Investors Business Daily

11-29-05

Uptick In Teleconferencing Helps West Meet Its Goals
BY STEVE WATKINS

Soaring fuel costs are having an impact throughout the business world -- including how companies plan meetings and conferences.

The cost of fuel, coupled with improving technology, means companies are likely to cut down on plane flights to and from meetings. So they're shifting to teleconferencing.

That plays right into the hands of West Corp..

Though the Omaha, Neb.-based company mainly provides call center services to companies that want to outsource customer service functions, it also has built a fast-growing conferencing segment.

This segment generates one-third of overall sales and the biggest chunk of operating profit.

West made its first big move in that field in May 2003, when it acquired InterCall. It's since made a few acquisitions, including the June buyout of Sprint Nextel's conferencing business.

West Chief Executive Thomas Barker called the conferencing unit "a great business."

"It's large and growing, and I think we have a cost advantage," he said.

The key to success is building market share, Barker says. Since costs are fixed, the more share West gains, the wider its margins get.

The firm's conferencing unit had 25% margins in the third quarter compared with 17.6% for the entire company.

"Historically, we've been able to expand and gain share," Barker said. "(Competitors) have not been as successful."

Those competitors are telecom giants AT&T and MCI, which have thinned the field through acquisitions of smaller rivals.

It's easy for the larger firms to lose focus on the conferencing business, analysts say.

"It's unclear how that will play out, but it could present an opportunity for West to grow and take share," said Tobey Sommer, analyst at SunTrust Robinson Humphrey.

Acquisitions aren't West's only source of growth. Nor, for that matter, is the conferencing business.
The company's internal growth, not counting acquisitions, swelled this year from 6.8% in the first quarter to 10.4% in the third quarter, Sommer says.

A lot of that growth comes from its communication services business. The bulk of this line, which makes up more than half of sales, involves call center work for telecom, cable and satellite TV, credit card, health care and other companies. West fields calls to provide sales, tech support and other customer services.

Last quarter that business grew 8% year over year. Profit shot up by 28%. Much of the growth is due to a pickup in the industry as a whole.

"A lot of the competitors there had good third quarters and good guidance," Sommer said. "It seems like outsourcing had a little pickup."

As a gauge of that business, the number of workstations West operates increased 23% to 18,200 in the third quarter, says analyst David Koning of Robert W. Baird & Co. That was the biggest gain in several years, he says.

Some of the growth in outsourcing comes from the use of offshore call centers, such as those in India or the Philippines. West has centers in both places. Costs to use them are about half what they are in the U.S., Koning says. That helps push more companies to use outsourcing.

West boasts higher margins than most of its rivals, Sommer says. He credits the firm's focus on hiring call center agents who work from home. That policy started as a way to keep costs low, but evolved into a way to drive revenue growth.

"These are highly motivated, highly educated agents," CEO Barker said.

The quality of work tends to be higher from those agents than it is from agents in call centers. The home agent program also means West can hire more professionals, such as those in health care.

"It's still small," Barker said of the program, "but we see it as a long-term competitive advantage."

He sees technology as an advantage, too. Higher-tech gear has helped West gain efficiencies and slash its capital spending as a share of revenue by half in the past five years.

West also has a smaller unit that handles accounts receivable business, where it buys debt and aims to collect on it. That's growing quickly, too.

The company's total third-quarter sales rose 27% from the prior year to $389.8 million. Earnings gained 29% to 53 cents a share. First Call analysts expect full-year earnings to rise 25% to $2.03 a share. Growth in all of its segments should continue, Koning says.

"If fuel costs go up substantially, that could drive some nice improvement in conferencing," he said.

Koning looks for high single-digit internal growth in all three business segments. West will likely make more acquisitions, too.

"We see acquisitions as a way to augment growth," Barker said. "We believe there are attractive opportunities in every segment."

West cranks out plenty of cash flow, giving it the ammo to make more buys. Barker says he's willing to use the cash to pay down debt if no deals look good.

Integrating those acquisitions poses a risk, Sommer says, though West's past success gives him some comfort.

Pricing pressure is another concern. That could come in both the call center business and in conferencing.

The call center business is looked at as similar to a commodity, Koning says. And technology improvements could hurt pricing in the conferencing field.