



## Convergys Reports First Quarter Results

April 27, 2010

(Cincinnati; April 27, 2010) - - - Convergys Corporation (NYSE: CVG)

- Revenue from continuing operations of \$546 million;
- Non-GAAP diluted EPS of \$0.25, GAAP diluted EPS of \$0.28;
- Free cash flow of \$26 million, plus \$8 million cash distribution from the Cellular Partnerships;
- Customer Management operating margin sequential improvement to 7.3 percent;
- 2010 revenue outlook revised; EBITDA, EPS and cash flow guidance confirmed;
- Agreement to sell HR Management business, now reported as a discontinued operation.

[Convergys Corporation](#) (NYSE: CVG), a global leader in [relationship management](#), today announced its financial results for the first quarter of 2010. Revenue from continuing operations was \$546 million. GAAP earnings were \$0.28 per diluted share. Non-GAAP earnings were \$0.25 per diluted share, excluding the impact of a litigation reserve reduction and CEO transition costs described in the Non-GAAP Items section below. In the first quarter of 2010, there was \$26 million free cash flow plus an additional \$8 million cash distribution from the Cell Partnerships. Customer Management operating margin improved sequentially to 7.3 percent.



Jeffrey H. Fox

“We’re focused on simplifying the way we do business, improving our cost structure, doing a great job serving our clients, and winning more in the markets we serve,” said Jeff Fox, President and CEO of Convergys. “The sale of the HR Management business will allow us to execute a more focused strategy and represents a unique opportunity for our clients and employees. In Customer Management, revenue declined due to lower than anticipated client call volumes, client program terminations, and volume shifts. We experienced sales success both in our existing client base and with new accounts, and continue to focus on selling through the volume declines and generating Customer Management revenue growth. In Information Management, we maintained profitability and are pleased with our progress in selling to new and existing accounts. We continue to invest in our technology and distribution capability in order to position Information Management for growth beginning in the second half of the year.”

Fox continued, “Based on current business conditions in Customer Management, we are revising our revenue outlook, but are leaving EBITDA, EPS and cash flow guidance unchanged. Our progress streamlining operations to further reduce costs gives me confidence we will meet our earnings targets for the full year.”

A reconciliation table of GAAP to non-GAAP results is attached.

**Revenue** – First-quarter 2010 revenue from continuing operations was \$546 million compared with \$625 million in the same period last year.

**Operating Income** – First-quarter 2010 GAAP operating income from continuing operations was \$22 million, compared with \$41 million in the same period last year. On a non-GAAP basis, first-quarter 2010 operating income from continuing operations was \$35 million, compared with \$48 million in the same period last year, excluding the HR Management-related impacts and CEO transition costs discussed below.

**Adjusted EBITDA** – First-quarter 2010 earnings from continuing operations before interest, taxes, depreciation and amortization, and excluding the HR Management-related impacts, litigation reserve reduction, and CEO transition costs discussed below, were \$71 million, compared with \$85 million in the same period last year.

**Income** – First-quarter 2010 income from continuing operations, net of taxes, was \$26 million, or \$0.20 per diluted share, compared with \$31 million, or \$0.25 per diluted share, in the same period last year.

**Cash Flow** – First-quarter 2010 free cash flow was \$26 million, compared with \$33 million in the same period last year. The Cellular Partnerships provided \$8 million cash distribution during the first quarter of 2010, which is not included in free cash flow. The cash balance at March 31, 2010, was \$108 million.

**Net Debt** - In the first quarter of 2010, Convergys repaid \$300 million of its outstanding balance on the Revolving Credit Facility and also drew down approximately \$50 million from its \$125 million asset securitization facility. Net debt, defined as long-term debt and debt maturing in one year less cash and cash equivalents, was \$109 million at the end of the first quarter, compared with \$386 million at the end of the same period last year, and \$138 million at December 31, 2009.

### **First Quarter Segment Performance**

**Customer Management** – First-quarter 2010 Customer Management revenue was \$464 million, compared with \$517 million in the same period last year. First-quarter 2010 Customer Management operating income was \$34 million and operating margin was 7.3 percent, compared with operating income of \$40 million and operating margin of 7.8 percent, in the same period last year.

**Information Management** – Information Management revenue in the first quarter of 2010 was \$82 million, compared with \$108 million in the same period last year. First-quarter 2010 operating income was \$7 million and operating margin was 8.4 percent, compared with operating income of \$13 million and operating margin of 11.6 percent, in the same period last year.

**Non-GAAP Items** – Three events impacted results in the first quarter of 2010: 1) In March, Convergys signed a definitive agreement to sell the HR Management business. Accordingly, the net assets of HR Management are presented separately as held for sale, and the operating results are presented within discontinued operations. Accounting rules require certain costs previously allocated to the HR Management business to be included in continuing operations. These costs were \$6 million in the first quarter of 2010, compared with \$8 million in the same period last year. These amounts are reported in Corporate and Other within continuing operations. The company is taking actions to reduce these costs and expects remaining costs to be more than offset by revenue resulting from transition services to be provided to the buyer. Convergys expects minimal impact on results from continuing operations after sale closure, which is expected during the second quarter of 2010; 2) In the first quarter, the company reduced a previously established litigation reserve by \$13 million, which is reported within other income and expense; 3) The change in the CEO of the company in February 2010 resulted in a negative impact to first-quarter 2010 results from continuing operations of \$6 million.

### **Business Outlook**

For 2010, Convergys expectations include:

- Customer Management revenue of \$1.8 billion to \$1.9 billion;
- Information Management revenue to approximate \$350 million;
- Adjusted EBITDA of \$310 million to \$340 million;
- Non-GAAP EPS for continuing operations of \$0.95 to \$1.10;
- Continued strong cash flow, including free cash flow to exceed \$150 million plus an additional cash distribution from the Cellular Partnerships to approximate \$40 million.

Not included in full year 2010 adjusted EBITDA, non-GAAP EPS, and cash flow guidance are the HR Management-related impacts, including its sale, the litigation reserve reduction, and the CEO transition costs.

Convergys will take opportunities to further streamline the business as they are identified. Any future restructuring actions are not included in this guidance.

### **Forward-Looking Statements Disclosure and "Safe Harbor" Note:**

This news release contains forward-looking statements that reflect Convergys' expectations as of April 27, 2010. Actual results of Convergys could differ materially from those discussed herein. For us, particular uncertainties that could adversely or positively affect our future results include: the behavior of financial markets including fluctuations in interest or exchange rates; continued volatility and further deterioration of the capital markets; the impact of regulation and regulatory, investigative, and legal actions; strategic actions, including acquisitions and dispositions; future integration of acquired businesses; future financial performance of major industries which we serve; the loss of a significant client or significant business from a client; difficulties in completing a contract or implementing its provisions; and numerous other matters of national, regional, and global scale including those of the political, economic, business, and competitive nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. Please refer to Convergys' most recent news releases and filings with the SEC for additional information including risk factors. We do not undertake to update our forward-looking statements as a result of new information or future events or developments.

## **Non-GAAP Financial Measures:**

This news release contains non-GAAP financial measures as defined by the Securities and Exchange Commission Regulation G. Pursuant to the requirements of this regulation, reconciliations of these non-GAAP measures to their comparable GAAP measures are included in the attached financial tables.

Management uses free cash flow to assess the financial performance of the company. Convergys' management believes that free cash flow is useful to investors because it relates the operating cash flow of the company to the capital that is spent to continue and improve business operations, such as investment in the company's existing businesses. Further, free cash flow facilitates management's ability to strengthen the company's balance sheet, to repurchase the company's stock and to repay the company's debt obligations. Limitations associated with the use of free cash flow include that it does not represent the residual cash flow available for discretionary expenditures as it does not incorporate certain cash payments including payments made on capital lease obligations or cash payments for business acquisitions. Management compensates for these limitations by using both the non-GAAP measure, free cash flow, and the GAAP measure, cash from operating activities, in its evaluation of performance. There are no material purposes for which we use this non-GAAP measure beyond the purposes described above.

Management uses operating income, income from continuing operations, net of tax, net income and earnings per share data excluding the HR Management related impacts, litigation reserve reduction, and CEO transition costs to assess the current operational performance of the business for the year and to have a basis to compare results to prior and future periods. These charges and credits are relevant in evaluating the overall performance of the business. Limitations associated with the use of the non-GAAP measures include that these measures do not include all of the amounts associated with our results as determined in accordance with GAAP. Management compensates for these limitations by using both the non-GAAP measures, operating income, income from continuing operations, net of tax, net income and diluted earnings per share excluding the charges and credits, and the GAAP measure operating income, income from continuing operations, net of tax, net income and diluted earnings per share, in its evaluation of performance. There are no material purposes for which we use these non-GAAP measures beyond those described above.

The Company presents the non-GAAP financial measures EBITDA and Adjusted EBITDA because management uses these measures to monitor and evaluate the performance of the business and believes the presentation of these measures will enhance the investors' ability to analyze trends in the business and evaluate the Company's underlying performance relative to other companies in the industry.

These non-GAAP measures should be considered supplemental in nature and should not be considered in isolation or be construed as being more important than comparable GAAP measures. The non-GAAP financial information that we provide may be different from that provided by our competitors or other companies.

## **Webcast Presentation:**

Convergys will hold its First Quarter Financial Results webcast presentation at 10:00 A.M., Eastern Daylight Time, Tuesday, April 27, 2010. It will feature President and CEO Jeff Fox and CFO Earl Shanks. The webcast presentation will take place live and will then be available for replay via the following link --

<http://investor.shareholder.com/convergys/eventdetail.cfm?eventid=79706>

The replay will be available through May 31, 2010.

## **About Convergys**

Convergys Corporation (NYSE: CVG) is a global leader in relationship management. We provide solutions that drive more value from the relationships our clients have with their customers. Convergys turns these everyday interactions into a source of profit and strategic advantage for our clients.

For more than 30 years, our unique combination of domain expertise, operational excellence, and innovative technologies has delivered process improvement and actionable business insight to marquee clients all over the world.

Convergys has approximately 70,000 employees in 74 customer contact centers and other facilities in the United States, Canada, Latin America, Europe, the Middle East, and Asia, and our global headquarters in Cincinnati, Ohio. For more information, visit [www.convergys.com](http://www.convergys.com)

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