

COVID gave Amdocs the cover it needed to borrow profusely without having to explain itself.

When COVID started to wreak havoc on the US financial markets in March 2020, headlines like this became the norm:

Technology

Boeing Plans Full Drawdown of $13.825 Billion Loan

By Paula Seligson
March 11, 2020, 9:43 AM EDT *Updated on March 11, 2020, 6:11 PM EDT*

Boeing Co. is planning to draw down the full amount of a $13.8 billion loan as early as Friday as the planemaker grapples with worldwide travel disruptions from the coronavirus, people familiar with the matter said. – Bloomberg

BUSINESS NEWS MARCH 13, 2020 / 4:18 AM / UPDATED A YEAR AGO

U.S. companies draw on credit lines, fearing they may lose them

By Joshua Franklin, David Henry 3 MIN READ

NEW YORK (Reuters) - Banks have hundreds of billions of dollars in credit lines extended to corporate America. Some companies are no longer banking on them.

> *Airplane maker Boeing Co BA.N, hotel operator Hilton Worldwide Holdings Inc HLT.N and theme park company SeaWorld Entertainment Inc SEAS.N are among the companies that drew on or upsized their credit lines this week, as the market rout triggered by the coronavirus pandemic fueled fears about a potential liquidity crunch.* - Reuters

Boeing, Hilton, SeaWorld – all debt-ridden companies whose operations stood to suffer greatly, and did suffer, from the onset of a global pandemic. But a "cash-rich, debt-free" IT services company like Amdocs? Like these other companies, Amdocs drew on its revolver "proactively" in the March 2020 quarter, but unlike these other companies, Amdocs' reported results were fine. The company was even predicting revenue growth for the full year ahead.

From the earnings call after the first overt borrowing:

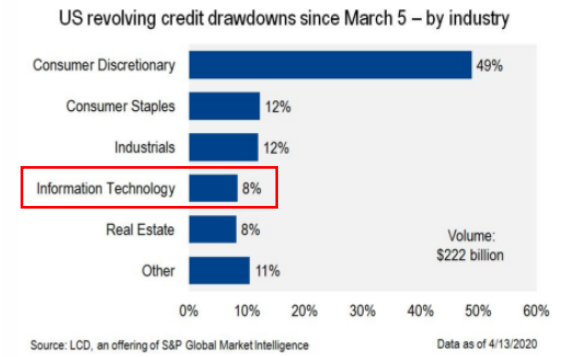
> *I am pleased to report that revenue from managed services arrangements that generate typically high level of recurring revenue streams had a record quarter in Q2, comprising 58% of total revenue. That reflects high renewal rates, the growing adoption of our managed transformation model and the continued expansion of activities within existing managed services customers. Our cash balance at the end of second fiscal quarter was approximately $763 million. Given the uncertain magnitude of duration of the COVID-19 economic crisis, we took the precaution to increase our cash balance by drawing down $350 million in Q2, including $300 million under our $500 million revolving credit facility and a $50 million bank loan.*
>
> *… Regarding the full fiscal year 2020, we expect to deliver total revenue growth in the range of roughly 0.5 percentage point to 3.5 percentage points year-over-year on a constant currency basis…*

Indeed, S&P looked into the profile of large companies who chose to draw down proactively on their revolving credit lines during the onset of the pandemic[11]. While it may seem that "everyone was doing it," they weren't – and certainly not many IT services companies. Pre-emptive revolver drawdowns were largely confined to the industries and issuers that had something to panic about:

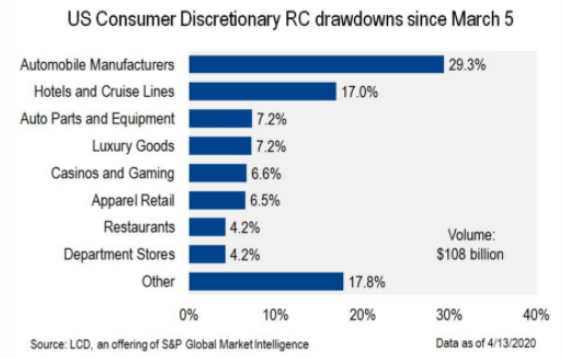
[11] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/coronavirus-related-revolving-credit-drawdowns-grow-to-222b-via-414-issuers-58013811

largely undrawn and might be used for working capital, as a backup line of credit or for corporate cash emergencies.

Many of these debt issuers have cited in SEC filings the coronavirus as the reason for tapping these lines, along with an "abundance of caution."



The Consumer Discretionary sector continues to comprise the bulk of the revolving credit drawdowns, with nearly half the $222 billion coming via that sector.



We weren't the only ones who found this "sudden" use of debt odd. At least one analyst raised an eyebrow about it on the earnings call:

> *Q - Wondering if I can ask a question on the balance sheet. Amdocs has always had a really strong balance sheet. So I'm wondering, what the uses and maybe the reason and timing around the $350 million you guys raised this quarter? And then also wanted to clarify that I heard correctly that you raised another $100 million in Q3?*
>
> *A - So, you're right, we have a strong balance sheet and we are definitely laying down and giving you full transparency about how we are planning to use the money. What we said is the majority of the free cash flow we will generate. The normal free cash flow will be returned to shareholders. So as you can understand, on top of that, we're funding the build-up of the campus that we just touched and again that was planned.*
>
> *So the main reason we draw the money was just to be cautious. Given these kind of circumstances and economic pressure coming with the COVID-19 pandemic, we know liquidity is a scarce asset. We prefer this liquidity will be in our bank account rather than on the other side. So that's the main reason. We're not trying to [signal] any kind of mega move that was not planned before, just to be on the safe side.*

While there's nothing inherently unreasonable about this pre-emptive drawdown "just to be on the safe side", it's at the very least unusual if you have nearly half a billion in cash available to use and your business isn't markedly suffering from the pandemic. And it's a little more odd still that you'd draw down another $100m in the following quarter, when the panic stage had clearly passed, but fine.

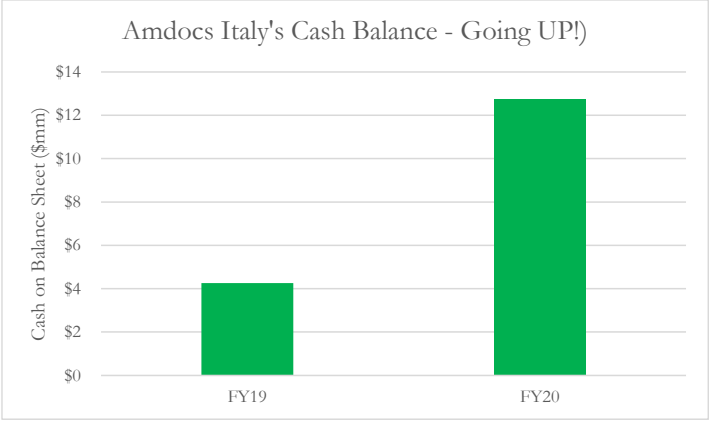
But when **Amdocs refinanced the revolver with a 10-year, $650m bond in June 2020, rather than simply paying the money back to the bank, it became clear as day that this debt issuance was never about COVID at all.** The official use of proceeds was the ever-generic "general corporate purposes, including the repayment of indebtedness," according to the prospectus from the offering.[12]

The interest rate on this 10-year money was 2.5%, which would generate approximately $16m of interest per year. Amdocs made $582m of pre-tax income last year, so this is ~3% of pre-tax income. That's roughly an entire year's worth of earnings growth for Amdocs. This interest expense matters; you don't borrow long-duration money for no reason when you have tons of it sitting around, available and going unused, well after the pandemic "excuse window" has closed. They needed, and still need, the money because of the balance sheet hole.

H. A note on Amdocs Italy, and how it shows DOX's need for lots of debt

Due to a mix of slow registry deadlines and pandemic reporting extensions, nearly none of the Amdocs subsidiary companies in our subset have FY20 numbers available yet. The one exception to this is the Italian subsidiary. Amdocs Italy has a current annual report available, but not historical annual reports (that we could find).

Amdocs Italy's revenue and EBIT are tiny. But what is really interesting to us is the balance sheet, specifically the cash balance. Amdocs Italy is the first and only subsidiary to report thus far that shows one cash balance *before* Amdocs issued its ten-year bond and one cash balance *after*. And lo and behold, unlike every other sub we found whose cash balance has been withering away for years without much pause…Amdocs Italy's cash balance did the opposite in FY20:



We finally found a sub whose cash balance went up – in the first and only financial statement available after Amdocs issued a bond. Do you see what's going on here? Amdocs was starving all of its subsidiaries of cash because it was running low and borrowing quietly, in increasing amount…and then, finally, after DOX borrowed $750m in 2020, its one subsidiary that has filed a financial statement just *happens* to show a first-in-years increase in cash. We think this shows that Amdocs didn't borrow opportunistically, or to "have cash just in case." After Amdocs got its bond offering done, it reloaded the cash in at least one sub – and, we expect to find when the new sub financials come out, most or all of its other subs as well.

The problem here, of course, isn't that Amdocs doesn't have *any* cash – it just borrowed three quarters of a billion dollars from sleepy lenders. It definitely has *that* cash. The problem is that Amdocs has been misrepresenting its liquidity all along, and that it still has far less accessible cash than it purports to have today, **and that it will need to find a new source of suckers to fill in that hole when it's time to pay the bonds back in the future or use its capital for other purposes**. Holes in balance sheets don't simply

[12] https://www.sec.gov/Archives/edgar/data/0001062579/000119312520172660/d918105d424b2.htm

disappear when you borrow more money. **Therefore, we think the company's effective net cash position is not ~$500m, but more like zero. More importantly, Amdocs has worked hard to keep this fact hidden from investors for a decade.**

INTERVIEWS WITH FORMER EMPLOYEES AND COMPETITORS CORROBORATE OUR FINDINGS

We spoke to numerous individuals who formerly worked for or currently compete against Amdocs. We found a remarkably consistent narrative of decline in the business, including at the largest customers, which coincides neatly with the decline of profitability we've identified in Amdocs' subsidiaries.

Our favorite nugget: one employee who reported in great detail how baffled (his own word) he was that, despite his team's sending quarterly financial reports to Amdocs HQ that reported serious decline in the US, Amdocs would magically show US stability or even growth in the eventual 6k's and 20-F's that were filed with the SEC and presented to investors.

We have written this section as a separate one in our report, as we recognize that some investors would prefer to focus exclusively on claims that can be verified with public documents. In this section and only this section, we will refer to comments that we transcribed from private interviews with individuals. **In all cases, we paraphrase rather than quote directly, in order to protect the identities of the speakers as they may have distinct speaking styles.**

How do you turn declining revenues into growing ones? Send them to Amdocs HQ in Israel

One former employee, a veteran Amdocs executive in North America who was actually a big fan of the management team (he exhibited no malice towards the company and had total reverence for its founding team from prior decades), told us the following, paraphrased:

> *What I witnessed (in the US) was a more significant decline in the larger accounts – AT&T, T-Mobile, Sprint, etc.* ***The annual decline – not scientific, just throwing out my estimate of what it was broadly – was around -7% a year. Amdocs was able to compensate for some of that by winning deals in other parts of the world, but profitability of projects in Europe and Latam is 15-25% lower than in the US****, so I don't know how long-lasting of a solution that would be.*
>
> *There has been a trend every 3-5 years where AT&T would renegotiate its MSA with Amdocs and carve out some more Amdocs services. For instance, they've taken some Amdocs business and given it to IBM in the past several years. Many years ago, Amdocs was the darling with AT&T, but that relationship has deteriorated. Amdocs has also offshored so much of its business to India and has compromised on quality to cut costs, which has cost them relationships with customers over time. The original founders didn't have this mindset.*

We asked this executive: Why then, if the business has been deteriorating so dramatically in its #1 market (the US, where he focused), does the company appear to show growth in revenue and profit every year? His answer was astounding (again, paraphrased, as direct quotation could identify this individual based on his speaking style):

> *That's the million-dollar question (laughs).* ***In 2016 and beyond, I stopped being able to make sense of what Amdocs was reporting to Wall Street. I used to be able to see the relationship between our North America numbers and what Amdocs would report in North America, until 2016. From that point on until I left, the numbers just didn't correspond to what we were sending to HQ. We would independently calculate our performance for the quarter and report it to Amdocs HQ in Israel, and it would not be good; it would be declining. But then later, when***

> ***Amdocs would present its quarterly numbers to Wall Street, North America would be somehow growing. This surprised me every quarter.***
>
> *I mean, we were happy! We were compensated based on those numbers [so if Amdocs said North America was growing, they had to pay us].* ***But every quarter I would get together with my colleagues and we would ask each other, Where is this growth coming from? Did you see this kind of growth?*** *It's a question that has been baffling me since I left the company [how Amdocs managed to show growth in the US when we ran the US and it was declining].*
>
> ***Amdocs keeps the financial aspects to a very select group of people. They're all in Israel.***

AT&T's reduction of purchasing from DOX wasn't one-and-done, it was the first step in a strategic exit

While the individual above was most notable for his comments on how Amdocs basically uses financial alchemy to turn horrible numbers into decent ones, we did note as well that he believed the AT&T relationship with Amdocs was strained and generally trending downward. This contradicted popular wisdom, which is that Amdocs has a strong, stable relationship with AT&T despite a one-time "step-down" in business to a new plateau. AT&T is supposedly 25% of Amdocs' revenues, so we thought this was a big topic. Is AT&T still looking for ways to cut Amdocs out, contrary to Amdocs' promises to investors that the reduction in AT&T revenues a few years ago was a one-time problem?

We found that other individuals were of the same opinion: AT&T is not content to keep Amdocs in the same position indefinitely, and even appears to be actively phasing Amdocs out of its business. For instance, one veteran Amdocs former executive from a C-level role told us the following:

> *I have loved this company for a very long time. I was fortunate to work for the founding fathers of this company in the 1990s who were a remarkable group of people. But the revenue and EBIT of this company was tied to project management and that's declining. There are tons of legacy Amdocs BSS and OSS systems at AT&T and that's where Amdocs makes most of its money. AT&T was phasing out other projects with Amdocs in favor of other suppliers, but now they're going up the stack to the more critical BSS/OSS systems.*
>
> *Amdocs can't recover the business it has lost with AT&T. The EBIT relationship with AT&T is on a steady decline.* ***One of Amdocs' biggest customers in the world initiated a BSS-as-a-service project, and Amdocs didn't know about it at the time it was initiated. They had to go and ask to get into the game, because they were a significant partner on other legacy projects.***

A different individual, a competitor of Amdocs, said basically the same thing. Of course, we recognize that this individual is probably biased to talk down Amdocs, his competitor, but we note that his story was remarkably like that of the two individuals above who worked for Amdocs for decades:

> *AT&T is walking away from Amdocs, but it'll take until around 2023 or so. They're switching functionality away from Amdocs on a yearly basis. They're phasing out Amdocs one region at a time.* ***I don't expect Amdocs to be completely removed from AT&T by 2023.*** *They have some other pieces of business there, in media,* ***so they may continue to exist in AT&T in some fashion.*** *But they're reducing business with Amdocs on the BSS side.*
>
> ***COVID interrupted AT&T's process of cutting out a bigger part of Amdocs, but now they're back to the table. We ourselves have been invited back to the table to bid on this business that currently belongs to Amdocs.***

The consensus of people with whom we spoke seems to be that the AT&T business, which is Amdocs' 25% customer, is a melting ice cube due to Amdocs' inability to compete in rapidly modernizing technology. This may explain why Amdocs has needed to resort to such aggressive misrepresentations in order to keep its numbers (and stock price) from collapsing.

HOW AMDOCS KEEPS A SINGLE-DIGIT EBIT MARGIN BUSINESS LOOKING LIKE A DOUBLE-DIGIT ONE

I saw this movie about a bus that had to speed around a city, keeping its speed over fifty, and if its speed dropped, it would explode! I think it was called, 'The Bus That Couldn't Slow Down.' – Homer Simpson[13]

Let's bring everything together here and explain some of the maneuvers Amdocs has used to inflate its numbers in the past several years.

Now is a good time to revisit that table we showed previously, listing the many "red flags" in Amdocs' financial reports – notice when they really got going:

QUESTIONABLE ACCOUNTING METRICS:	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
YOY Change in Bad Debt Allowance	0%	6%	22%	79%	-7%	17%	-27%	-26%	70%	-35%
YOY Change in Project-Related Provisions (Reserves)	NA	NA	NA	40%	70%	3%	9%	-31%	-10%	-13%
Unbilled DSO on Project Revenues	16d	32d	25d	28d	17d	29d	47d	52d	48d	44d
Deferred Revenue Days (DRDO)	21d	20d	20d	19d	24d	20d	13d	15d	13d	12d
Cash Interest Payments (millions)	$0.4	$0.4	$0.5	$0.6	$0.5	$0.6	$1.1	$2.0	$7.3	$5.4
Identified Subsidary Auditor Resignations	0	0	0	0	0	0	0	1	2	3
Non-GAAP Adjustments/Non-GAAP Net Income	20%	15%	14%	17%	16%	24%	22%	39%	19%	16%
Factoring Receivables	No	No	No	No	No	No	No	Yes	Yes	Yes
Est. Capitalization of Software/Revenues		0.9%	0.7%	0.6%	0.8%	1.1%	1.2%	1.4%	1.3%	1.1%
Organic Growth if M&A Done at 1x Revs	1%	2%	0%	1%	-5%	-6%	4%	-6%	1%	-4%

"Project Revenues" refer to all non-managed-services revenues; trend of this metric is similar if all DOX revenues are used

Organic growth calculation assumes cash spent on M&A = equivalent inorganic revenue growth in same year; 1x multiple is same as Openmarket divestiture by DOX

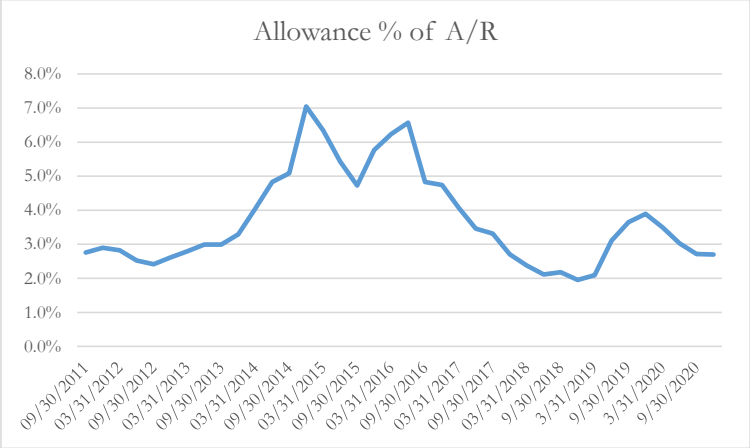
Unbilled DSO and DRDO use ST&LT unbilled A/R and deferred revenues. Prior to FY18, only ST was broken out; analysis assumes prior LT values were consistent fraction of total (~10%)

Software capitalization calculated as change in software asset minus 1/5 of year balance (assume 5 yrs useful life)

Let's briefly talk about each of these issues in turn. We'll spare you the full-blown accounting lessons on these, but each deserves a quick mention. (If you are newer to this type of analysis or need a refresher, we would point you to Spruce Point's excellent report from January 2019.) All charts are based on our calculations from the 20-Fs and 6-Ks, except for the auditor resignations which are from subsidiary filings.

A. Quick review of a rich garden of accounting games and other troubles

1. Declining bad debt allowances (reserve releases):



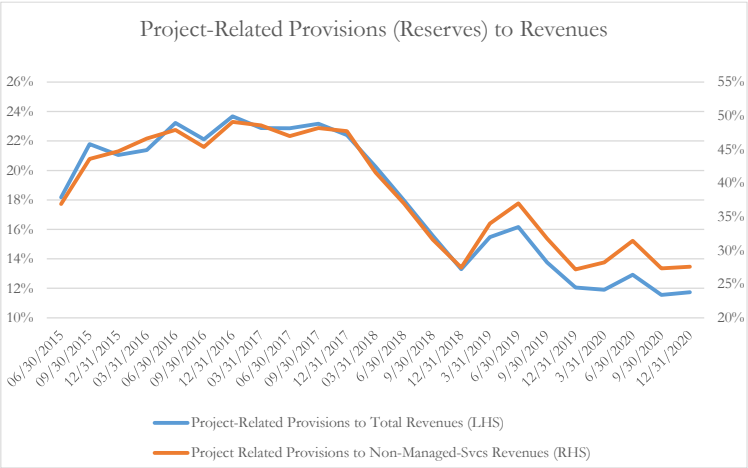
We would expect the dollar value of bad debt allowances to fluctuate normally, and if anything, slightly rise over time as Amdocs' business ostensibly grows. Certainly, given Amdocs' rising DSOs, this is a

[13] https://www.youtube.com/watch?v=DIrIvKKT_nk

number that you would expect to trend generally up. Occasional modest declines here are not remarkable, but Amdocs' bad debt allowance fell sharply in recent years. As of FY20 the allowance for doubtful AR was almost one-half the size it was in FY16, even though the company's total AR actually *grew* over this time period. **Amdocs has been releasing reserves from the bad debt allowance, which flatters expenses in the parent company's SEC filings.**

a. Amdocs' more recent 20-F filings (including FY20) explicitly call out the benefits of reductions in the bad debt allowance in the form of reduced SG&A. For example: *Selling, general and administrative expense decreased as a percentage of revenue from 12.5% in fiscal year 2016, to 12.2% in fiscal year 2017. The decrease in selling, general and administrative expense as a percentage of revenue was primarily attributable to changes in the accounts receivable allowances that were partially offset by activities related to…*

2. Declining project-related provisions (reserve releases):

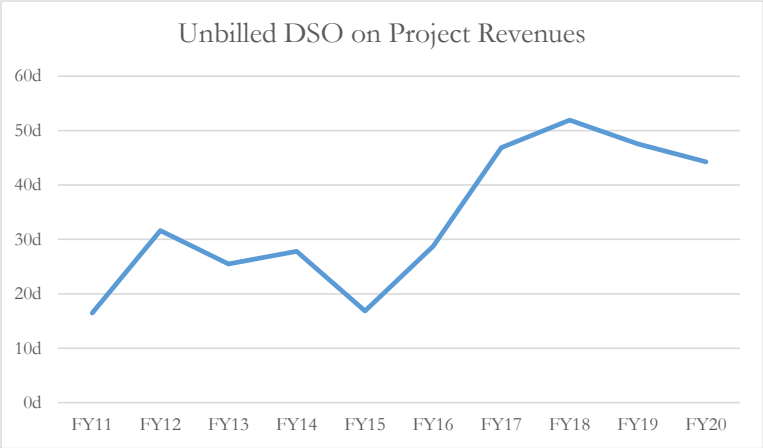


This metric is only available quarterly going back to 2015. Much in the same way Amdocs started getting aggressive on bad debt cookie jar releases in FY17, it started doing the same thing with project-related provisions in FY18. These are liabilities which the company must create in order to allow for future shortfalls/cost overruns on project work. In the past, Amdocs has blamed its rising unbilled DSOs on increased project work. **Therefore we think it's particularly hilarious that the reserve account associated with project work has been declining for almost as long as the unbilled DSO has been surging. Is Amdocs doing more project work in recent years, or less? Does the CFO even know?**

I'm not drunk! I just have speech impediment…and a stomach virus…and an inner ear infection. – Brian from *Family Guy*

3. Unbilled DSO on project revenues:

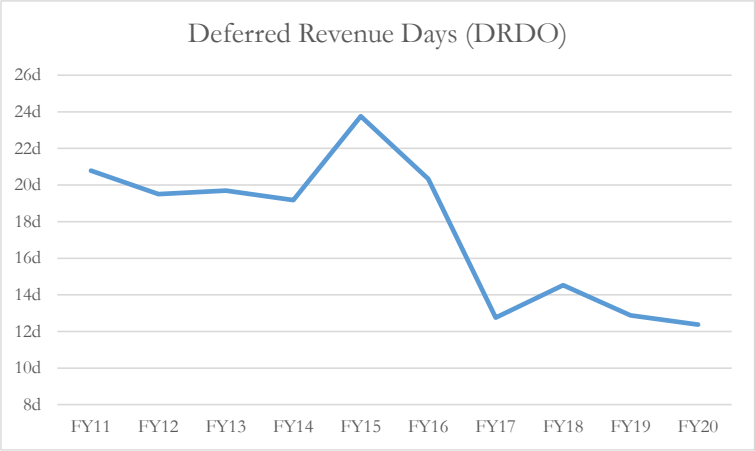
Like we said:



Presumably it isn't actually taking Amdocs twice as long to get paid on its projects as it was in FY16. Therefore, we think this is an issue of aggressive revenue recognition, rather than of collection problems. It's just another input that management can toggle to bring profits forward (or manufacture them entirely) as needed.

4. Deferred revenue days outstanding (DRDO):

You can think of this as conceptually, though not exactly, the opposite of unbilled DSO. If it's declining, that's concerning in the same way that it's concerning that unbilled DSO is rising:



We compare deferred revenue balances to total revenues, as opposed to just project revenues, because managed services can and should have a material deferred revenue component as well as non-managed services revenues. But as we've alluded to previously, if we use project revenues the result isn't terribly different, as there hasn't been a meaningful mix shift for Amdocs between project and non-project revenues. (Amdocs management will vaguely claim that there has been such a shift…but we dare them to quantify this publicly and in direct comparison to unbilled DSO, project-related provisions, deferred revenues, etc.)

5. Cash interest payments

We've previously covered this in full but here's the chart for convenience, again in millions:

This isn't a revenue recognition or expense management red flag, it's a balance sheet signal that obviously implies the presence of substantial debt. We would just note with interest the period during which the implied debt started growing.

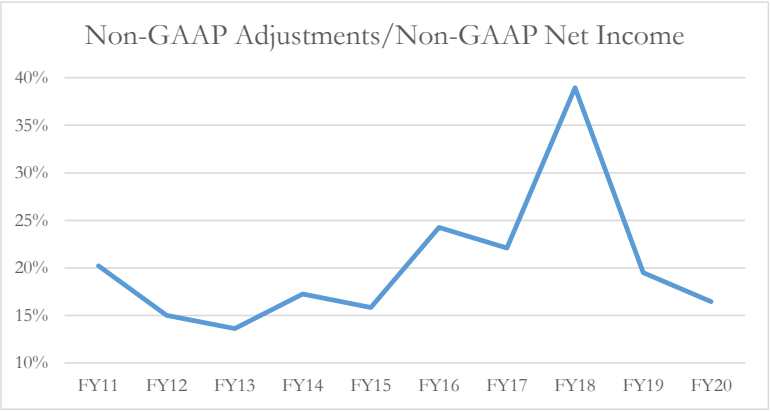
6. Identified subsidiary auditor resignations

We discussed this previously but think it's useful to look at these resignations in the context of how long some of these auditors had been responsible for these subs:

	(Based on Amdocs parent company fiscal years)					
	FY16	FY17	FY18	FY19	FY20	*Auditor Since*
Astrum (IE)					EY resign	*2007 (or longer)*
Brite:Bill (IE)			KPMG resign		EY resign	*2018*
Amdocs Systems Europe Ltd (UK)				EY resign		*2014*
Amdocs Systems Ltd (UK)				EY resign		*2014*
Amdocs Intl GmBH (Switz)					PWC resign	*2016 (or longer)*

We're talking, of course, about the fact that when these auditors resigned, this wasn't a regular process of auditor turnover. It's not like Amdocs is refreshing its entire subsidiary auditor base every 3, 5, 10, etc. years. Some auditors who resigned had been there for over a decade, some for over 5 years, and one for less than two years. But notice when it all started (there may have been other auditor resignations at subs during the time period shown, but if so, we haven't found them).

7. Non-GAAP adjustments as a % of non-GAAP net income

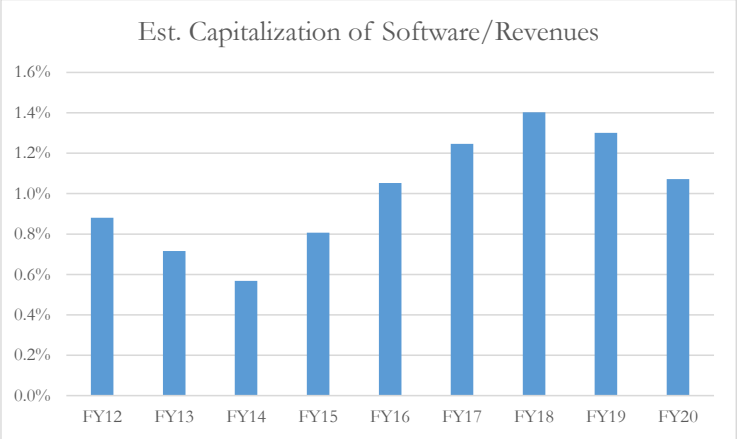


The most charitable way to view this chart is to argue that DOX has always used non-GAAP adjustments generously, but only used them *unusually* generously for the few years between FY16-FY19. But in either case, things changed in FY16. We'd just like to point out that in FY20, DOX had its slowest non-GAAP EPS growth in a decade. But that's probably a coincidence.

8. Factoring of receivables

Previously covered in detail, and only got started in FY18.

9. Estimated capitalization of software revenues

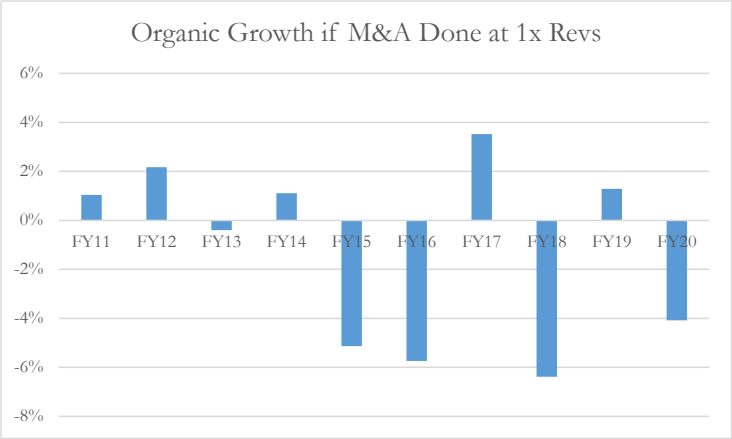


This metric is more nefarious than it might appear at first glance. Every basis point on this chart essentially means a basis point that flows directly into DOX's pre-tax margin. This also deserves some more explanation:

We don't know the exact capitalization of software development expenditures that DOX does each year. What we know is the amount of gross capitalized software on the balance sheet, and we know that a 60-month useful life would make the most sense as a depreciation schedule for this asset for DOX[14]. If this is the case, we can look at the annual change in the gross capitalized software balance, estimate how much is removed due to depreciation each year, and compare that to how much is left at the end of the year. It didn't surprise us at all to find evidence that DOX has been capitalizing more software revenues relative to the size of its business each year, and in so doing, delaying expense recognition a little longer each year.

10. Organic growth if M&A done at 1x revenues

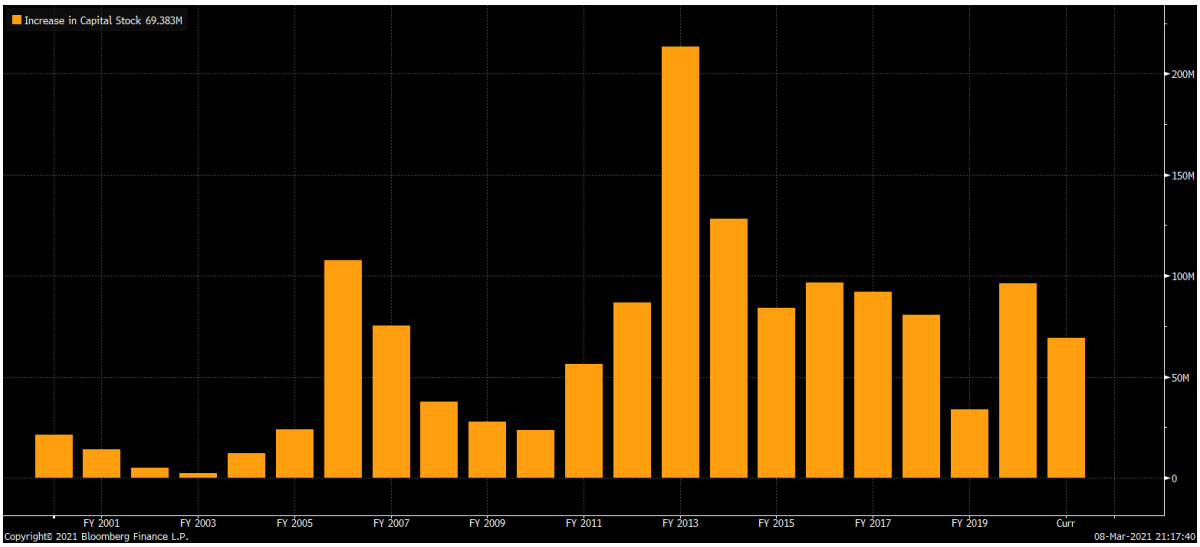
[14] https://www.bdo.com/blogs/restaurants/february-2014/capitalizing-internal-use-software



We don't know the revenue multiples at which Amdocs has purchased all its acquired businesses, primarily because Amdocs literally never discloses clearly what inorganic contribution from an acquired business was. (Ask them about it or read their disclosures – they're always based on forward estimates, or referring to past inorganic contributions in oddly vague or hypothetical terms. They're very good at this kind of evasion. We're confident they aren't hiding surprisingly *good* organic growth…because we're not idiots.)

However, if we make the simple, back-of-the-napkin assumption that Amdocs has been buying all of its acquired businesses for 1x revenues, and that every dollar of cash spent by the company on M&A in a given year resulted in one dollar of inorganic revenues in that year, we get the chart above…which, unsurprisingly, went from uninspiring to terrible in FY15, just before the all-you-can-obscure buffet of accounting games, cash consumption, subsidiary margin inflections downward, and auditor resignations began.

If you're Amdocs management and you're driving this bus, you know that if the "speedometer" on the income statement drops below a certain level, your stock is going to blow up. You can't let that happen, because you and your fellow insiders are exercising options on Amdocs stock to the tune of ***seventy million dollars or more a year in most years:***



So you need to keep the "speed" on that bus above the line, or risk Homer Simpson's ultimate nightmare: nuclear meltdown in your stock price.

B. "Okay Mr. Burns, what's your first name?" "I don't know."

As a final thought, we'd suggest that you ask Amdocs management about any or all of these issues, but we understand how evasive and, given they're a public company, downright inappropriately vague Amdocs is about everything investors are entitled to ask. Therefore, our final thought is simply that you ought to watch the following clip from the Simpsons and prepare for something like this when you reach out to Amdocs for more clarity: https://www.youtube.com/watch?v=wwB3tcs1L8A

APPENDIX I: OTHER CONCERNS, INCLUDING AMDOCS' AMAZING REVENUE PER EMPLOYEE FIGURE

These several issues are unrelated to any of the core themes of this report, but they're concerning and important for investors to know.

Verizon lost as a customer?

This is a snapshot of the second half of the "Customers" section of the 20-F from December 2020:

Our customers include service providers, such as:

EPIX
Eros Now
FarEasTone
Foxtel
Globe Telecom
J:COM
KCOM
KT Corporation
Liberty Global
Kyivstar
M1
Magyar Telekom
Maxis
MGM
MTS
Oi
Optus
Orange Belgium
Orange Liberia
Orange Spain
Partner Communications
PLDT
True Corporation
Turner
UPC Broadband
US Cellular
UTS
VEON
ViacomCBS
Virgin Media
Vodacom
Vodafone Germany
Vodafone Hungary
Vodafone Idea
Vodafone Ireland
Vodafone Italy
Vodafone Qatar
Vodafone Romania
Vodafone Spain
Vodafone Turkey
Vodafone UK
VodafoneZiggo
Warner Bros
XL Axiata

And this is a snapshot of the second half of the same section of the 20-F, but from December 2019:

Dish Network
EE
Elisa
EPIX (an MGM company)
Eros Now
FarEasTone
Foxtel
Globe Telecom
J:COM
Kazakhtelecom
Kcell
KCOM
KPN
KT Corporation
Kyivstar
M1
Magyar Telekom
Maxis
MTS
NFL Digital Media
Oi
Optus
Orange Belgium
Orange Spain
PLDT
Three Ireland (Hutchison) Limited
TIM
TIM Brasil
T-Mobile US
True Corporation
Turner
UPC Broadband
US Cellular
UTS
VEON
Verizon
Viacom
Virgin Media
Vodafone Germany
Vodafone Hungary
Vodafone Idea
Vodafone Ireland
Vodafone Italy
Vodafone Qatar
Vodafone Romania
Vodafone Spain
Vodafone UK
VodafoneZiggo
Warner Bros
XL Axiata

Verizon is missing from the 20-F for 2020. Perhaps it was removed to make room for Orange Liberia. We've compared the full list of customers from several years in a row. We don't believe Amdocs took out Verizon by mistake. We believe Verizon has reduced business with Amdocs so as to be basically immaterial and not worthy of mention on the top ~100 customers list.

How many acquisitions has DOX done, and why can't it keep its story straight?

From the 2019 20-F:

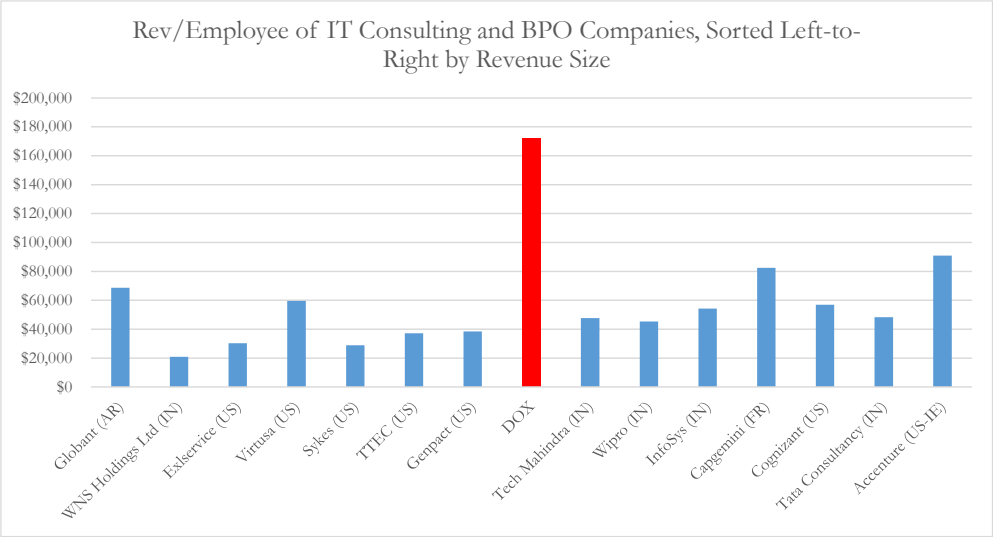
Acquisitions. During fiscal year 2019, we acquired TTS Wireless for approximately $50.0 million in cash and potential additional consideration based on the achievement of certain performance metrics. During fiscal year 2018, we acquired three technology companies to expand our digital and media offering: Vubiquity, projekt202 and UXP Systems ("UXP"), for the aggregate purchase price of $355.1 million in cash.

But from the 2020 20-F:

Acquisitions . During fiscal year 2020, we acquired three companies and other intangible assets for total consideration of approximately $291.5 million, among them the largest of the three is Openet, which offers cloud-native capabilities, network pedigree, and deep 5G charging, policy and data management expertise and whose solutions complement the Amdocs portfolio. During fiscal year 2019, we acquired three companies for total consideration of approximately $65.0 million, among them the largest is TTS Wireless a leading provider of mobile network engineering services, specializing in network optimization, planning and software-enabled

Huh?

Revenue per employee is literally off the charts, but maybe DOX is just amazing at revenues



Sources: Bloomberg and company filings

We don't really understand what's going on in this last chart. All we know is that it's very odd, and in our experience, when a company's operational metrics are so amazing that they bear absolutely no resemblance to its sharpest and most capable competitors with miles in between, we think that's a red flag.

As we've said, these three points above are off the reservation from the key points of this report, except insofar as they may help you understand why we are so skeptical of anything Amdocs management says or reports.

APPENDIX II: QUESTIONS FOR MANAGEMENT

Profit Mismatch:

- Why has DOX's operating margin stayed in the teens since FY15, when the 17 subsidiaries highlighted in this report have seen their operating margins fall from that level to the high single digits over this time, as well as a decline in total operating profits?
- If our sample of subsidiaries totaling $3.5bn of revenues and capturing several of your "Significant" subsidiaries is not reflective of the real profitability of your business, where are the much-higher-margin subsidiaries we should be looking at and what are their operating margins?
- What is the economic purpose of or basis for transactions such as Amdocs Tethys buying customer contracts from Amdocs Software Systems Ltd and the latter booking a $35m gain; a minority investment markup within Openmarket Ltd. with no explanation; the buyback of shares by Amdocs Development Centre India Pvt. Ltd. from Amdocs Development Ltd. for a $22m gain; and others detailed herein?
- How exactly have you kept your cash taxes so low, for so long, if your profits are what they say they are? If it's about having a parent in Guernsey, why have no other multinational corporations figured this out? Or what's the critical factor in managing your tax rates – tax book depreciation, shared services from another sub in an even-lower-tax jurisdiction, or what?

Cash:

- Does your CFO stand by her 2012 statement that there are "no offshore trapped cash issues that should worry you"?
- Why in FY16-17 did so many subsidiaries (15 out of 15 that we could find) in varied business lines and locations concurrently see their cash dwindle to ~$0?
- Why do you claim to need $500m of cash to run your business "smoothly" and if so, why did you strip the cash out of all of these operating and holding subsidiaries in recent years if it's needed?
- Why did you have substantial, ongoing cash interest payments for years prior to your "first" incurrence of debt in March 2020?
- If you were borrowing money all this time, why did you *consistently* not show any debt on the B/S? Is there an economic reason why you paid off this apparent debt before quarter-end for many years?
- You claimed to need to tap your revolver because of COVID in March 2020, but then you took out an additional $100m loan, and then you did an additional $650m, 10-year bond offering. Why pay all this money for 10-year debt if you don't need the cash?
- Why would you sell Openmarket for half your stock price multiple?
- What is the exact growth rate of Openmarket's revenues over the past 3 years, by year? Was it growing faster than the rest of DOX? If so, why sell it for such a depressed price?

Auditor Turnover:

- Why have your subsidiaries had (at least) six auditor resignations in an 18-month span, including auditors who had been auditing these books for many years?
- Why did Ernst and Young and KPMG resign from auditing your UK and Irish subsidiaries? Why did PWC resign in Switzerland? Is EY protected from certain liabilities in Guernsey but not in the UK or Ireland? Does EY have plausible deniability against wrongdoing if it is auditing only the parent?
- You are a global company with highly complex, international operations and a network of numerous shell companies across many jurisdictions. Why did you replace your resigning Big Four auditors with scandal-ridden or tiny firms like Mazars or "Haussmann Revision AG"?

Other Concerns:

- Did you lose Verizon as a customer, and if not, why strike them from the 20-F customer list?
- What have you figured out that Accenture, Genpact, Infosys, and so many other IT services/BPO consultants have not, such that your revenue per employee is severalfold higher than all of theirs?
- Why are you retroactively changing disclosures a year later about how many companies you've bought and how much you've spent on them? Did you not know how many acquisitions you did in FY19 when you filed that year's annual report?

APPENDIX III: CERTAIN SOURCES

Image 1, Ireland 2018:

Amdocs Software Systems Limited

Statement of Comprehensive Income for the financial Year Ended 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Turnover	3	1,245,647	1,226,929
Cost of sales		(1,176,663)	(1,177,635)
Gross profit		68,984	49,294
Administrative expenses		(57,992)	(32,963)
Operating profit	4	10,992	16,331
Other interest receivable and similar income	5	729	61
Interest payable and similar charges	7	(3,978)	-
Other gains and losses	6	35,071	-
		31,822	61
Profit on ordinary activities before taxation		42,814	16,392
Tax on profit on ordinary activities	11	(13,131)	(10,990)
Profit for the year		29,683	5,402

Image 2, Cyprus 2018:

AMDOCS DEVELOPMENT LIMITED

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	Note	2018 $	2017 $
Revenue		**1.523.045.634**	1.313.231.989
Cost of sales		**(1.262.578.216)**	(1.076.835.545)
Gross profit		**260.467.418**	236.396.444
Administration expenses		**(83.164.323)**	(4.562.538)
Operating profit	8	**177.303.095**	231.833.906
Finance income	10	**6.928.098**	16.091.655
Finance costs	10	**(115.394.511)**	(119.827.884)
Dividend income	14	**11.492.464**	-
Net foreign exchange profit/(loss)		**13.083.350**	(4.095.467)
Impairment of investments in subsidiary companies	14	**(48.355.304)**	(14.680.332)
Reversal of impairment of investment in subsidiary company	14	**-**	3.227.161
Profit before tax		**45.057.192**	112.549.039
Tax	11	**(393.450)**	(3.806.045)
Net profit for the year		**44.663.742**	108.742.994

Image 3, India 2016:

[100200] Statement of profit and loss

Unless otherwise specified, all monetary values are in Millions of INR

	01/04/2015 to 31/03/2016	01/04/2014 to 31/03/2015
Statement of profit and loss [Abstract]		
Disclosure of revenue from operations [Abstract]		
Disclosure of revenue from operations for other than finance company [Abstract]		
Revenue from sale of products	0	0
Revenue from sale of services	17,311.8	17,327.5
Other operating revenues	0	0
Excise duty	0	0
Service tax collected	157.79	21.48
Other duties taxes collected	0	0
Total revenue from operations other than finance company	17,154.01	17,306.02
Disclosure of revenue from operations for finance company [Abstract]		
Revenue from interest	0	0
Revenue from other financial services	0	0
Total revenue from operations finance company	0	0
Total revenue from operations	17,154.01	17,306.02
Other income	577.73	610.6
Total revenue	17,731.74	17,916.62
Expenses [Abstract]		
Cost of materials consumed	0	0
Purchases of stock-in-trade	0	0
Changes in inventories of finished goods, work-in-progress and stock-in-trade	0	0
Employee benefit expense	9,626.52	8,287.66
Finance costs	1.99	30.73
Depreciation, depletion and amortisation expense [Abstract]		
Depreciation expense	657.17	459.59
Amortisation expense	31.88	25.25
Depletion expense	0	0
Total depreciation, depletion and amortisation expense	689.05	484.84
Expenditure on production, transportation and other expenditure pertaining to exploration and production activities	0	0
CSR expenditure	67.8	37.96
Other expenses	4,540.03	3,789.91
Total expenses	14,925.39	12,631.1
Total profit before prior period items, exceptional items, extraordinary items and tax	2,806.35	5,285.52

Images 4 and 5, ASSL (Ireland) Balance Sheets:

Amdocs Software Systems Limited
Statement of financial position
at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Fixed assets			
Intangible fixed assets	6	34,402	49,433
Tangible fixed assets	7	471	389
Investments	8	141	141
		35,014	49,963
Current assets			
Debtors			
Amounts falling due within one year		360,216	480,132
Amounts falling due after one year		1,228	12,695
	9	361,444	492,827
Cash at bank and in hand		41,717	36,276
		403,161	529,103

Amdocs Software Systems Limited

Statement of Financial Position as at 31 December 2018

	Note	2018 US$ '000	2017 US$ '000
Fixed assets			
Tangible assets	12	834	748
Intangible assets	13	22,435	27,676
Investments	14	141	141
		23,410	28,565
Current assets			
Debtors: amounts falling due within one year	15	587,253	458,774
Debtors: amounts falling due after one year	15	4,923	20,077
Cash at bank and in hand		411	5,453
		592,587	484,304

Quotes from Management about cash minimum:

You just heard today about the fact we want to support our customers around mission critical systems for longer periods, seven-year deals, sometimes even more. We want to make sure they feel comfortable about the balance sheet. We feel we need to maintain at least $500 million to support the ongoing needs and some fluctuations that may happen from month to month within the business. - 2-23-11 Analyst Day

And to maintain at least $500 million as gross cash to respond to any business fluctuations and ongoing needs to fund operation. Again, this is not the target number. It's a minimum floor that we put to ourselves. And we feel it's more than [adequate] for our needs. – 12-5-12 Analyst Day

And we'd like to maintain at least $500 million in gross cash to support a smooth operation of the Company. It's a minimum amount rather than an optimum number to have. – 12-16-2014 Analyst Day

We would like to keep around $500 million as a minimum of gross cash in our balance sheet just to avoid fluctuations and make sure that we can run smoothly. – 12-14-2016 Analyst Day

…[O]ur cash level exiting Q2 is now closer to the minimum gross amount of approximately $500 million that we have previously said we need in order to respond to business fluctuations and smoothly fund operations. With this in mind, we plan slightly to moderate our pace of quarterly share repurchases in the fiscal second half… - 5-10-2018 earnings call

Subsidiary Original Source List:

- Ireland: Companies Registration Office
- United Kingdom: Companies House
- Cyprus: Department of Registrar of Companies
- India: Ministry of Corporate Affairs
- Switzerland: Registries of Commerce
- Italy: Italian Business Register
- Philippines: SEC Corporate Register via Infoclipper.com
- Singapore: Accounting and Corporate Regulatory Authority (ACRA)

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