Offshore IT Majors: Analysis of Healthcare & Life Sciences Business Quarter ended Dec 31, 2015

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- The contents of this document are not to be considered investment advice

- All information in this document is derived from public sources which include: company websites, annual report, company press releases and earnings releases, transcripts of analyst calls

Contents

Definitions

Sr. No	Term	Meaning
1	Q O Q	**Q**uarter **O**n **Q**uarter
2	Y O Y	**Y**ear **O**n **Y**ear
3	T T M	**T**railing **T**welve **M**onth
4	L T M	**L**ast **T**welve **M**onth
5	H L S	**H**ealth **C**are & **L**ife **S**ciences
6	Operating Margin	EBIT/Revenue

Summary of Healthcare Highlights for Q3

Company	Revenue ($ M)	QoQ Growth	Key wins
CTS	951.9 (29.47 % of total Revenue)	1.4 %	▪ N.A
HCL	191.05 (12.2 % of total)	0.3 %	▪ HCL has won a deal to Design, Build, Host, and Operate a Primary Source Verification system for a US based healthcare services firm. ▪ HCL Technologies has been positioned as a Leader in the IDC MarketScape Worldwide Life Science Manufacturing and Supply Chain ITO Vendor Assessment 2015, released in October 2015.
Infosys	185.34 (7.7 % of total Revenue)	3 %	▪ N.A
TCS	302.58 (7.3 of total Revenue)	4.1 %	▪ Engaged by a leading European Life sciences company to transform its product safety monitoring operations by leveraging data driven analytical insights from social channels
Wipro	220.56 (12% of total Revenue)	5.2%	▪ A leading global nutrition, health and wellness company has selected Wipro to enable the migration of a significant portion of its global IT applications estate to a hybrid cloud. As part of the engagement, Wipro will provide IaaS (Infrastructure as a Service), PaaS (Platform as a Service), an integrated hardware-software-services stack, and billing-metering-chargeback in a completely outcome-based model. ▪ Buys HealthPlan Services or $460million (announced Feb 2016).

Impact of Chennai floods on operations
- **Cognizant –** Impact negligible
- **HCL –** Cash flow negatively impacted due to Chennai floods.
- **Infosys –** Negligible impact
- **TCS –** Management attributes .5% reduction in growth due to factors including Chennai floods
- **Wipro –** Attribute a .5% reduction in margin due to Chennai floods

Cognizant

Performance summary – Cognizant (1/3)

Analysis of Revenue Segment- HLS *

Life Sciences & Healthcare	FY 2012	FY 2013	FY 2014	3QFY15	4QFY15	Full Year 2015
% of Total Revenue	26.34%	25.61%	26.21%	29.1%	29.5%	29.5%
Growth YOY %	-	17.1%	18.7%	39.0%	43.3%	36.4%
Growth sequential	-	-	-	4.7%	1.4%	
HLS Operating Margin %	37.44%	36.61%	31.61%	-	-	-
Total Operating Margin %	34.54%	33.81%	31.65%	-	-	-

* Fiscal year: Jan-Dec

1. **2014** – The Healthcare business segment serves many leading healthcare and life sciences companies, and includes the post-acquisition operating results of TriZetto. In 2014, the Healthcare business segment represented approximately 26.2% of total revenues. Revenues from Healthcare business segment were $2,689.4 million, $2,264.8 million, and $1,934.9 million for the years ended December 31, 2014, 2013, and 2012, respectively.

2. Acquisition TriZetto in 2014 enabled CTS to offer world-class, healthcare IT solutions. Healthcare business focuses on providing a broad range of services and solutions that address regulatory requirements and emerging industry trends such as: **Regulatory Compliance** (including compliance with the Affordable Care Act and work related to state health insurance exchanges), **Integrated Health Management** (including establishing health information exchanges), EIM, Claims Investigative Services (aimed at preventing fraud and abuse and strengthening administrative processes), and **Operational Improvement** (in areas such as claims processing, enrollment, membership and billing). Through TriZetto, CTS develops, licenses, implements and supports proprietary and third-party software products for the healthcare industry.

3. **Life Sciences- CTS** partners with leading pharmaceutical, biotech, and medical device companies, as well as providers of generic, animal health and consumer health products, in IT and business operations. Life Sciences solutions include Research, Clinical Development, Manufacturing and Supply Chain, Sales and Marketing as well as regulatory and administrative functions and general IT.

4. In 2014, CTS acquired Cadient Group Inc., a full service digital marketing agency that serves a broad spectrum of life sciences companies in the pharmaceutical, biotechnology, consumer health, and medical device industries.

5. Slowdown in healthcare business due to consolidation (23.2% growth in last quarter of 2015, hence YoY came down). Life sciences saw a strong quarter with demand for cloud technologies and advanced data analytics. Overall healthcare will see 'soft' growth in 1st half of 2016, however the long term prospects remain strong.

6. Their automation work at Texas Children's Health Plan reduced claim backlog by 65%.

7. Cognizant's Meg Columbia-Walsh, Global Head of Digital Healthcare, has been named among the Top 40 Healthcare Transformers of 2016 by Medical Marketing and Media (MM&M) magazine.

Damo Consulting commentary: Trizetto acquisition was completed in Q4 2014 and contributed 3.5% out of the 18.7 % growth for FY 14. FY 15 will the first full year of impact.

HCL

1. Analysis of Results based on industry vertical specific to Healthcare and Life Sciences -% of revenue *

Particulars	1QFY15 (Sep 14)	2QFY15 (Dec 14)	3QFY15 (Mar 15)	4QFY15 (Jun 15)	1QFY16 (Sep 15)	2QFY16 (Dec 15)
Life Sciences & Healthcare (% revenue)	9.80%	11.10%	11.20%	12.00%	12.40%	12.20%

I. Ve Revenue Growth in constant Currency – QOQ 0.3% - YOY 18%.

a. HCL Technologies has been positioned as a **Leader in the IDC MarketScape** Worldwide Life Science Manufacturing and Supply Chain ITO Vendor Assessment 2015, released in October 2015. The report says, "HCL has extensive experience working with life science companies across all three sections of the industry: pharmaceutical, biotech, and medical devices. Nearly all of HCL's life science customers are large corporations with revenue over $1 billion, with a significant base of customers spread across North America, Europe and Asia Pacific."

b. Strengthening its focus on Internet of Things, HCL has established a dedicated Business Unit, **IoT WoRKS**, in an endeavor to become the most valued IoT services provider globally. 'IoT WoRKS by HCL' offers end–to–end offerings for organizations across different IoT adoption levels by leveraging its capabilities to Define, Build and Run IoT ecosystems globally.

* Fiscal year: April-March

HCL : History of Healthcare and Life Sciences (HLS):

c. **3QFY15 (Mar 15)** – Life Sciences, Connected Health and Population Health Management (PHM) are the three major investment areas. Life Sciences probably the big driver. There is growth in the number of drug launches that are taking place now and how that is shifting that industry from being a small number of mega drugs to a much larger proliferation of smaller drugs which requires the faster R&D processes. It adds complexity to the engagement with hospitals, doctors and the end consumer because the variety of drugs on offer is increasing, and therefore the ability to support the medical profession and the end user increases.

d. **4QFY15 (Jun 15)** - Life Sciences grew at 16.3%, continues to build a differentiated position in that market place. Two of HCL's solutions filed a patent in this quarter on connected health and on commercial analytics.

e. **1QFY16 (Sep 15) -** Life Sciences grow at 4.3% QOQ, 40.5% YOY and 28.1% LTMYOY.

Infosys

Infosys

1. Infosys – Revenue data of Healthcare and Life sciences segment as % of total revenue*

Particulars	LTM – 12-31-14	LTM 12-31-15	3QFY15	3QFY16
Life sciences	4.8%	5.6%	5.9%	5.8%
Health care	1.9%	1.9%	1.9%	1.9%

Analysis of Results for Healthcare and Life Sciences

Particulars	2013	2014	2015
% Total Revenue	5.88%	6.81%	7%
% Total Operating Income	6%	6%	6%
Operating Profit %	27%	22%	26%
HLS Operating Margin %	27%	22%	26%
Total Operation Margin%	29%	27%	28%

* Fiscal year: April-March

2. Infosys - History of Healthcare and Life sciences (HLS) segment:

a. **2009-10 -** Infy identified the changing trends in healthcare. They identified the business drivers for this segment, however it looks like they did not have much revenue. They introduced a product for genome sequencing. Introduced the **iTransformTM** Product Suite that delivers an end-to-end solution for managing the transitions to the 5010 version of the HIPAA standard transactions and ICD-10 coding systems.

b. **2012-13 -** Mention about Health Benefit Exchange - insurance hub designed for individuals and small business to buy qualified plans.

c. **2013-14 -** First year when HLS is listed as a separate segment. Infosys 'Edge' platforms add lot of competitive advantage specifically for Healthcare. **DigitizeEdge** and **InteractEdge** platforms are very relevant.

   i. Infosys Public Services, Inc. was recognized by Avivia Health from **Kaiser Permanente** as a strategic partner to develop its innovative gamification platform to improve consumer engagement and named in the 'Healthcare's Hottest Companies for 2013' list by *Modern Healthcare*, a leading healthcare publication for senior decision makers.

d. **2014-15 -** Several accolades for Infosys Public Services

   i. Won the **'Hottest Government Contractor'** honor on June 24, 2014 at the 13th Annual Northern Virginia Technology Council (NVTC) 'Hot Ticket Awards' for developing innovative solutions to help the government.

   ii. Infosys Public Services was ranked **16th in the 2014 'Healthcare Informatics 100', based on revenues from healthcare IT products and services.**

   iii. Infosys Public Services' efforts in modernizing the core systems of Long Term Care Partners (LTCP) to optimize operations and support its growth were acknowledged by LTCP.

Damo Consulting commentary: There appears to be little or no discussion on healthcare in the Q3 earnings releases and analyst calls

TCS

TATA

TATA CONSULTANCY SERVICES

1. TCS – Revenue data of Healthcare and Life sciences segment as % of total revenue. *

Particulars	2013-14	2014-15	Q2 2016	Q3 2016
% of revenue	5.82%	6.40%	7.0%	7.3%
Growth (QoQ)	-	-	5.4%	4.1%
Growth (YoY)	44.96%	27.74%	20.6%	21.1%
HLS Operating Margin	32.31%	29.99%		

* Fiscal year: April-March

Healthcare at TCS

1. **Healthcare**

   a. TCS has over 10,000 consultants and 100 physicians in the **Healthcare** practice and the % of healthcare revenue to total revenue is 5-6%. In Q2, 2015 healthcare grew at a healthy 5.4%.

   b. TCS classified this business segment into a separate unit in 2012

   c. Their digital platform includes apps which support an individual to be connected to health awareness, virtual health coach, chronic disease management etc.

2. **Life Sciences**

   a. TCS has been recognized as a leader in various categories (Risk based monitoring, Manufacturing and Supply Chain ITO, Sales and Marketing ITO,) by IDC.

   b. Engagements with 12 out of top 15 pharma companies and 8 out of 10 medical devices manufacturers.

   c. High performance computing (HPC) practice supports discovery research, genomics, metagenomics, predictive toxicology and bioinformatics all of which requires deep expertise in HPC.

Healthcare at TCS

2. **Life Sciences**

e. TCS recognized as leader in Life Sciences ITO and Star Performer in European Life Sciences by Everest Group.

f. Recognized as a 'Leader' and 'Star Performer' in Everest Group's 'IT Outsourcing in Payer Industry – Service Provider Landscape with PEAK Matrix™ Assessment 2015' Report. (earned by market success, scale, and strong technology capability characterized by the proprietary solutions in the payer space).

    i. Major Clients - Cigna, GlaxoSmithKline, Eli Lilly, Cadila, and Cardinal Health

    ii. General enterprise level alliances with vendors such as Salesforce, Alcatel-Lucent, Cisco, EMC, Google, HP, IBM, MetricStream, Microsoft, NetApp, Oracle, Sun, SAP, and Xerox, for solutions across various industry verticals

Wipro

1. Analysis of Revenue Segment- HLS

Particulars	FY 12 - 13	FY 13 - 14	FY 14 - 15	1QFY16	2QFY16	3QFY16
% of Total Revenue	9.9%	10.3%	11.4%	11.2%	11.4%	12.0%
Growth YOY % **	3.6%	10.9%	18.0%	7.6%	5.8%	4.9%
	6.3%	12.4%	19.6%	10.3%	8.7%	7.2%
HLS Operating Margin %	-	18.6%	21.2%	-	-	-
Total Operation Margin %	-	22.6%	22.2%	-	-	-

Damo Consulting Commentary: The Healthplan Services (HPS) acquisition, announced after Q3 results, will significantly alter HLS revenue profile. HPS has annual revenues of around $ 230 M.

* Fiscal year: April-March   ** Reported currency (above) and constant currency (below)

2. A leading global nutrition, health and wellness company has selected Wipro to enable the migration of a significant portion of its global IT applications estate to a hybrid cloud. As part of the engagement, Wipro will provide IaaS (Infrastructure as a Service), PaaS (Platform as a Service), an integrated hardware-software-services stack, and billing-metering-chargeback in a completely outcome-based model.

3. Wipro has been recognized as a "Leader" by leading global analyst firm Everest Group, in the Healthcare Payer Digital IT Services PEAK Matrix Assessment 2015. This reaffirms growing capabilities in the Healthcare Digital space.

4. Wipro has also been featured as a "Star Performer" in the Everest Group Healthcare Provider IT Services PEAK Matrix Assessment 2015. This reflects Wipro's large scale and deeper client relationships, technology capability and investments in tools, platforms, and a global delivery presence in the Healthcare Provider space.

5. Wipro Healthcare Ranked #22 In Healthcare Informatics (HCI) Top 100 Technology Vendors. With a HUGE jump of 38 spots, Wipro Healthcare is now at No. 22 on HCI 100 list.

6. Wipro rated 'High Performer' in HfS Population Health & Care Management (PHM) Report. Leading global analyst firm HfS, ranked Wipro as 'High Performer' in its PHM Business Services for U.S. Healthcare Providers and Payers Report, April 2015.

History of Healthcare at Wipro

1. 2QFY16- HLS has a sequential growth of 3.8% reported Currency and 4.2% in constant currency. Wipro has been positioned as a 'Leader' by Everest Group, a leading consulting and research firm, in its IT Outsourcing in Life Sciences Industry – Service Provider Landscape with PEAK Matrix™ Assessment 2015 report for offering an integrated portfolio of offerings for a connected healthcare ecosystem, with solutions spanning patient access, HCP engagement, drug adherence, clinical trials, analytics-based transformation, BPO, and marketing support for mature brands.

2. 1QFY16 - Wipro has been rated as a 'High Performer' by leading global analyst firm HfS Research, in the Population Health and Care Management (PHM) Business Services for U.S. Healthcare Providers and Payers, April 2015 Blueprint report.

3. FY 14-15 - Healthcare, Life Sciences & Services (HLS) emerged as the leading growth driver growing at 19.6% in constant currency in 2014-15. The comprehensive portfolio of solutions and service offerings across payers, providers, e-health and government funded programs, bio pharmaceutical and medical devices segments. Our centralized, scalable and high quality software delivery capability coupled with our deep domain knowledge has helped us to provide innovative solutions which enable our clients to meet their business objectives of patient centricity, regulatory compliance, commercial effectiveness and revitalizing innovation.

4. FY 12-13 - Healthcare, Life Sciences & Services (HLS) grew 6.3% in constant currency. Healthcare reforms in the US in both the Medicaid and Medicare spaces. Pharmaceutical segment also grew with more focus on cost efficiencies.

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Thank you!

About Damo Consulting, Inc.

- Founded in 2012 : Technology & management consulting firm based in Chicago, focused on the healthcare sector

- Provides Healthcare Market Advisory services to enterprises and technology firms: Global Sourcing, Growth Strategy, Digital Content Solutions, Market Intelligence

- Founding Principal has over 15 years of experience in healthcare IT and Analytics Operations: Leadership roles in Accenture, Wipro prior to founding Damo Consulting

- Thought leadership and deep market knowledge: Published extensively in industry journals and speaker at leading industry conferences.

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The Company's DamoDigital™ and DamoIntel™ platforms provide digital content solutions and focused market intelligence that enables clients to develop thought leadership and a high level of visibility into healthcare market trends

*SiliconIndia Oct 2015

About the author: **Paddy Padmanabhan** – Founder & CEO , Damo Consulting

Paddy is an experienced and accomplished business leader & entrepreneur with over 25 years of experience. He has deep experience in IT strategy, global sourcing, and analytics in the healthcare sector where he has spent over 15 years as an advisor and consultant to CIO's and CXO's.

Paddy has led large global shared service operations teams in India, the Philippines, and South America. His leadership experience includes stints with top tier global consulting firms such as Accenture as well as a silicon valley technology start-up in analytics which was named a Gartner Cool Vendor . He has also developed a market-leading cloud-based analytics platform for a private equity-funded silicon valley technology firm.

Paddy is a Graduate of the CMI Executive Program of The University of Chicago Booth School of Business, holds an MBA from Indian Institute of Management, and a Bachelors in Technology with Honors from the Indian Institute of Technology.

He is also a frequent writer and speaker on globalization, innovation, technology, entrepreneurship, and analytics.