

Maximize Shareholder Value

IB097

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In several nations, controversies arise regarding the purpose of a corporation with respect to its shareholders, the media, policymakers, economists, its own management and the public at large.

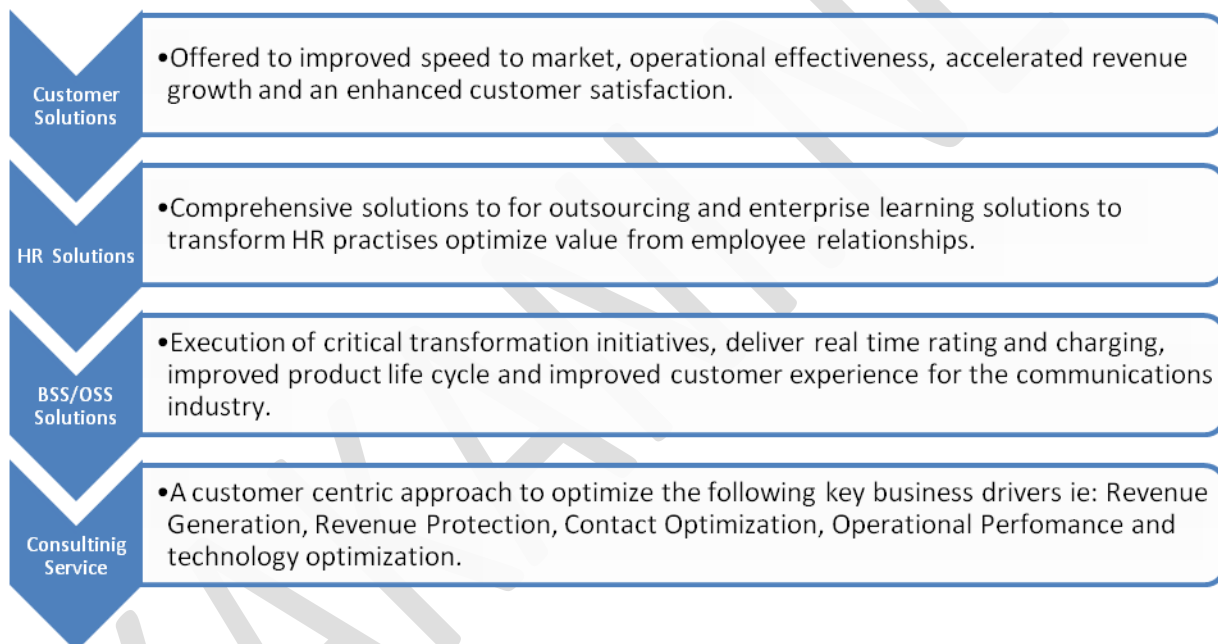
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IB-097

Company Brief

Sector: Technology

Industry: IT Consulting and Services

Headquartered in Cincinnati, Ohio, United States of America Convergys Corporation is home to nearly 75,000 employees worldwide and is a leader in relationship management. The company offers solutions that optimize the interactions between the employees and the customers of their clients. Convergys has been rated among the Fortune Most Admired companies for seven consecutive years. An even more interesting fact is that more than 50% of Convergys's clients feature in the top 50 Fortune 500 companies. The company offers the following solutions as part of its services:



Synopsis of ten year financial history

Shares (In Millions) – 122.06

Market Capitalization (In Million) – 786.102

Float (In Million) – 120.130

In 2007, the company recorded record sales revenue of \$2.8 billion and an EPS of \$1.23. It bought back 10 million shares of its stock

Increasing trend of EPS in seven out of the last ten years, consecutively for the last three years

Positive free cash flows for each of the last ten years since listing in 1998 including \$108.6 million in 2007.

THE VALUATION FRAMEWORK

Profitability	Risk	Growth	Capital Market Perception	
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Tobin's Q = 4.20 (as on 2007) – A Tobin's Q greater than 1 especially greater than 4 indicates a highly overvalued stock.

RECOMMENDATION: SELL

Profitability:

While the profitability and efficiency indicators such as operating margin, net profit margin, ROA, ROI and ROE are largely not favorable compared to industry and sector for the year 2007, the same have shown an increasing trend over the period of study ie: 2003-2007. Hence we assign a neutral rating.

Risk :

Indicators of risk such as Beta, covariance of returns on stock prices, ROE and ROTA were analyzed along with the interest coverage ratio and operating leverage to study the total business risk to the company. With a Beta of 1.9, standard deviation of stock price returns of greater than 4 and an interest coverage ratio that fares poorly vis-à-vis industry and compete we assign a negative rating to the company.

Growth:

The sales revenue growth, EPS and Capital Spending far poorly against industry and sector of the company. Also, a low capital spending indicates that the company may not be building adequately for the future and that a poor return on equity or assets is on account of poor performance and not large cash outflows towards capital expenditure.

Capital Market Perception:

A poor EV/ EBITDA Multiple vis-à-vis compete along with a bearing view of the market towards the IT industry and a new American President – a potential threat to the outsourcing industry, we assign a negative growth rating to the company.

THE LAST FIVE YEARS

Convergys vis-à-vis Industry and Sector

	Valuation Ratios	Company	Industry	Sector
Growth Indicators	Sales	4.47%	15.31%	11.68%
	EPS	6.98	13.61	15.27
	Capital Spending	2.41	15.01	16.55
Valuation Indicators	Beta	1.9	1.06	0.95
	P/Sales	0.3	0.35	0.87
	P/BV	0.67	4.4	2.9
	P/FCF	11.94	56.22	47.022
Profitability Indicators	EBITD Margin (Avg)	14.5	20.25	19.91
	Net Profit Margin (Avg)	9.23	14.69	14.01
Management Efficiency	ROA (Avg)	6.71	8.25	8.41
	ROI (Avg)	8.95	11.6	11.99
	ROE (Avg)	11.28	14.25	13.64

THE COMPANY ITSELF IN THE LAST FIVE YEARS

Competitor Analysis

Indicator	Convergys	IBM	DXO
Enterprise Value	973.31m	135,028.12m	3,389.94m
Enterprise Value/ EBITDA Multiple	2.48	3565.16	18.085
Net Debt	139.60m	18,128.00m	(792.2)m
Enterprise Value/ Total Market Cap	1.17	1.17m	0.81
Total Debt/ Enterprise Value	0.27	0.26	0.13
Net Debt/ Enterprise Value	0.14	0.14	(0.23)

	Convergys	IBM	Amdocs
BVPS	11.68	20.66	7.17
Total Assets/Equity	1.69	4.23	1.98
Sales/Total Assets	1.11	0.88	0.62
Interest Cover Ratio	13.99	22.12	23.02
Operating Margin	8.61	13.68	16.70
ROE	11.14	36.59	16.26
ROTA	6.64	9.32	8.18
EBITDA	378,700,000	18,744,000,000	313,938,000

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Profitability and Efficiency Indicators

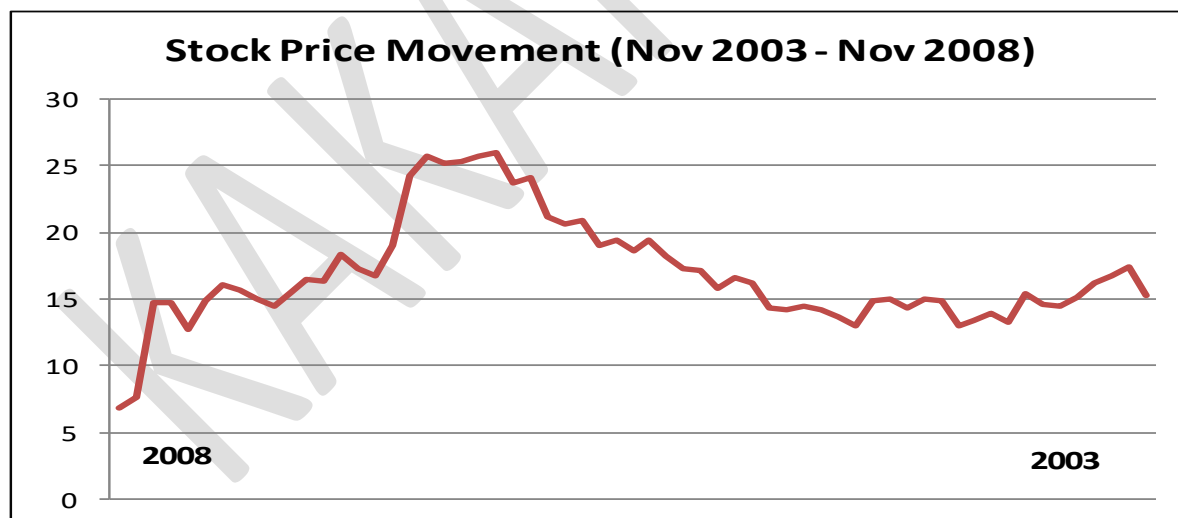
	2007	2006	2005	2004	2003
BVPS	11.684	10.5603	9.6802	7.3483	6.6025
Total Assets/Equity	1.6851	1.7458	1.7795	1.7107	1.5718
Sales/Total Assets	1.1144	1.1268	1.1202	1.2411	1.3347
Interest Cover Ratio	13.9886	11.0921	10.5472	18.0097	42.3768
Operating Margin	8.6067	9.0652	8.6596	7.4567	12.7753
ROE	11.1389	11.4219	9.0473	8.675	14.8997
ROTA	6.6412	6.7128	5.3186	5.5625	10.0067
EBITDA	378,700,000	398,300,000	369,500,000	322,900,000	415,100,000

Risk Indicators

Covariance of Stock Prices	0.24
Covariance of ROE	0.22
Covariance of ROTA	0.27

Stock Prices

Convergys Corporation was listed in 1998. We study the stock price movement for the period November 2003 – November 2008.



Key Observation:

Standard Deviation of Returns – **4.061**

CAGR – **(82.24%)**