

CONVERGYS CORP
Form 10-Q
May 08, 2018

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

Form 10-Q

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____
Commission file number 1-14379

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

Incorporated under the laws of the State of Ohio
201 East Fourth Street, Cincinnati, Ohio 45202
I.R.S. Employer Identification Number 31-1598292
Telephone - Area Code (513) 723-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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At March 31, 2018, there were 91,499,038 common shares outstanding, excluding amounts held in treasury of 1,351,300.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINICIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | Three Months Ended March 31, | |
|---|------------------------------------|---------|
| (Amounts in millions except per share amounts) | 2018 | 2017 |
| Revenues | \$674.2 | \$727.6 |
| Costs and Expenses: | | |
| Cost of providing services and products sold ⁽¹⁾ | 417.7 | 450.2 |
| Selling, general and administrative | 172.4 | 177.5 |
| Depreciation | 23.8 | 27.4 |
| Amortization | 6.9 | 7.2 |
| Restructuring charges | 18.9 | 15.0 |
| Transaction and integration costs | — | 1.5 |
| Total costs and expenses | 639.7 | 678.8 |
| Operating Income | 34.5 | 48.8 |
| Other (expense) income, net | (0.5 |)1.3 |
| Interest expense | (4.5 |)(5.3 |
| Income before Income Taxes | 29.5 | 44.8 |
| Income tax (benefit) expense | (0.3 |)6.9 |
| Net Income | \$29.8 | \$37.9 |
| Basic Earnings per Common Share | \$0.33 | \$0.40 |
| Diluted Earnings per Common Share | \$0.30 | \$0.38 |
| Weighted Average Common Shares Outstanding: | | |
| Basic | 91.6 | 94.4 |
| Diluted | 98.2 | 100.5 |
| Cash dividends declared per share | \$0.11 | \$0.09 |

(1) Exclusive of depreciation and amortization, with the exception of amortization of deferred charges.

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------------|--------|
| (In millions) | 2018 | 2017 |
| Net Income | \$29.8 | \$37.9 |
| Other Comprehensive (Loss) Income, net of tax: | | |
| Foreign currency translation adjustments | 6.4 | 3.0 |
| Change related to pension liability | (4.5) | 0.9 |
| Unrealized (loss) gain on hedging activities | (20.1) | 10.7 |
| Total other comprehensive (loss) income | (18.2) | 14.6 |
| Total Comprehensive Income | \$11.6 | \$52.5 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

| (Amounts in millions) | (Unaudited) | |
|--|----------------------|----------------------------|
| | At March 31, 2018 | At December 31, 2017 |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$186.3 | \$193.7 |
| Short-term investments | 13.1 | 13.5 |
| Receivables, net of allowances of \$4.4 and \$4.8 | 567.7 | 567.2 |
| Prepaid expenses | 39.5 | 35.9 |
| Other current assets | 49.9 | 47.4 |
| Total current assets | 856.5 | 857.7 |
| Property and equipment, net | 240.0 | 260.0 |
| Goodwill | 942.8 | 937.9 |
| Other intangibles, net | 282.8 | 287.3 |
| Deferred income tax assets | 19.6 | 21.3 |
| Other assets | 44.6 | 50.5 |
| Total Assets | \$2,386.3 | \$2,414.7 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Debt and capital lease obligations maturing within one year | \$50.3 | \$0.9 |
| Payables and other current liabilities | 309.6 | 322.1 |
| Total current liabilities | 359.9 | 323.0 |
| Long-term debt and capital lease obligations | 230.0 | 267.7 |
| Deferred income tax liabilities | 213.4 | 222.6 |
| Accrued pension liabilities | 92.5 | 94.7 |
| Other long-term liabilities | 57.1 | 69.5 |
| Total liabilities | 952.9 | 977.5 |
| Convertible debentures conversion feature | 59.0 | 59.5 |
| Shareholders' Equity: | | |
| Preferred shares—without par value, 5.0 authorized; none issued or outstanding | — | — |
| Common shares—without par value, 500.0 authorized; 92.9 and 92.5 issued, 91.5 and 91.8 outstanding, as of March 31, 2018 and December 31, 2017, respectively | 3.3 | 2.5 |
| Treasury stock—1.4 and 0.6 shares as of March 31, 2018 and December 31, 2017, respectively | (32.2) | (16.0) |
| Retained earnings | 1,488.1 | 1,457.8 |
| Accumulated other comprehensive loss | (84.8) | (66.6) |
| Total shareholders' equity | 1,374.4 | 1,377.7 |
| Total Liabilities and Shareholders' Equity | \$2,386.3 | \$2,414.7 |

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three Months Ended March 31, | |
|--------------------------------------|---------------------------------------|------|
| (Amounts in millions) | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$29.8 | |