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Convergys Corporation (NYSE: CVG)**Buy****March 13, 2002****S&P Sector – Industrials****Industry - Comm. Serv. & Supp****MARKET DATA**

Price	52-Wk Range	Price Target	Shares Out.	Market Cap.	Beta	Book Value	P/S	P/E
3-13-02 close	Low - High	Valuation Result	(million)	(billion)	Yahoo Finance	per share	(ttm)	(ttm)
\$31.10	\$24.46 - \$44.35	\$ 39.21	172.1	\$5.5	0.96	\$7.28	2.42	25.97

Source: All data from Yahoo! Finance, except for the valuation result

**COMPANY OVERVIEW**

Convergys (CVG) is a leading provider of outsourced, integrated billing and customer care services. The company focuses on developing long-term, strategic relationships with clients in industries that have complex billing needs or intensive customer-service requirements. Convergys focuses primarily on the communications markets, including wireless, cable, broadband, and direct broadcast satellite services. CVG services these clients through two operating segments, the Information Management Group (IMG) and the Customer Management Group (CMG), though for some of the company's larger clientele the IMG and CMG jointly provide a full range of billing and customer management solutions.

INVESTMENT RECOMMENDATION

☐ Buy 300 shares of CVG.

SUMMARY

- ❑ The stock is currently undervalued by approximately 30%: Bloomberg's DDM valuation of CVG on March 11, 2002 rendered a price of \$41.49/ share. Our 2-stage model gives a current price valuation of \$39.21 / share based on the following CAPM assumptions: beta of 0.96, risk-free rate equal to the ten-year T-bill (5.00%), and a risk premium of 7.00%.
- ❑ The stock is currently trading at a 12-month forward P/E of 20x, a moderate discount to its historical median of 23.2x. By applying this historical median P/E to the 2002 EPS forecast of \$1.57- \$1.65, we arrive at a price of \$36 - \$38 per share.
- ❑ For the fourth quarter of 2001, CVG reported a cash EPS of \$0.37, excluding goodwill amortization and special items, in line with street consensus.
- ❑ The company reiterated guidance for FY02: CVG is comfortable with the range of 2002 EPS estimates of \$1.57 to \$1.65. Longer-term, the company is still targeting revenue growth of 15% and earnings growth of 20-25%.
- ❑ CVG dominates the US wireless billing and high-end customer-care markets with a 40% share of the market. This has helped CVG build the economies of scale for necessary efficient operations in the outsourcing industry.
- ❑ The services provided by billing and customer care firms should remain in demand as corporate and individual clients look to outsource more non-core activities. International expansion represents a major opportunity for CVG to fuel stronger top-line growth in the Information Management Group. Significant margin expansion potential will likely fuel faster bottom-line growth in the customer services segment, longer-term.
- ❑ CVG is being undervalued by the market in varying degrees and the company has exhibited a low correlation to the other securities in the Industrials sector.

Industry Insight

News & Trends

During 2001, the S&P Diversified Commercial Services Index rose 16.3%, versus a 13% decline in the S&P 500. With more attractive comparisons and reasonable valuations, our outlook for this industry is favorable. The services provided by outsourcing industries should remain in demand as corporate and individual clients look to keep costs restrained to only necessary expenses such as risk management and human resources.

Consolidation will be a key future trend in the US wireless industry. This consolidation will not only increase the buyer power of each surviving wireless carrier, but will also provide those billing and customer care firms that are able to retain their clients with significant growth opportunities. Of course, the wireless carriers could always process all the billing and customer care issues in-house, which is what approximately 50% of this market does currently. Though this may look like a glass ceiling (or feel like it), it is actually a powerful growth opportunity for two reasons; (1) As the industry

consolidates and the larger carriers invest heavily in next-generation technology which implies that billing is bound to become a major differentiator for carriers seeking a return on their multi-million dollar investments (2) carriers are searching for ways to reduce subscriber churn. Subscriber churn is estimated at around 25% - 40% annually, most of which can be attributed to poor customer service. The ability to provide superior customer service will also help carriers keep their younger customers over a longer time horizon and reduce churn.

The major problem in customer care firms is the mammoth turnover levels these companies face in their call centers. Companies are mitigating this issue with two initiatives; the first is to move call centers to locations with an abundance of labor where the wages offered by the billing and customer-care companies are competitive. The second initiative to reduce employee churn is offering what has been labeled "home agent" programs. These programs enable customer care representatives to work out of their home, wherever that might be, by remotely logging on to the central call center database from their abode.

Larger billing and customer care companies have seen revenues continue to rise amid the economic downturn as their larger clients outsource more non-core activities. The major players in the wireless and cable billing and customer care industry typically have long-term service contracts with the industry incumbents, for example CVG's contract with Sprint PCS extends through 2004 and its agreement with AT&T Broadband extends through 2008. Recently the large billing and customer care companies, led by CVG, have begun introducing modular solutions, which are adaptable to one point along the billing and customer care continuum, whereas in the past most of the solutions these companies offered their clients were end-to-end in nature. This action will enable the larger billing and customer care firms to increase their market share and make it that much harder for new firms to enter and compete for existing or new customers. The economies of scale required in billing and customer care industry make it difficult for new companies to enter this sector. Finally the major players in the cable and wireless industry have had a billing and customer care firm either build or run their billing and customer care system(s) for a large time length, so there are implicit switching costs.

As the two primary markets served by these billing and customer care companies consolidate in the near term, rivalry for new contracts (as wireless carriers seek to outsource) and old contracts (as cable and wireless companies come to the end of their respective service contracts with their incumbent service provider) will increase. The beginnings of this can already be seen, as a few billing and customer care firms have negotiated down current contracts in 2001 to retain business. Two points of emphasis that needs to be brought to light; the first is that, while the billing function is relatively inelastic to economic fluctuations, the customer care and teleservices functions *are not*.

Investment Rationale & Impact

Overall Effect On Wright Fund

The Industrials Sector is under-weighted at 7.8% vs. S&P's recommended weighting of 11.5%. We are recommending buying CVG as it presents a valuable investment opportunity and will bring our sector closer to the S&P's recommended weighting.

Investment Positives

Industry leader: CVG dominates the US wireless billing and high-end customer-care markets with a 40% share of the market. The company should benefit from market share gains by its top wireless customers, AT&T Wireless and Sprint PCS. In addition, we estimate that approximately half of all US wireless operations are processed in-house, providing CVG with an additional growth opportunity. We believe that the company's investment in flexible, component-based new generation product architecture should help extend its market leadership.

Expected turnaround in the second half of 2002: We expect growth for CVG to rebound in the second half of the year following a weak 2001 and expected softness in the first half of this year. The rebound should be driven by several factors, including: two large, recently announced contracts, with AT&T Broadband and the State of Florida that should begin to contribute to CVG's results in the second half of 2002; a rebound in the economy starting in the second quarter of 2002; and continued build in the company's pipeline of new opportunities. In addition, it is possible that Convergys may play a meaningful role as a subcontractor in the recently announced \$2.6 billion Accenture contract with AT&T Consumer.

International expansion: We believe Convergys is well positioned to expand its market leadership position overseas. The recent acquisition of Geneva Technologies is a step in this direction.

Investment Risks

Weak Economy in the first half of 2002: In 2002, we think growth should be weighted toward the second half of the year for three reasons. First, in the first half of 2002, economic weakness may continue to pressure teleservices revenue growth while new contracts are not expected to post meaningful contributions until the second half of 2002. Second, the re-pricing of the Sprint PCS contract, effective January 1, 2002, should have a relatively greater impact on the first half of the year as this business adds subscribers throughout the year. Third, revenue and earnings contribution from the Orange/France Telecom contract will likely increase over the course of 2002.

Client concentration: In the first nine months of 2001, Convergys derived 47% of revenue from its three largest clients: AT&T, AT&T Wireless, and Sprint PCS. AT&T, Convergys' largest customer, accounted for 21% of revenue.

Recent News & Guidance

- ❑ CVG has formed an alliance with TALX Corporation (NASDAQ: TALX), a leading application service provider of employee care services to enhance CVG's employee care solutions.
- ❑ For the second consecutive year, Fortune magazine has ranked CVG among the most admired companies in America. In fact, CVG was the only billing, employee, and customer care provider to win this distinction this year.
- ❑ For the fourth quarter of 2001, CVG reported a cash EPS of \$0.37, excluding goodwill amortization and special items, in line with street consensus. Wireless billing revenue was up 10% in Q4, subscriber growth was robust up 22%.
- ❑ For the year 2001, EPS, excluding goodwill amortization, increased 12 percent to \$1.40 from \$1.25 in 2000, in line with street consensus.
- ❑ The company reiterated guidance for FY02: IMG revenue should increase 13-15%; CMG revenue should increase 7-10%. CVG is comfortable with the range of 2002 EPS estimates of \$1.57 to \$1.65. The U.S. accounting change eliminating the expense of goodwill amortization materially has resulted in approximately 12% increase in '02 earnings estimates. CVG management stated that over 80% of IMG's FY02 planned revenue is identified and over 85% of CMG's planned revenue is identified.
- ❑ CVG expects first quarter EPS of \$0.34 to \$0.36.
- ❑ Longer-term, the company is still targeting revenue growth of 15% and earnings growth of 20-25% (under new accounting rules for goodwill).
- ❑ Due to the difficult economic environment, CMG is currently challenged. However, we believe the difficult operating environment may ultimately fuel a pick-up in outsourcing of customer care call center operations. The company is focused on accelerating top-line growth in IMG (billing) and bottom-line growth in CMG (customer service). International represents a major opportunity for IMG to fuel stronger top-line growth. Significant margin expansion potential in CMG will likely fuel faster bottom-line growth in the customer services segment, longer-term.

Valuation

DCF Analysis

CVG offers a compelling value in the future, based on a discounted cash flow or present value analysis. The DCF analysis yielded a share price of \$39.21, which is at 23% premium to the current value. For the discounted cash flow analysis, the percentage of sales approach was used. The two-stage growth model assumes an annual revenue growth (CAGR) of 15% over the next ten years. The risk-free rate for the time horizon was 5.0% (10-yr. U.S. Treasury Bond yield). A beta of 0.96 and a market risk premium of 7.0% plugged into the CAPM model yielded a required rate of return on equity of 11.7%. As of 9/30/01, CVG had \$184.5M in outstanding long-term debt with a weighted-average interest rate of 7.5%. Historically, the company has a capital structure weighted heavily in equity (90%) and only lightly on debt (10%). That capital

structure implied a WACC of 11.0%. This WACC was used to discount CVG's free cash flows to the firm and the cost of equity was used to discount the free cash flows to equity. Please see page 13 for the detailed DCF model specifics. No cash dividends have been paid, and no payments are expected in the foreseeable future.

Online Valuation

ValuePro.Net

Using the default settings with a 17.5% growth, the Value Pro DCF model values CVG's stock at \$42.94, an almost 34.6% premium to the current price.

Bloomberg Valuation

Using the default settings, the Bloomberg's DDM model values CVG's stock at \$41.49, a 30% premium to the current price.

P/E Multiple Analyses

CVG is currently trading at 20x and 16.7x the estimated 2002 and 2003 EPS, respectively. It also trades at a discount to the five-year EPS growth rate assumption of 20%. The stock also appears cheap on an historical basis. Since its IPO in 1998, the shares have traded at a 12-month forward P/E of between 15.5x and 40.5x, with a median of 23.2x. The stock is currently trading at 20x, a moderate discount to its historical median. By applying this historical median P/E to the 2002 EPS forecast of \$1.57- \$1.65, we arrive at a price of \$36 - \$38 per share.

Conclusion

I believe that a target valuation between \$39 and \$42.5 per share is an accurate one. Based on my analysis, I would like to set a price target at \$40 per share, represents approximately a 30% upside potential. A stop loss \$24, the 52 week low will protect from excessive loss if something very unpredictable occurs. We believe CVG offers compelling value over the next 12 months on both discounted cash flow (DCF) and historical relative P/E multiple analyses. It is true that the target valuation is dependent on consistent revenue growth rates but I believe that these rates are achievable due to the trend towards outsourcing billing and customer care in the cable and wireless industries. These growth rates are consistent with the analyst consensus estimates.

Comparables Valuation

The outsourcing services market has a proliferation of companies vying for leadership in many different areas that range from payroll processing to systems integration. CVG is a player in only a few of these niche markets that sum up to comprise the entire business process outsourcing (BPO) market. I decided on a two-pronged comparables analysis; one dealing explicitly with firms in CVG's market (billing and customer care for the wireless, cable/broadcast, and technology sectors) and another that incorporated firms from different areas of the broader BPO market.

Ratio Comparisons with CVG's market competitors in wireless & cable sectors

Valuation Ratios	CVG	DST	CSGS	AT	DOX	Sector	S&P 500
P/E Ratio (TTM)	25.97	25.83*	17.39	17.47	116.27	46.13	31.45
P/E High - Last 5 Yrs.	NA	53.92	NA	46.2	NA	67.27	49.94
P/E Low - Last 5 Yrs.	NA	8.53	NA	8.47	NA	18.53	17.39
Beta	0.96	0.7	1.06	0.53	2.08	1.82	1
Price to Sales (TTM)	2.42	3.55*	4.16	2.41	4.19	6.54	3.96
Price to Book (MRQ)	4.43	4.36	7.64	3.25	4.38	5.78	5.63
Price to Tangible Book (MRQ)	4.43	5.16	11.5	8.49	11.45	7.5	8.48
Price to Cash Flow (TTM)	14.36	15.39	15.43	8.25	19.35	41.84	24.14
Price to Free Cash Flow (TTM)	NA	36.7	NA	481.82	23.24	32.99	40
% Owned Institutions	62.94	46.98	95	56.96	61.62	45.35	60.81
Dividends	CVG	DST	CSGS	AT	DOX	Sector	S&P 500
Dividend Yield	0	0	0	2.33	0	0.67	1.71
Dividend Yield - 5 Year Avg.	NA	0	0	2.1	NA	0.2	1.25
Dividend 5 Year Growth Rate	NM	NM	NM	4.74	-100	-28.73	2.1
Payout Ratio (TTM)	0	0	0	39.57	0	7.89	29.31
Growth Rates(%)	CVG	DST	CSGS	AT	DOX	Sector	S&P 500
Sales (MRQ) vs Qtr. 1 Yr. Ago	1.41	19.30*	8.87	1.5	23.52	-8.24	-2.64
Sales (TTM) vs TTM 1 Yr. Ago	6.2	21.87*	19.56	4.76	31.79	-5.51	2.56
Sales - 5 Yr. Growth Rate	22.47	22.98	29.23	12.38	48.6	24.6	13.49
EPS (MRQ) vs Qtr. 1 Yr. Ago	125.07	-19.23*	20.86	-10.95	-66.07	-21.88	-1.31
EPS (TTM) vs TTM 1 Yr. Ago	9.91	8.82*	30.7	-46.13	2,236.36	-33.49	-7.43
EPS - 5 Yr. Growth Rate	16.78	32.53	NM	21.55	5.71	13.78	11.69
Capital Spending - 5 Yr. Growth Rate	-100	21.88	-100	6.29	75.46	-27.79	-6.7
Financial Strength	CVG	DST	CSGS	AT	DOX	Sector	S&P 500
Quick Ratio (MRQ)	0.92	0.87	1.54	1.03	2.36	2.46	1.15
Current Ratio (MRQ)	1.06	0.98	1.65	1.38	2.52	3.01	1.7
LT Debt to Equity (MRQ)	0	0.08	0	0.69	0.34	0.22	0.69
Total Debt to Equity (MRQ)	0.11	0.26	0.13	0.7	0.35	0.29	0.99
Interest Coverage (TTM)	18.32	50.22	59.9	5.76	NM	9.04	9.2
Profitability Ratios (%)	CVG	DST	CSGS	AT	DOX	Sector	S&P 500
Gross Margin (TTM)	45.33	27.65	63.09	38.49	44.79	48.18	46.97
Gross Margin - 5 Yr. Avg.	44.14	25.08	58.51	37.43	41.52	52.06	47.99
EBITD Margin (TTM)	23.39	27.65	41.21	37.27	23.27	13.79	19.69
EBITD - 5 Yr. Avg.	20.1	24.16	19.5	35.71	22.01	20.64	22.06
Operating Margin (TTM)	15.79	18.61	38.16	21.91	9.48	6.6	15.42
Operating Margin - 5 Yr. Avg.	12.99	13.8	13.24	21.77	14.16	15.03	18.08
Pre-Tax Margin (TTM)	15.13	23.87	38.47	23.05	10.72	7.75	13.24
Pre-Tax Margin - 5 Yr. Avg.	12.83	20	11.99	26.14	13.02	17.92	17.34
Net Profit Margin (TTM)	9.29	13.75*	23.89	13.79	3.6	1.63	8.21
Net Profit Margin - 5 Yr. Avg.	8.01	12.59	7.44	15.3	6.03	10.86	11.33
Effective Tax Rate (TTM)	38.64	35.68	37.9	40.2	66.4	34.04	34.33
Effective Tax Rate - 5 Yr. Avg.	37.55	36.78	37.73	41.61	62.32	34.89	35.66
Management Effectiveness (%)	CVG	DST	CSGS	AT	DOX	Sector	S&P 500
Return On Assets (TTM)	12.33	9.24*	32.99	8.57	2.46	0.84	5.69
Return On Assets - 5 Yr. Avg.	10.73	8.91	9.41	9.77	9.93	9.34	8.09
Return On Investment (TTM)	15.6	11.72*	50.37	9.73	3.08	2.52	9.22
Return On Investment - 5 Yr. Avg.	15.84	10.29	13.47	11.07	32.12	14.26	12.96
Return On Equity (TTM)	18.19	16.46*	53.89	19.56	3.91	4.52	16.85
Return On Equity - 5 Yr. Avg.	17.81	14.39	79.53	25.62	23.9	19.07	21.77
Efficiency	CVG	DST	CSGS	AT	DOX	Sector	S&P 500
Revenue/Employee (TTM)	51,569	164,356*	261,606	317,216	166,431	354,847	628,407
Net Income/Employee (TTM)	4,789	22,594*	62,491	43,728	5,994	47,673	87,041
Receivable Turnover (TTM)	6.14	4.29*	4.13	6.11	4.62	6.32	9.12
Inventory Turnover (TTM)	NA	NA	NA	25.88	NA	11.17	10.43
Asset Turnover (TTM)	1.33	0.67*	1.38	0.62	0.68	0.73	0.96

Source: MultexInvestor.com (<http://www.multexinvestor.com>)

Ratio Comparisons with Business Process Outsourcing (BPO) market

Valuation Ratios	CVG	ADP	EDS	CEN	FDC	CSC	Sector	S&P 500
P/E Ratio (TTM)	25.97	36.78	22.38	60.79*	38.82*	54.4	46.13	31.45
P/E High - Last 5 Yrs.	NA	51.25	82.24	130.33	46.36	58.17	67.27	49.94
P/E Low - Last 5 Yrs.	NA	25.38	18	15.98	13.33	13.37	18.53	17.39
Beta	0.96	0.8	0.65	0.79	1.03	1.3	1.82	1
Price to Sales (TTM)	2.42	5.2	1.44	2.51*	5.37*	0.79	6.54	3.96
Price to Book (MRQ)	4.43	7.42	4.75	2.52	9.56	2.58	5.78	5.63
Price to Tangible Book (MRQ)	4.43	11.55	20.95	33.96	NM	13.89	7.5	8.48
Price to Cash Flow (TTM)	14.36	27.93	22.39	19.08	23.57	9.04	41.84	24.14
Price to Free Cash Flow (TTM)	NA	32.67	NM	81.63	25.63	87.65	32.99	40
% Owned Institutions	62.94	73.68	81.62	93.63	88.58	76.9	45.35	60.81
Dividends	CVG	ADP	EDS	CEN	FDC	CSC	Sector	S&P 500
Dividend Yield	0	0.79	0.94	0	0.09	0	0.67	1.71
Dividend Yield - 5 Year Avg.	NA	0.7	1.1	0	0.2	0	0.2	1.25
Dividend 5 Year Growth Rate	NM	15.31	0	NM	5.92	NM	-28.73	2.1
Payout Ratio (TTM)	0	26.18	20.33	0	3.58	0	7.89	29.31
Growth Rates(%)	CVG	ADP	EDS	CEN	FDC	CSC	Sector	S&P 500
Sales (MRQ) vs Qtr. 1 Yr. Ago	1.41	2.51	13.54	-0.66*	11.56*	8.86	-8.24	-2.64
Sales (TTM) vs TTM 1 Yr. Ago	6.2	7.46	12.05	0.56*	11.03*	10.54	-5.51	2.56
Sales - 5 Yr. Growth Rate	22.47	14.5	8.33	7.38	6.39	17.29	24.6	13.49
EPS (MRQ) vs Qtr. 1 Yr. Ago	125.07	31.98	22.22	-35.62*	23.33*	32.03	-21.88	-1.31
EPS (TTM) vs TTM 1 Yr. Ago	9.91	16.75	19.43	-39.19*	-2.35*	-60.11	-33.49	-7.43
EPS - 5 Yr. Growth Rate	16.78	14.01	26.67	13.32	13.18	13.81	13.78	11.69
Capital Spending - 5 Yr. Growth Rate	-100	0.6	0.9	1.94	-9.83	25.57	-27.79	-6.7
Financial Strength	CVG	ADP	EDS	CEN	FDC	CSC	Sector	S&P 500
Quick Ratio (MRQ)	0.92	2.11	1.48	1.3	NM	1.1	2.46	1.15
Current Ratio (MRQ)	1.06	2.32	1.69	1.45	NM	1.28	3.01	1.7
LT Debt to Equity (MRQ)	0	0.02	0.73	0.22	0.78	0.58	0.22	0.69
Total Debt to Equity (MRQ)	0.11	0.02	0.73	0.23	0.78	0.71	0.29	0.99
Interest Coverage (TTM)	18.32	116.4	NM	4.47	10.12	2.38	9.04	9.2
Profitability Ratios (%)	CVG	ADP	EDS	CEN	FDC	CSC	Sector	S&P 500
Gross Margin (TTM)	45.33	55.76	19.06	52.45	36.96	18.32	48.18	46.97
Gross Margin - 5 Yr. Avg.	44.14	55.81	18.6	51.27	37.36	21.27	52.06	47.99
EBITD Margin (TTM)	23.39	27.5	9.73	17.85	30.67	10.49	13.79	19.69
EBITD - 5 Yr. Avg.	20.1	24.71	14.77	16.1	33.4	11.52	20.64	22.06
Operating Margin (TTM)	15.79	23.1	9.73	9.96	18.47	1.92	6.6	15.42
Operating Margin - 5 Yr. Avg.	12.99	19.44	7.17	10.14	20.95	4.94	15.03	18.08
Pre-Tax Margin (TTM)	15.13	23.1	10.21	8.4	18.47	1.92	7.75	13.24
Pre-Tax Margin - 5 Yr. Avg.	12.83	19.44	7.43	9.04	20.95	4.94	17.92	17.34
Net Profit Margin (TTM)	9.29	14.11	6.44	4.19*	13.81*	1.47	1.63	8.21
Net Profit Margin - 5 Yr. Avg.	8.01	12.75	4.75	9.33	13.42	3.65	10.86	11.33
Effective Tax Rate (TTM)	38.64	38.92	36.93	38.69	27.34	23.33	34.04	34.33
Effective Tax Rate - 5 Yr. Avg.	37.55	34.14	35.97	26.23	37.13	33.4	34.89	35.66
Management Effectiveness (%)	CVG	ADP	EDS	CEN	FDC	CSC	Sector	S&P 500
Return On Assets (TTM)	12.33	5.4	9.62	1.00*	4.61*	1.97	0.84	5.69
Return On Assets - 5 Yr. Avg.	10.73	8.77	7.04	7.19	4.54	6.29	9.34	8.09
Return On Investment (TTM)	15.6	5.8	13.73	1.10*	14.84*	3.14	2.52	9.22
Return On Investment - 5 Yr. Avg.	15.84	10.73	10.41	11.65	13.37	9.59	14.26	12.96
Return On Equity (TTM)	18.19	21.07	24.7	4.54*	23.88*	4.97	4.52	16.85
Return On Equity - 5 Yr. Avg.	17.81	19.77	16.67	20.2	19.3	12.93	19.07	21.77
Efficiency	CVG	ADP	EDS	CEN	FDC	CSC	Sector	S&P 500
Revenue/Employee (TTM)	51,569	173,720	150,650	135,897*	249,590*	165,837	354,847	628,407
Net Income/Employee (TTM)	4,789	24,514	9,699	5,690*	34,460*	2,435	47,673	87,041
Receivable Turnover (TTM)	6.14	7.52	4.23	2.55*	6.65*	4.04	6.32	9.12
Inventory Turnover (TTM)	NA	NA	NA	NA	NA	NA	11.17	10.43
Asset Turnover (TTM)	1.33	0.38	1.5	0.24*	0.33*	1.34	0.73	0.96

Source: MultexInvestor.com (<http://www.multexinvestor.com>)

Financial Information

CVG Earnings & Growth Estimates

Consensus Estimates				
	This Qtr. (Mar 02)	Next Qtr. (Jun 02)	This Year (Dec 02)	Next Year (Dec 03)
Earnings Estimates				
Avg Estimate	0.35	0.38	1.59	1.87
# of Analysts	18	17	19	15
Low Estimate	0.34	0.36	1.55	1.80
High Estimate	0.36	0.40	1.64	1.94
Year Ago EPS	0.34	0.35	1.40	1.59
Revenue Estimates				
Avg Estimate	\$599M	\$621M	\$2.5B	\$2.9B
# of Analysts	3	1	9	6
Low Estimate	\$583M	\$621M	\$2.4B	\$2.8B
High Estimate	\$619M	\$621M	\$2.6B	\$3.0B
Year Ago Sales	\$578M	\$571M	N/A	\$2.5B
Sales Growth	3.7%	8.6%	N/A	13.5%

From Yahoo Finance

CVG: Recent Annual Financials

ANNUAL INCOME STATEMENT					
In Millions of U.S. Dollars (except for per share items)	12 Months Ending 12/31/01	12 Months Ending 12/31/00 <i>Restated 12/31/01</i>	12 Months Ending 12/31/99	12 Months Ending 12/31/98	12 Months Ending 12/31/97 <i>Reclass. 12/31/98</i>
Revenue	2,320.6	2,196.6	1,762.9	1,447.2	987.5
Other Revenue, Total	—	—	—	—	—
Total Revenue	2,320.6	2,196.6	1,762.9	1,447.2	987.5
Cost of Revenue	1,268.7	1,237.4	996.1	826.4	540.2
Gross Profit	1,051.9	959.2	766.8	620.8	447.3
Selling/General/Admin. Expenses, Total	393.3	374.5	291.3	226.0	158.7
Research & Development	115.9	102.0	87.2	81.9	68.6
Depreciation/Amortization	176.3	162.1	130.3	101.3	61.0
Interest Expense/Income, Net	—	—	—	—	—
Unusual Income/Expense	—	—	8.9	42.6	35.0
Other Operating Expenses, Total	—	—	13.9	29.1	9.9
Total Operating Expense	1,954.2	1,876.0	1,527.7	1,307.3	873.4
Operating Income	366.4	320.6	235.2	139.9	114.1
Interest Expense, Net Non-Operating	(20.0)	(33.1)	(32.5)	(33.9)	(5.4)

Interest Expense/Income, Net Non-Op.	(20.0)	(33.1)	(32.5)	(33.9)	(5.4)
Gain/(Loss) Sale of Assets	—	—	—	—	—
Other, Net	4.8	22.7	19.8	24.6	21.9
Income Before Tax	351.2	310.2	222.5	130.6	130.6
Income Tax - Total	135.7	121.0	85.5	49.6	44.0
Income After Tax	215.5	189.2	137.0	81.0	86.6
Minority Interest	—	—	—	—	—
Equity In Affiliates	—	—	—	—	—
Net Income Before Extra. Items	215.5	189.2	137.0	81.0	86.6
Accounting Change	—	—	—	—	—
Discontinued Operations	—	—	—	—	—
Extraordinary Item	—	—	—	—	—
Net Income	215.5	189.2	137.0	81.0	86.6
Preferred Dividends	—	—	—	—	—
Inc Avail To Com Ex XOrd	215.5	189.2	137.0	81.0	86.6
Inc Avail To Com In XOrd	215.5	189.2	137.0	81.0	86.6
Basic/Primary Weighted Average Shares	169.40	167.60	151.60	142.70	137.00
Basic/Primary EPS Excl. Extra Items	1.272	1.129	0.904	0.568	0.632
Basic/Primary EPS Incl. Extra Items	1.272	1.129	0.904	0.568	0.632
Dilution Adjustment	0.0	0.0	0.0	0.0	0.0
Diluted Weighted Average Shares	174.40	174.20	154.50	142.90	137.00
Diluted EPS Exl. Extra Items	1.236	1.086	0.887	0.567	0.632
Diluted EPD Incl. Extra Items	1.236	1.086	0.887	0.567	0.632
DPS-Common Stock	—	—	0.000	0.000	0.000
Gross Dividends Common	—	—	0.0	0.0	0.0
Stock Based Compensation	—	—	10.8	8.3	3.8
Pro Forma Net Income	—	—	126.2	72.7	82.8
Pro Forma Basic EPS	—	—	0.820	0.510	0.600
Pro Forma Diluted EPS	—	—	0.820	0.510	0.600
Interest Expense	20.0	33.1	32.5	33.9	5.4
Depreciation	125.5	111.5	86.0	68.1	37.9
Total Special Items	—	—	8.9	42.6	35.0
Normalized Pre-Tax Income	351.2	310.2	231.4	173.2	165.6
Effect of Sp.Charge on Inc.Taxes (Anlst)	—	—	3.4	16.2	12.0
Income Taxes Ex. Impact of Special Items	135.7	121.0	88.9	65.8	56.0
Normalized Income After Taxes	215.5	189.2	142.5	107.4	109.6
Normalized Income Available To Common	215.5	189.2	142.5	107.4	109.6

Basic Normalized EPS	1.272	1.129	0.940	0.753	0.800
Diluted Normalized EPS	1.236	1.086	0.922	0.752	0.800
Source: MultexInvestor.com (http://www.multexinvestor.com)					

ANNUAL BALANCE SHEET					
In Millions of U.S. Dollars (except for per share items)	As of 12/31/01	As of 12/31/00 Restated 12/31/01	As of 12/31/99	As of 12/31/98	As of 12/31/97 Reclass. 12/31/98
Cash & Equivalents	41.1	49.3	30.8	3.8	2.1
Cash and Short Term Investments	41.1	49.3	30.8	3.8	2.1
Accounts Receivable (Trade), Net	413.6	395.7	214.8	314.3	222.9
Total Receivable, Net	413.6	395.7	214.8	314.3	222.9
Total Inventory	—	—	—	—	—
Prepaid Expenses	68.4	71.2	35.8	31.5	27.1
Other Current Assets, Total	—	—	16.5	10.9	13.7
Total Current Assets	523.1	516.2	297.9	360.5	265.8
Property/Plant/Equipment - Total Cost	—	—	657.5	498.6	341.0
Accum. Deprec. Total	—	—	(321.9)	(248.8)	(211.0)
Property/Plant/Equip., Net Total	350.4	397.6	335.6	249.8	130.0
Goodwill, Net	—	—	754.3	687.4	177.6
Intangibles, Net	—	—	—	—	—
Long Term investments	—	—	134.9	83.9	72.7
Other Long Term Assets, Total	869.4	890.3	56.8	69.3	8.3
Total Assets	1,742.9	1,804.1	1,579.5	1,450.9	654.4
Accounts Payable	362.5	370.8	339.4	231.1	157.5
Notes Payable/Short Term Debt	—	—	48.0	466.8	59.1
Current Port. LT Debt/Capital Leases	129.9	0.6	—	—	—
Total Current Liability	492.4	371.4	387.4	697.9	216.6
Long Term Debt	3.6	291.4	250.3	—	—
Capital Lease Obligations	—	—	—	—	—
Total Long Term Debt	3.6	291.4	250.3	—	—
Total Debt	133.5	292.0	298.3	466.8	59.1
Deferred Income Tax	—	—	—	—	—
Minority Interest	—	—	—	—	—
Other Liabilities, Total	20.3	17.3	14.6	21.5	7.0
Total Liabilities	516.3	680.1	652.3	719.4	223.6

Redeemed Preferred Stock, Total	—	—	—	—	—
Preferred Stock (Non Redeemable), Total	—	—	—	—	—
Common Stock, Total	—	—	206.0	206.0	—
Additional Paid-In Capital	—	—	491.5	475.1	—
Retained Earnings/Accum. Deficit	—	—	190.0	53.0	—
Treasury Stock Common (\$ Amount)	—	—	(11.9)	—	—
Other Equity, Total	1,226.6	1,124.0	51.6	(2.6)	430.8
Total Equity	1,226.6	1,124.0	927.2	731.5	430.8
Total Liability & Shareholders' Equity	1,742.9	1,804.1	1,579.5	1,450.9	654.4
S/O-Common Stock	168.50	168.30	153.62	151.95	150.00
Total Common Shares Outstanding	168.50	168.30	153.62	151.95	150.00
Employees	—	—	41,000	33,000	21,300
Number of Common Shareholders	—	—	20,831	23,000	—
Source: MultexInvestor.com (http://www.multexinvestor.com)					

Charts / Technical

CVG Daily Stock Chart



Source: BigChart.com (www.bigcharts.com)

Industrials Correlation Matrix

Correlation of Weekly Returns (March 1998 to March 2002)

	<i>CVG</i>	<i>HON</i>	<i>GE</i>	<i>ASD</i>	<i>FWRD</i>
CVG	1				
HON	0.168527	1			
GE	0.098976	0.285655	1		
ASD	0.181417	0.251688	0.138674	1	
FWRD	0.132806	0.144485	0.135283	0.142979	1

Source: Data from Yahoo Finance

Valuation for Convergys (CVG)

All Values except percentages are in Millions

Year	1998	1999	2000	2001	Forecasted Growth									
					2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E
Income statement														
Sales Growth		21.81%	24.60%	5.65%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Sales	1,447.2	1,762.9	2,196.6	2,320.6	2,668.7	3,069.0	3,529.3	4,058.7	4,667.6	5,367.7	6,172.8	7,098.8	8,163.6	9,388.1
CAGR - Sales				17.05%										15.00%
COGS	(826.40)	(996.10)	(1,237.40)	(1,268.70)	(1,467.78)	(1,687.95)	(1,941.14)	(2,232.31)	(2,567.16)	(2,952.23)	(3,395.06)	(3,904.32)	(4,489.97)	(5,163.47)
COGS- % of Sales	57.10%	68.83%	85.50%	87.67%										
Gross Margin	620.80	766.80	959.20	1,051.90	1,200.91	1,381.05	1,588.20	1,826.43	2,100.40	2,415.46	2,777.78	3,194.45	3,673.61	4,224.65
GM-% of Sales	42.90%	43.50%	43.67%	45.33%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%	45.00%
Total SG&A	(226.00)	(291.30)	(374.50)	(393.30)	(440.33)	(506.38)	(582.34)	(669.69)	(770.15)	(885.67)	(1,018.52)	(1,171.30)	(1,346.99)	(1,549.04)
SGA - % of Sales	15.62%	16.52%	17.05%	16.95%										
R&D Expense	(81.90)	(87.20)	(102.00)	(115.90)	(133.43)	(153.45)	(176.47)	(202.94)	(233.38)	(268.38)	(308.64)	(354.94)	(408.18)	(469.41)
R&D - % of Sales	5.66%	4.95%	4.64%	4.99%										
Depreciation/Amortization	(101.30)	(130.30)	(162.10)	(176.30)	(213.50)	(245.52)	(282.35)	(324.70)	(373.40)	(429.42)	(493.83)	(567.90)	(653.09)	(751.05)
Dep -% of Sales	7.00%	7.39%	7.38%	7.60%										
Other	(71.70)	(22.80)												
Other-% of Sales	4.95%	1.29%	0.00%	0.00%										
Operating Income	139.9	235.2	320.6	366.4	413.6	475.7	547.0	629.1	723.5	832.0	956.8	1,100.3	1,265.4	1,455.2
OI - %of Sales	9.67%	13.34%	14.60%	15.79%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%
CAGR- OI														
Interest Expense/(Income)	(33.90)	(32.50)	(33.10)	(20.00)	(26.69)	(30.69)	(35.29)	(40.59)	(46.68)	(53.68)	(61.73)	(70.99)	(81.64)	(93.88)
Interest - %of Sales	2.34%	1.84%	1.51%	0.86%										
Other Income/ (Expense) from Cellular Partnership etc.	24.60	24.60	24.60	24.60	This Income has not been considered for valuation purposes									
Other Income/ (Expense) -% of Sales	1.70%	1.40%	1.12%	1.06%										
Income Before tax	130.60	227.30	312.10	371.00	386.96	445.00	511.75	588.52	676.80	778.31	895.06	1,029.32	1,183.72	1,361.28
Income Before tax - %of Sales	9.02%	12.89%	14.21%	15.99%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%
Taxes	49.60	85.50	121.00	135.00	149.37	171.77	197.54	227.17	261.24	300.43	345.49	397.32	456.92	525.45
Taxes - %of Income Before tax	37.98%	37.62%	38.77%	36.39%										
Profit after tax	81.00	141.80	191.10	236.00	237.59	273.23	314.22	361.35	415.55	477.89	549.57	632.00	726.80	835.82
Profit - %of Sales	5.60%	8.04%	8.70%	10.17%	8.90%	8.90%	8.90%	8.90%	8.90%	8.90%	8.90%	8.90%	8.90%	8.90%
CAGR -Profit after Tax				42.83%										13.48%
Add Back Depreciation/Amort	101.30	130.30	162.10	176.30	213.50	245.52	282.35	324.70	373.40	429.42	493.83	567.90	653.09	751.05
Cash Flow From Operations	182.30	272.10	353.20	412.30	451.09	518.75	596.56	686.05	788.96	907.30	1,043.40	1,199.90	1,379.89	1,586.87
Balance Sheet														
Current Assets	360.50	297.90	516.20	523.10	582.44	648.51	722.08	803.99	895.20	996.75	1,109.83	1,235.73	1,375.91	1,531.99
CA-% of sales	24.91%	16.90%	23.50%	22.54%	21.82%	21.13%	20.46%	19.81%	19.18%	18.57%	17.98%	17.41%	16.85%	16.32%
CAGR Assets				13.21%										11.34%
Current liabilities	697.90	387.40	371.40	492.40	520.89	551.03	582.92	616.65	652.33	690.07	730.00	772.24	816.93	864.20
CL-% of sales	48.22%	21.98%	16.91%	21.22%	19.52%	17.95%	16.52%	15.19%	13.98%	12.86%	11.83%	10.88%	10.01%	9.21%
CAGR Liabilities				10.98%										5.79%
NWC	(337.40)	(89.50)	144.80	30.70	61.55	97.48	139.17	187.35	242.87	306.68	379.82	463.48	558.98	667.80
NWC - % of Sales	-23.31%	-5.08%	6.59%	1.32%	2.31%	3.18%	3.94%	4.62%	5.20%	5.71%	6.15%	6.53%	6.85%	7.11%
Change in NWC	(386.60)	247.90	234.30	(114.10)	30.85	35.93	41.68	48.18	55.52	63.81	73.14	83.66	95.50	108.81
Capital Expenditures	93.50	155.20	175.00	80.00	133.43	153.45	176.47	202.94	233.38	268.38	308.64	354.94	408.18	469.41
CAPX - % of Sales	6.46%	8.80%	7.97%	3.45%										
Free Cash Flows to Equity (FCFE)	475.40	(131.00)	(56.10)	446.40	286.80	329.37	378.41	434.93	500.05	575.11	661.61	761.31	876.21	1,008.65
Free Cash Flows to Firm (FCFF)	509.30	(98.50)	(23.00)	466.40	303.19	348.21	400.08	459.85	528.71	608.07	699.51	804.89	926.34	1,066.30
Growth in Free Cash Flows					-34.99%	14.85%	14.90%	14.94%	14.98%	15.01%	15.04%	15.07%	15.09%	15.11%
Terminal Value														13313.50
Year														
PV(FCFE)		256.72	263.89	271.38	279.19	287.32	295.78	304.57	313.70	323.17	333.00	343.21	353.79	364.74
PV(FCFF)		273.12	282.57	292.47	302.82	313.64	324.94	336.73	349.03	361.86	375.24	389.19	403.72	418.84
% of Total PV		3.46%	3.58%	3.70%	3.83%	3.97%	4.11%	4.26%	4.42%	4.58%	4.74%	4.91%	5.08%	5.25%

Balance Sheet Changes	
CAGR in Current Assets (1996 - 2000)	16.88%
CAGR in Current Liabilities (1996 - 2000)	8.61%
CAGR in Sales (1996 - 2000)	22.32%

Assumptions	
Growth Rate of Sales	15.00%
% increase in Current Assets for 1 % Increase in Sales	0.76%
%increase in Liabilities for 1% increase in Assets	0.51%
COGS/SALES	55.00%
SG&A	16.50%
R&D Expenses	5.00%
Dep/Amort	8.00%
Income from Cellular Partnership	0.10%
Interest Expense	1.00%
Capital Expenditures	5.00%
Terminal Growth Rate	3.00%

Exogenous Parameters	
Risk Free Rate	5.00%
Interest rate on debt	7.50%
Risk Premium	7.00%

Beta (levered - from Yahoo Finance)	0.96
Beta (unlevered)	0.90
CAPM/Cost of Equity	11.72%
Tax rate	38.60%
B/S	0.11
B/V	9.99%
S/V	90.01%
WACC	11.01%
Shares Outstanding	172.07

Results	
Value of Equity	6747.40
Value of Firm	7,897.35
Share Price	\$39.21
Price as on 3/14/2002	30.94