

CONVERGYS CORP

FORM 8-K (Current report filing)

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Sector	Technology
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): November 7, 2017

CONVERGYS CORPORATION
(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction
of incorporation)

1-14379
(Commission File Number)

31-1598292
(IRS Employer
Identification No.)

201 East Fourth Street
Cincinnati, Ohio
(Address of principal executive offices)

45202
(Zip Code)

Registrant's telephone number, including area code: (513) 723-7000

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition

On November 7, 2017 , Convergys Corporation (the “Company” or “Convergys”) issued a press release reporting its financial results for the quarter ended September 30, 2017 . A copy of the press release is furnished as Exhibit 99 hereto and is incorporated in this Item 2.02 by reference.

The information contained in this Current Report on Form 8-K is furnished pursuant to Item 2.02 of Form 8-K and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any Convergys filing or report with the Securities and Exchange Commission, whether made before or after the date hereof, except as shall be expressly set forth by specific reference in any such filing or report.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits:

99 Press Release of Convergys Corporation dated November 7, 2017

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CONVERGYS CORPORATION

By: /s/ Taylor C. Greenwald
Taylor C. Greenwald
Senior Vice President and Controller

Date: November 7, 2017

EXHIBIT INDEX

Exhibit Number

99 [Press Release of Convergys Corporation dated November 7, 2017](#)

CONVERGYS NEWS RELEASE

Convergys Reports Third Quarter Results

(Cincinnati; November 7, 2017) -- Convergys Corporation (NYSE: CVG), a global leader in customer experience outsourcing, today announced its financial results for the third quarter of 2017.

Third Quarter Summary

- Revenue of \$688 million, down 7 percent as reported and on a constant currency basis compared with prior year, including a 2 percent contribution from the buw acquisition;
- GAAP operating income of \$48 million; adjusted operating income of \$57 million;
- GAAP net income of \$35 million; adjusted net income of \$42 million;
- Adjusted EBITDA of \$83 million;
- GAAP EPS of \$0.35; adjusted EPS of \$0.42;
- Operating cash flow of \$64 million; adjusted free cash flow of \$48 million;
- \$31 million capital returned to shareholders via share repurchase and dividend;
- Confirming 2017 outlook with revenue and EPS at lower end of guidance ranges based on continued softness in communications sector.

“We delivered stable sequential revenue and adjusted operating income of \$688 million and \$57 million, respectively, compared with \$687 million and \$58 million in the second quarter. We also experienced several important new business wins in the third quarter,” said Andrea Ayers, President and CEO. “Year-over-year results came in as expected due to significant volume fluctuations with our largest communications clients. In a volatile environment, we are focusing on managing costs while investing in digital and voice solutions to further penetrate higher-growth industries and provide more value to our clients and shareholders.”

Ayers continued, “Based on our commitment to strong cash generation and capital return, we paid a 10 cent per share dividend and repurchased \$22 million of our stock.”

Third Quarter Results

Revenue - Revenue was \$688 million, a decrease of 7 percent as reported and on a constant currency basis, compared with \$741 million in the same period last year. Third-quarter revenue includes \$13 million, a 2 percent inorganic contribution for the month of July from the buw acquisition which closed in August 2016.

Operating Income - GAAP operating income was \$48 million, a 5 percent decrease compared with \$51 million in the same period last year. Excluding certain acquisition-related impacts discussed below, adjusted operating income was \$57 million, compared with \$62 million in the same period last year.

GAAP operating margin was 7.0 percent, up 20 basis points compared with 6.8 percent in the same period last year. Adjusted operating margin was 8.3 percent, down 10 basis points compared with 8.4 percent in the same period last year.

Adjusted EBITDA - Adjusted EBITDA was \$83 million, compared with \$90 million in the same period last year. Adjusted EBITDA excludes certain acquisition-related and other impacts discussed below.

Adjusted EBITDA margin was 12.0 percent, down 10 basis points compared with 12.1 percent in the same period last year.

Net Income - GAAP net income was \$35 million, or \$0.35 per diluted share, compared with income from continuing operations of \$38 million, or \$0.36 per diluted share, in the same period last year. Excluding certain acquisition-related and other impacts discussed below, adjusted net income was \$42 million, or \$0.42 per diluted share, compared with income from continuing operations of \$48 million, or \$0.46 per diluted share, in the same period last year.

Share Repurchase - Convergys repurchased 0.9 million shares in the third quarter at a cost of \$22 million. At September 30, 2017, the remaining authorization to purchase outstanding shares was \$77 million.

Quarterly Dividend - Convergys paid a \$0.10 per share quarterly dividend in October to holders of record at the close of business on September 22, 2017. The Company scheduled the next dividend payment of \$0.10 per share on January 5, 2018, to shareholders of record at the close of business on December 22, 2017.

Cash Flow - Operating cash flow was \$64 million, compared with \$81 million in the same period last year. Adjusted free cash flow was \$48 million, compared with \$54 million in the same period last year.

Net Debt - At September 30, 2017, cash and short-term investments were \$181 million, debt maturing in one year was \$1 million, and long-term debt was \$279 million. Net debt totaled \$99 million at September 30, 2017, compared with \$115 million at June 30, 2017, and \$159 million at the end of the third quarter last year.

Acquisition-related and Other Impacts - GAAP third-quarter 2017 results include acquisition-related impacts consisting of \$7 million amortization expense for acquired intangible assets, \$1 million depreciation expense related to the fair value write-up of acquired property and equipment, \$1 million integration expenses, and a \$2 million non-cash pension settlement charge classified in other expense. Prior year third-quarter 2016 GAAP results included \$7 million amortization expense for acquired intangible assets, and \$2 million depreciation expense related to the fair value write-up of acquired property and equipment, \$2 million expense related to the buw transaction, \$1 million integration costs, and \$1 million of tax expense related to cash repatriation activities.

Reconciliation tables of GAAP to non-GAAP results are attached.

2017 Business Outlook

Convergys is confirming full-year expectations with revenue and EPS at the lower end of previously provided guidance ranges as follows:

- Constant currency revenue change to approximate negative 4 percent;
- Adjusted EBITDA margin to approximate 12.6 percent;
- Adjusted effective tax rate to approximate 20 percent;
- Diluted shares outstanding to approximate 100 million reflecting shares repurchased through the third quarter;
- Adjusted EPS growth to approximate 1 percent;
- Adjusted free cash flow to approximate adjusted net income.

The Company also now expects slight improvement in fourth-quarter results compared with third-quarter results.

This guidance does not include severance charges in the first quarter related to discrete actions to streamline the business, acquisition-related impacts such as integration costs, transaction costs, intangible amortization and depreciation related to the fair value write-up of acquired property and equipment, as well as impacts from future currency movements, non-cash pension settlement charges, or any future share repurchase activities. Adjusted effective tax rate reflects the Company's expectations for the effective tax rate, excluding the tax impact of items discussed above, tax expense associated with cash repatriation and significant discrete tax adjustments.

The Company believes quantitative reconciliations of the outlook to GAAP measures cannot be provided without unreasonable efforts due to the forward-looking nature of the acquisition-related adjustments and future currency movements, and their inherent variability; therefore, the Company does not present guidance on a GAAP basis. For the same reason, Convergys is unable to address the probable significance of the unavailable information, which may have a material impact on the Company's GAAP results.

Forward-Looking Statements Disclosure and "Safe Harbor" Note

This news release contains statements, estimates, or projections that constitute "forward-looking statements" as defined under U.S. federal securities laws. Forward looking statements may be identified by words such as "will," "expect," "estimate," "think," "forecast," "guidance," "outlook," "plan," "lead," "project" or other comparable terminology. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks include, but are not limited to: (i) the loss of a significant client or significant business from a client; (ii) the future financial performance or outsourcing trends of our largest clients and the major industries that we serve, including continued volatility in volumes with our largest communications clients; (iii) contractual provisions that may limit our profitability or enable our clients to reduce or terminate services; (iv) our failure to successfully acquire and integrate businesses; (v) our inability to protect proprietary or personally identifiable data against unauthorized access or unintended release; (vi) the effects of complying with jurisdiction-specific data privacy requirements, including increased expenses, operational and contractual changes, and diversion of resources; (vii) our inability to maintain and upgrade our technology and network equipment in a timely and cost effective manner; (viii) business and political risks related to our global operations, including ongoing political developments in the Philippines, uncertainty regarding the impact of Britain's vote to leave the European Union (Brexit) or other similar actions by European Union member states, and economic weakness and operational disruption as a result of natural events, political unrest, war, terrorist attacks or other civil disruption; (ix) the effects of foreign currency exchange rate fluctuations; (x) the failure to meet expectations regarding our future tax liabilities, changes in tax laws or regulations that increase our future tax liabilities or the unfavorable resolution of tax contingencies; (xi) adverse effects of regulatory requirements or changes thereto, investigative and legal actions, and other commitments and contingencies; (xii) costs associated with conversions of our convertible debentures that may occur from time to time; and (xiii) those factors contained in our periodic reports filed with the SEC, including in the "Risk Factors" section of our most recent Annual Report on Form 10-K. The forward-looking information in this document is given as of the date of the particular statement and we assume no duty to update this information. Our filings and other important information are also available on the investor relations page of our web site at www.convergys.com.

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. To assess the underlying operational performance of the continuing operations of the business for the quarter and to have a basis to compare underlying operating results to prior and future periods, management uses operating income, net income, and diluted earnings per share metrics excluding certain non-operational or restructuring-related activities.

These items are relevant in evaluating the overall performance of the business. Limitations associated with the use of these 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 the non-GAAP measures, operating income, net income, and diluted earnings per share, in each case excluding the items above, and constant currency revenue growth, as well as the GAAP measures, operating income, net income, diluted earnings per share and revenue growth, in its evaluation of performance.

The Company presents the non-GAAP financial measure constant currency revenue growth because management uses this measure to assess underlying revenue trends by providing revenue growth between periods on a consistent basis. Constant currency revenue growth is determined by using the comparable prior year period's currency exchange rates to translate current period revenue from local currencies. 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 investors' ability to analyze trends in the business and evaluate the Company's underlying performance relative to other companies in the industry.

Management uses the non-GAAP metrics free cash flow and adjusted free cash flow to assess the financial performance of the Company. Convergys' management believes that free cash flow and adjusted free cash flow are useful to investors because they present the operating cash flow of the Company, excluding the capital that is spent to continue and improve business operations, such as investment in the Company's existing business. Further, free cash flow and adjusted free cash flow provide an indication of the ongoing cash that is available for debt repayment, returning capital to shareholders and other opportunities. Management also believes the presentation of these measures enhances investors' ability to analyze trends in the business and evaluate the Company's underlying performance relative to other companies in the industry. Limitations associated with the use of free cash flow and adjusted free cash flow include that they do not represent the residual cash flow available for discretionary expenditures as they do not incorporate certain cash payments including payments made on capital lease obligations or cash payments for business acquisitions. Management compensates for these limitations by utilizing the non-GAAP measures, free cash flow and adjusted free cash flow, and the GAAP measure, cash flow from operating activities, in its evaluation of performance.

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 Third Quarter 2017 Financial Results webcast at 9:00 a.m., Eastern time, Wednesday, November 8. The webcast presentation will take place live and

will then be available for replay at this link - [3Q17 Conference Call](#). This link will replay the webcast presentation through December 8. You may also access the webcast via the Convergys website, www.convergys.com. Click “Investors,” then “Releases, Events & Presentations.”

About Convergys

Convergys delivers consistent, quality customer experiences in 58 languages and from more than 150 locations around the globe. We partner with our clients to improve customer loyalty, reduce costs, and generate revenue through an extensive portfolio of capabilities, including customer care, analytics, tech support, collections, home agent, and end-to-end selling. We are committed to delighting our clients and their customers, delivering value to our shareholders, and creating opportunities for our talented, caring employees in 33 countries around the world.

Visit www.convergys.com to learn more about us.

Supporting Resources

Follow us on [Twitter](#) and [Facebook](#).

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Contacts

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CONVERGYS CORPORATION
Consolidated Statements of Income
(Unaudited)

(Amounts in millions except per share amounts)	Three Months Ended			Nine Months Ended		
	September 30,	2016	%	September 30,	2016	%
	2017		Change	2017		Change
Revenues:						
Communications	\$323.1	\$377.9	(15)%	\$972.9	\$1,091.6	(11)%
Technology	141.5	154.3	(8)%	431.0	472.5	(9)%
Financial Services	54.6	51.8	5 %	181.3	157.6	15 %
Other	169.1	157.2	8 %	517.6	433.9	19 %
Total Revenues	\$688.3	\$741.2	(7)%	\$2,102.8	\$2,155.6	(2)%
Costs and Expenses:						
Cost of providing services and products sold	428.1	479.8	(11)%	1,305.1	1,365.3	(4)%
Selling, general and administrative	175.5	170.5	3 %	527.1	511.1	3 %
Depreciation	26.2	30.3	(14)%	80.6	93.3	(14)%
Amortization	7.2	7.1	1 %	21.7	20.9	4 %
Restructuring charges	2.4	0.2	NM	19.1	2.7	NM
Transaction and integration costs	0.8	2.7	(70)%	3.4	5.0	(32)%
Total Costs and Expenses	640.2	690.6	(7)%	1,957.0	1,998.3	(2)%
Operating Income	48.1	50.6	(5)%	145.8	157.3	(7)%
Other (expense) income, net	(1.6)	(1.2)	33 %	1.2	(3.2)	NM
Interest expense	(4.5)	(4.6)	(2)%	(14.0)	(13.6)	3 %
Income before Income Taxes	42.0	44.8	(6)%	133.0	140.5	(5)%
Income tax expense	7.2	7.1	1 %	20.5	25.0	(18)%
Income from Continuing Operations, net of tax	34.8	37.7	(8)%	112.5	115.5	(3)%
Income from Discontinued Operations, net of tax	—	10.0	(100)%	—	10.0	(100)%
Net Income	\$34.8	\$47.7	(27)%	\$112.5	\$125.5	(10)%
Basic Earnings per Common Share						
Continuing Operations	\$0.38	\$0.39		\$1.20	\$1.20	
Discontinued Operations	—	0.11		—	0.11	
Basic Earnings per Common Share	\$0.38	\$0.50		\$1.20	\$1.31	
Diluted Earnings per Common Share						
Continuing Operations	\$0.35	\$0.36		\$1.12	\$1.11	
Discontinued Operations	—	0.10		—	0.10	
Diluted Earnings per Common Share	\$0.35	\$0.46		\$1.12	\$1.21	
Weighted Average Common Shares Outstanding:						
Basic	92.8	95.6		93.6	96.1	
Diluted	99.8	103.1		100.7	103.6	
Market Price Per Share						
High	\$26.08	\$30.92		\$26.60	\$30.92	
Low	\$22.91	\$24.78		\$20.15	\$22.53	
Close	\$25.89	\$30.42		\$25.89	\$30.42	

CONVERGYS CORPORATION
Reconciliation of GAAP Revenue Growth to non-GAAP Constant Currency Revenue Growth
(In Millions Except Per Share Amounts)

	Three Months Ended September 30,	
	2017	2016
Revenue	\$688.3	\$741.2
Revenue growth, as reported under U.S. GAAP	(7.0)%	(0.1)%
Foreign exchange impact ^(a)	(0.4)%	1.0 %
Constant currency revenue growth (a non-GAAP measure)	(7.4)%	0.9 %

CONVERGYS CORPORATION
Reconciliation of GAAP EPS from Continuing Operations to non-GAAP EPS from Continuing Operations
(In Millions Except Per Share Amounts)

	Three Months Ended September 30,		%
	2017	2016	
Operating Income as reported under U.S. GAAP	\$48.1	\$50.6	(5)%
<i>Operating Margin</i>	<i>7.0%</i>	<i>6.8%</i>	
Depreciation of property & equipment write-up ^(b)	0.8	2.0	
Amortization of acquired intangible assets ^(c)	7.2	7.1	
Transaction related expenses ^(d)	—	1.9	
Integration related expenses ^(e)	0.8	0.8	
Total Charges	8.8	11.8	
Adjusted Operating Income (a non-GAAP measure)	\$56.9	\$62.4	(9)%
<i>Adjusted Operating Margin</i>	<i>8.3%</i>	<i>8.4%</i>	
Income before Income Tax as reported under U.S. GAAP	\$42.0	\$44.8	(6)%
Total operating charges from above	8.8	11.8	
Pension settlement charge ^(f)	2.0	—	
Adjusted Income before Income Taxes (a non-GAAP measure)	\$52.8	\$56.6	(7)%
Income from Continuing Operations, net of tax, as reported under U.S. GAAP	\$34.8	\$37.7	(8)%
Total operating charges from above	8.8	11.8	
Income tax impact from total operating charges	(2.9)	(3.0)	
Pension settlement charge ^(f)	2.0	—	
Income tax impact from pension settlement charge	(0.8)	—	
Tax provision related to unremitted non-U.S. earnings ^(g)	—	1.3	
Adjusted Income from Continuing Operations, net of tax(a non-GAAP measure)	\$41.9	\$47.8	(12)%
Diluted EPS from Continuing Operations as reported under U.S. GAAP	\$0.35	\$0.36	(3)%
Net impact of total charges included in Continuing Operations	0.07	0.10	
Adjusted Diluted EPS from Continuing Operations (a non-GAAP measure)	\$0.42	\$0.46	(9)%

(a) Changes in currency exchange rates resulted in increased revenues in the current quarter primarily due to the weakening U.S. dollar relative to the euro.

(b) During the third quarter of 2017 and 2016, the Company recorded \$0.8 and \$2.0, respectively, of depreciation expense resulting from the fair value write-up of property and equipment acquired from Stream and buw.

(c) During the third quarter of 2017 and 2016, the Company recorded amortization expense of \$7.2 and \$7.1, respectively, related to acquired intangible assets.

(d) During the third quarter of 2016, the Company recorded \$1.9 of expense associated with the acquisition of buw, related to fees paid for third-party consulting services.

(e) During the third quarter of 2017 and 2016, the Company recorded \$0.8 of acquisition integration expenses, primarily related to third-party consulting services and severance.

(f) During the third quarter of 2017, the Company recorded pension plan settlement charges of \$2.0, due to a high level of lump-sum payouts.

(g) During the third quarter 2016, the Company recognized tax expense of \$1.3 associated with the repatriation of certain foreign earnings in conjunction with the Company's acquisition of buw.

Management uses constant currency revenue growth to assess underlying revenue trends by providing revenue growth between periods on a consistent basis. Constant currency revenue growth is determined by using the comparable prior year period's currency exchange rates to translate current period revenue from local currencies. Management uses operating income, income from continuing operations, net of tax and earnings per share from continuing operations excluding the above items to assess the underlying operational performance of the continuing operations of the business for the year and to have a basis to compare underlying operating 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 these 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 the non-GAAP measures, constant currency revenue growth, operating income, income from continuing operations, net of tax and diluted earnings per share excluding the charges, and the GAAP measures, revenue growth, operating income, income from continuing operations, net of tax and diluted earnings per share, in its evaluation of performance.

CONVERGYS CORPORATION
Reconciliation of GAAP Revenue Growth to non-GAAP Constant Currency Revenue Growth
(In Millions Except Per Share Amounts)

	Nine Months Ended September 30,	
	2017	2016
Revenue	\$2,102.8	\$2,155.6
Revenue growth, as reported under U.S. GAAP	(2.5)%	(2.0)%
Foreign exchange impact ^(a)	0.6 %	1.0 %
Constant currency revenue growth (a non-GAAP measure)	(1.9)%	(1.0)%

CONVERGYS CORPORATION
Reconciliation of GAAP EPS from Continuing Operations to non-GAAP EPS from Continuing Operations
(In Millions Except Per Share Amounts)

	Nine Months Ended September 30,		%
	2017	2016	
Operating Income as reported under U.S. GAAP	\$145.8	\$157.3	(7)%
<i>Operating Margin</i>	6.9%	7.3%	
Depreciation of property & equipment write-up ^(b)	2.6	7.5	
Amortization of acquired intangible assets ^(c)	21.7	20.9	
Company-wide restructuring ^(d)	12.8	—	
Transaction related expenses ^(e)	—	3.1	
Integration related expenses ^(f)	3.4	1.9	
Total Charges	40.5	33.4	
Adjusted Operating Income (a non-GAAP measure)	\$186.3	\$190.7	(2)%
<i>Adjusted Operating Margin</i>	8.9%	8.8%	
Income before Income Tax as reported under U.S. GAAP	\$133.0	\$140.5	(5)%
Total operating charges from above	40.5	33.4	
Pension settlement charge ^(g)	2.0	—	
Adjusted Income before Income Taxes (a non-GAAP measure)	\$175.5	\$173.9	1 %
Income from Continuing Operations, net of tax, as reported under U.S. GAAP	\$112.5	\$115.5	(3)%
Total operating charges from above	40.5	33.4	
Income tax impact from total operating charges	(14.2)	(9.1)	
Pension settlement charge ^(g)	2.0	—	
Income tax impact from pension settlement charge	(0.8)	—	
Tax provision (benefit) related to unremitted non-U.S. earnings ^(h)	—	1.3	
Adjusted Income from Continuing Operations, net of tax (a non-GAAP measure)	\$140.0	\$141.1	(1)%
Diluted EPS from Continuing Operations as reported under U.S. GAAP	\$1.12	\$1.11	1 %
Net impact of total charges included in Continuing Operations	0.27	0.25	
Adjusted Diluted EPS from Continuing Operations (a non-GAAP measure)	\$1.39	\$1.36	2 %

(a) Changes in currency exchange rates resulted in reduced revenues in the current year primarily due to the strengthening U.S. dollar relative to the British pound.

(b) During the nine months ended September 30, 2017 and 2016, the Company recorded \$2.6 and \$7.5, respectively, of depreciation expense resulting from the fair value write-up of property and equipment acquired from Stream and buw.

(c) During the nine months ended September 30, 2017 and 2016, the Company recorded amortization expense of \$21.7 and \$20.9, respectively, related to acquired intangible assets.

(d) During the nine months ended September 30, 2017, the Company recorded restructuring charges of \$12.8, associated with a company-wide initiative to reduce headcount and better align the Company's resources, principally for corporate functions.

(e) During the nine months ended September 30, 2016, the Company recorded \$3.1 of expense associated with the acquisition of buw, related to fees paid for third-party consulting services.

(f) During the nine months ended September 30, 2017 and 2016, the Company recorded \$3.4 and \$1.9, respectively, of integration expenses associated with Convergys' integration of the acquired Stream and buw operations. These expenses were primarily related to third-party consulting services and severance expense.

(g) During the nine months ended September 30, 2017, the Company recorded pension plan settlement charges of \$2.0, due to a high level of lump-sum payouts.

(h) During the nine months ended September 30, 2016, the Company recognized tax expense of \$1.3 associated with the repatriation of certain foreign earnings in conjunction with the Company's acquisition of buw.

Management uses constant currency revenue growth to assess underlying revenue trends by providing revenue growth between periods on a consistent basis. Constant currency revenue growth is determined by using the comparable prior year period's currency exchange rates to translate current period revenue from local currencies. Management uses operating income, income from continuing operations, net of tax and earnings per share from continuing operations excluding the above items to assess the underlying operational performance of the continuing operations of the business for the year and to have a basis to compare underlying operating 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 these 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 the non-GAAP measures, constant currency revenue growth, operating income, income from continuing operations, net of tax and diluted earnings per share excluding the charges, and the GAAP measures, revenue growth, operating income, income from continuing operations, net of tax and diluted earnings per share, in its evaluation of performance.

CONVERGYS CORPORATION
Reconciliation of Income from Continuing Operations to Adjusted EBITDA

(In millions)	Three Months Ended			Nine Months Ended		
	September 30, 2017	2016	%	September 30, 2017	2016	%
Income from Continuing Operations, net of tax	\$34.8	\$37.7	(8)%	\$112.5	\$115.5	(3)%
Depreciation and Amortization	33.4	37.4	(11)%	102.3	114.2	(10)%
Interest expense	4.5	4.6	(2)%	14.0	13.6	3 %
Income tax expense	7.2	7.1	1 %	20.5	25.0	(18)%
EBITDA (a non-GAAP measure)	\$79.9	\$86.8	(8)%	\$249.3	\$268.3	(7)%
Pension settlement charge	2.0	—	100 %	2.0	—	100 %
Company-wide restructuring	—	—	— %	12.8	—	100 %
Transaction related expenses	—	1.9	(100)%	—	3.1	(100)%
Integration related expenses	0.8	0.8	— %	3.4	1.9	79 %
Adjusted EBITDA (a non-GAAP measure)	\$82.7	\$89.5	(8)%	\$267.5	\$273.3	(2)%
<i>EBITDA Margin</i>	<i>11.6%</i>	<i>11.7%</i>		<i>11.9%</i>	<i>12.4%</i>	
<i>Adjusted EBITDA Margin</i>	<i>12.0%</i>	<i>12.1%</i>		<i>12.7%</i>	<i>12.7%</i>	

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 enhances 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 not be considered in isolation or as a substitute for income from continuing operations, net of tax or other income statement data prepared in accordance with GAAP and our presentation of these measures may not be comparable to similarly-titled measures used by other companies. Management uses both these non-GAAP measures and the GAAP measure, income from continuing operations, net of tax, in evaluation of its underlying performance. 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.

CONVERGYS CORPORATION
Consolidated Balance Sheets

(In millions)	<i>(Unaudited)</i> <u>At September 30, 2017</u>	<u>At December 31, 2016</u>
<u>Assets</u>		
Cash and cash equivalents	\$167.8	\$138.8
Short-term investments	13.0	12.4
Receivables, net of allowances	555.8	555.0
Other current assets	82.4	78.6
Property and equipment, net	270.4	304.1
Other assets	1,298.0	1,282.9
Total Asset	\$2,387.4	\$2,371.8
<u>Liabilities and Shareholders' Equity</u>		
Debt and capital lease obligations maturing within one year	\$0.9	\$1.8
Other current liabilities	314.1	345.8
Other liabilities	353.4	350.0
Long-term debt and capital lease obligations	279.2	297.0
Convertible debentures conversion feature	59.9	61.3
Shareholders' equity	1,379.9	1,315.9
Total Liabilities and Shareholders' Equity	\$2,387.4	\$2,371.8

CONVERGYS CORPORATION
Reconciliation of Cash Provided by Operating Activities to Free Cash Flow

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net cash provided by operating activities	\$63.7	\$80.5	\$186.1	\$236.8
Capital expenditures	(17.0)	(29.3)	(44.9)	(63.6)
Free Cash Flow (a non-GAAP measure)	\$46.7	\$51.2	\$141.2	\$173.2
Acquisition - cash paid for transaction and integration related expenses ^(a)	1.2	2.9	4.0	5.7
Adjusted Free Cash Flow (a non-GAAP measure)	\$47.9	\$54.1	\$145.2	\$178.9

(a) Payments associated with investment activity for acquisition related items.

Management uses free cash flow and adjusted free cash flow to assess the financial performance of the Company. Convergys' Management believes that free cash flow and adjusted free cash flow are useful to investors because they present the operating cash flow of the Company, excluding capital that is spent to continue and improve business operations, such as investment in the Company's existing businesses. Further, free cash flow and adjusted free cash flow provide an indication of the ongoing cash that is available for debt repayment, returning capital to shareholders and other investment opportunities. Management also 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.

Limitations associated with the use of free cash flow and adjusted free cash flow include that they do not represent the residual cash flow available for discretionary expenditures as they do 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 measures, free cash flow and adjusted free cash flow, and the GAAP measure, cash from operating activities, in its evaluation of performance. 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.

CONVERGYS CORPORATION
Summarized Statement of Cash Flow
(Unaudited)

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net cash provided by operating activities	\$63.7	\$80.5	\$186.1	\$236.8
Net cash used in investing activities	(17.0)	(159.2)	(44.2)	(194.3)
Net cash used in financing activities	(41.6)	(34.9)	(112.9)	(118.1)
Net increase (decrease) in cash	\$5.1	(\$113.6)	\$29.0	(\$75.6)