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Convergys Corporation Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session (Operator instructions). Our first question comes from Ashwin Shirvaikar from Citi.

Ashwin Shirvaikar – Citigroup

Thank you. Congratulations on the margin and cash performance in the quarter, quite good.

Dave Dougherty

Thank you, Ashwin.

Ashwin Shirvaikar – Citigroup

In the past you've indicated a 40/60 split between the first half and second half EPS. Do you expect the same for 2009? And also cash flow has started even more backend loaded. Do you expect this to continue also?

Earl Shanks

Sure. Thanks for the question, Ashwin. I think relative to the earnings, certainly we expect the year to improve as we progress through the year. So, we'll start a little softer than we think we'll finish. There's a variety of factors driving that in terms of improvement opportunities we see across the business. So, I think that pattern will continue. On cash flow, we think it will start a little soft at the beginning of this year but I certainly do not expect anything this year like the back ended nature that we had last year in terms of cash flow. I think it will be much more balanced. And I actually think that's more of a history we've had as a company if you look beyond – before 2008. It's a much – relatively more stable cash flow picture and that is what I'm expecting in 2009.

Ashwin Shirvaikar – Citigroup

So, with cash flow typically you also said that free cash flow in line with net income, but the 2009 guidance implies of course that will be significantly not in line with net income. Obviously, given important this is to the pay down of the upcoming debt. Can you clarify what's in the free cash flow expectation? How much is from may be lower CapEx and so on?

Earl Shanks

Sure. I would be happy to, Ashwin. I think at a high level, the way to think about it is if you start to think about what your net income assumption is, I don't expect to pay much in the way of taxes, cash taxes during 2009. So, that's certainly going to help cash flow. There will be as there is historically a pretty consistent gap between our depreciation and amortization in CapEx that will certainly help cash flow as well. And what we will find in the year is that the cash we are putting out for the HRM business will decline dramatically, so our deferred charges will be much, much smaller than they have been in the past. And then obviously on a net basis, you saw a decline in that one in the fourth quarter as well. So, it begins that pattern. So, I think that combination of those things, we will be able to drive free cash flow that's quite a bit above net income in 2009. So, that's really what our expectations are.

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