HEALTHCARE IT SERVICES 2016: MID-YEAR REVIEW

This report analyzes the most recent financials and market updates for five major IT services firms (Wipro, Infosys, TCS, Cognizant, and HCL - sometimes referred to as the WITCH group), along with their market announcements during the 2nd quarter of 2016. The report also contains market updates for the last quarter on a number of other companies with a healthcare focus.

TABLE OF CONTENTS

HEALTHCARE IT SERVICES 2016: MID-YEAR REVIEW

Paddy Padmanabhan
CEO, Damo Consulting Inc
Follow me @paddypadmanabha

This mid-year report has been prepared focusing on CIOs and IT services sourcing professionals in healthcare enterprises and senior tech industry professionals in IT services companies with a focus on healthcare, as the primary audience. The goal of this report is to inform the audience about the healthcare footprints of major technology services firms, specifically "offshore IT" companies.

This report analyzes the most recent financials of five major IT services firms (sometimes referred to as the WITCH group), along with their market announcements during the 2nd quarter of 2016. We chose these firms primarily because they are public companies who are mainly in the IT services business.

The report comprises key market updates on these companies, as well as two other major firms in the healthcare space, Accenture and Dell Services, to provide readers with some commentary on their progress.

The report focuses on growth metrics, including comparisons of QoQ and annualized healthcare growth to overall company revenues. It is important to note the following:

○ The definition of what constitutes healthcare varies somewhat among the companies covered.

○ IT services firms reclassify their portfolios from time to time which makes comparisons difficult.

○ The annual financial reporting cycles are not the same for the companies covered.

○ This report relies only on public information.

The market updates focus on customer wins, M&As, strategic alliances, and leadership changes.

You can also download our monthly market update reports for a broader view of the firms that focus on healthcare, including smaller companies as well as privately held firms.

We hope you will find this report useful and informative.

Please write to info@damoconsulting.net if you have questions or comments.

CEO, Damo Consulting Inc
Sep 20, 2016

DEFINITIONS AND ABBREVIATIONS

S.No	Term	Meaning
1	CTS	Cognizant Technology Solutions
2	TCS	Tata Consultancy Services
3	QoQ	Quarter on Quarter
4	YoY	Year on Year
5	HLS	Healthcare & Life Sciences
6	Operating Margin	EBIT/Revenue

www.damoconsulting.net

All Rights Reserved

info@damoconsulting.net

OVERALL TRENDS

QoQ growth at the end of calendar Q2 indicates a slowdown at all major firms, except Wipro, which saw the impact of the first full quarter of earnings from its Health Plan Services (HPS) acquisition. Infosys has seen two consecutive quarters of negative growth. All the firms (except Tata Consultancy Services (TCS), which does not provide guidance) have reduced their revenue guidance going into the second quarter and beyond.

Healthcare revenue as a percentage of total revenue remains steady across all firms. For Wipro, the impact of HPS has increased the share of healthcare revenue from 11% to 15%.

Cognizant (CTS) continues to be the dominant player with healthcare revenues at nearly 30% of company's total revenues. At a time when other players saw negative growth, CTS managed the highest growth (except for Wipro and the HPS impact) among all other firms.

Infosys continued to restructure the organization in the wake of a difficult quarter amid rumors of high-profile new hires in the offing.

In light of the ongoing thrust on automation, almost all the firms have renewed their focus on training. TCS states that they trained 120,000 employees with 349,000 competencies (average of three new competencies). Wipro plans to retrain more than 10,000 engineers on new programming skills involving cloud, digital technologies, and mobility.

TCS is also investing in the blockchain technology with over 100 dedicated consultants. TCS believes this technology can be used in financial services, as well as healthcare. Internet of Things (IoT) is making progress in the healthcare sector. The winner of a recent hackathon, conducted by TCS, was for a cognitive healthcare network by connecting medical devices.

According to a research report published by Market Research Engine, the value of healthcare outsourcing will be $50 billion by 2020 growing at a CAGR of 10% in the forecast period 2015-2024.

MID-YEAR REVIEW: DEMAND IS SLUGGISH, MARGINS ARE GETTING COMPRESSED

Figure 1 : QOQ Growth
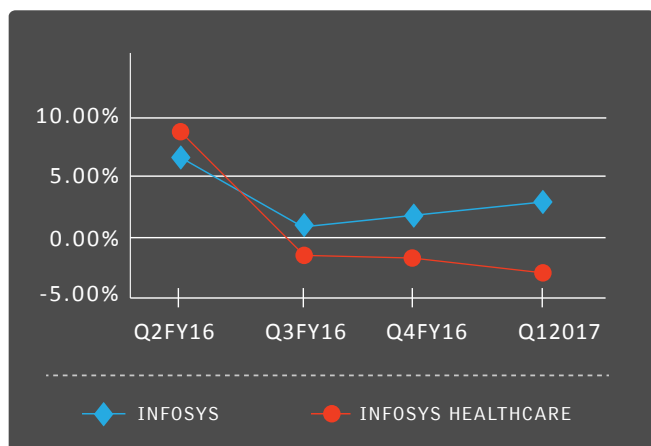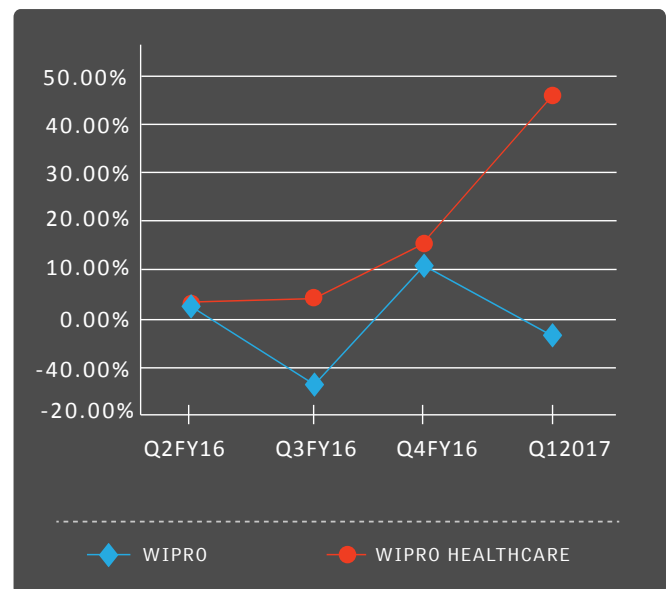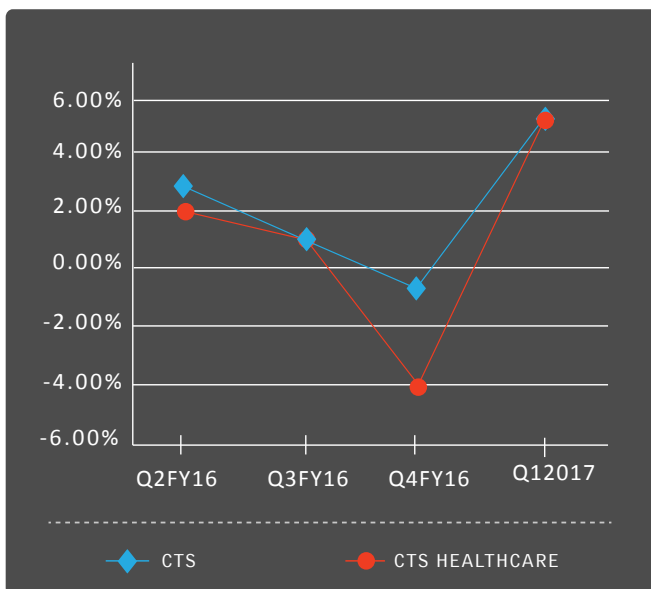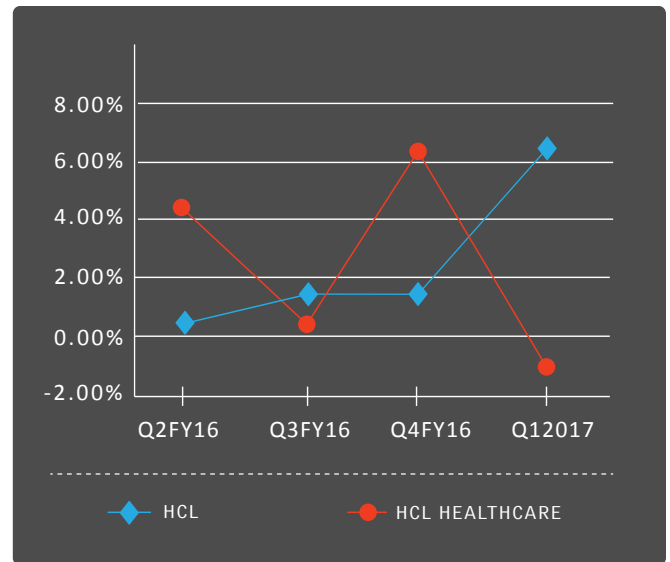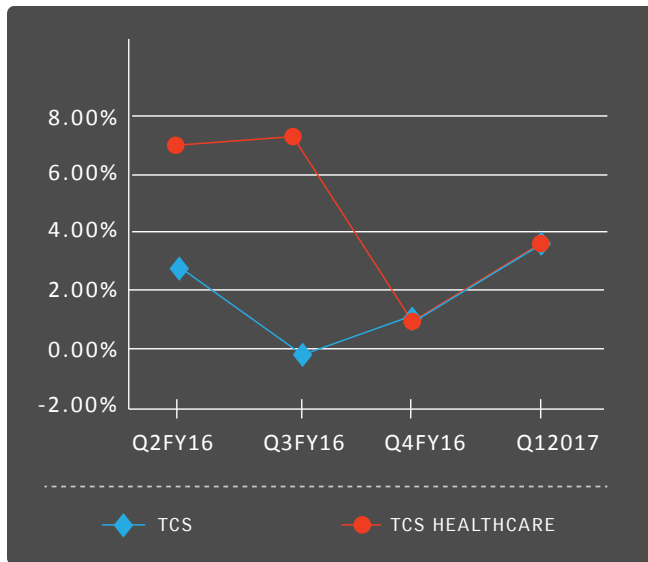
QoQ growth slowed down at all the major firms, except Wipro, which saw the effect of a full quarter of earnings from the HPS acquisition.

Wipro's healthcare revenues indicate a 46% QoQ growth, partly due to the impact of the HPS acquisition in Q4 2015. There is a corresponding drop in overall margins (OM) for the HLS business from 19.96% to 14.33%. OM for the company dropped due to compensation increases, as well as the HPS merger.

Figure 2 : HLS revenue growth and contribution across five major IT services firms
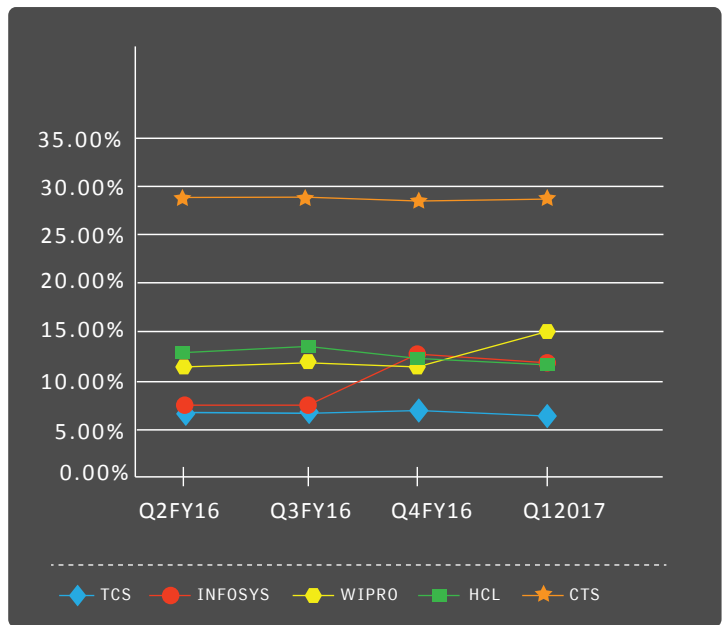
Healthcare revenue as a percentage of the total revenue remains steady across all the firms. For Wipro, the impact of HPS has increased the share of healthcare revenue from an average of 11% to 15%.

Figure 3 : Margin comparisons across five major IT services firms
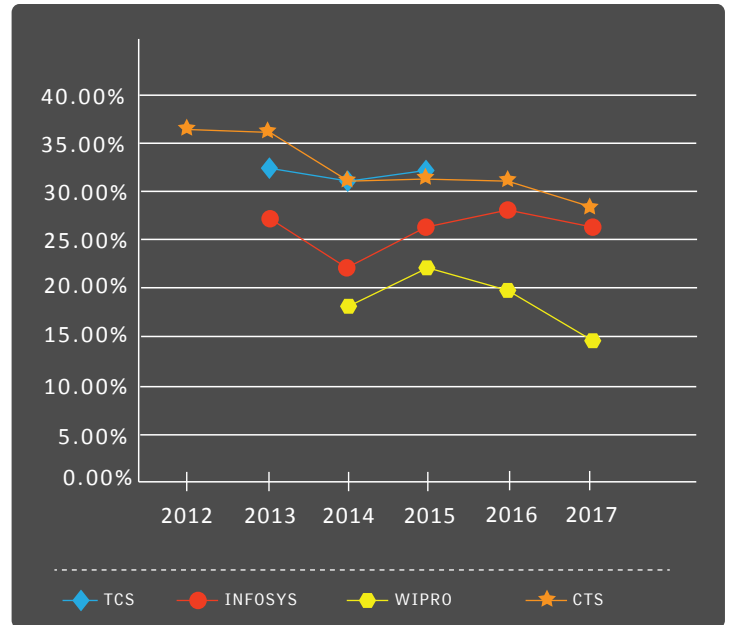
Margins have reduced by an average of 3.75% with Wipro seeing the biggest reduction, close to 5.60%.

Revenue snapshot: Company revenue vs. HLS revenue

Company	Total revenue for Qtr (in USD MM)	HLS revenue for Qtr (in USD MM)	Healthcare % revenue	HLS operating margin	Healthcare % revenue QoQ growth	QoQ growth for company
Infosys	2501.00	298.65	12%	26.05%	-3.79%	2.20%
Wipro	1930.80	295.41	15%	14.33%	46.60%	2.60%
TCS	4362.00	300.98	7%	N.A	3.90%	3.70%
CTS	3369.9	958.8	28%	28.18%	4.90%	9.20%
HCL *	1691	216.45	12.8%	N.A	-1.0%	6.5%

*HCL follows a May-Apr fiscal year

CTS continues to be the dominant player with almost 30% of company revenues coming from the healthcare business. The QoQ growth rate for CTS is back to positive, at 4.90% for June 30, 2016, compared to negative 3.99% for the period ending March 31, 2016. However, margins have come down by close to 7 %. More than half the margin reduction was caused by a net loss from one fixed priced contract (CTS recognized the loss in a fixed price contract, which might be a one-time event). The impact of the loss on margin was 2.81%.

At a time when other players saw negative growth, CTS managed the highest growth (except for Wipro which saw the first quarter of full impact of HPS) among all the firms.

Infosys reclassified its portfolio last quarter to combine the Insurance and HLS verticals, making it harder to draw comparisons.

Revenue guidance forecast

On an average, the growth guidance has been reduced by 1.5%. The growth of the IT firms has slowed down and is pretty uneven across the firms. TCS and CTS saw moderate growth, while Infosys and HCL saw negative growth during the quarter. This is in contrast to optimistic revenue growth estimates provided by all the firms at the beginning of the year. All the firms (except TCS, which does not provide guidance) have reduced their revenue guidance going into the second quarter and beyond.

CTS attributed the reduction in revenue guidance to uncertainties arising from M&A activities in the health insurance segment, as well as lower IT spend by some companies as a result of consolidation.

Wipro has indicated the slowest growth for the year among the firms considered.

The table below provides revenue guidance and growth drivers for these firms

A snapshot of overall revenue guidance and growth drivers of the firms

Clients	Revenue guidance for the year	July 2016- revised revenue guidance	Growth drivers	Opportunities / Challenges
Infosys	11.8% - 13.8%	10.8% -12.3%	○ MANA platform (Automation and AI platform) ○ Innovation	○ Consulting ○ Package Installation ○ Life sciences
Wipro	1% - 3%	At best 1%	○ Wipro HOLMES (cognitive intelligence) ○ Digital practice	○ Weakness in energy segment ○ Inability to get repeat business ○ Top 10 clients gave 10% less business
CTS	10%-13%	8.5%-9.5%	○ Cognizant Digital Works ○ Process Space (in-house process software)	○ Revenue from top 10 reduces from 22.6% in 2013 to 18.6% in 2015 ○ 78.6% of revenue from the US, 16.2% of revenue from Europe ○ Brexit

Clients	Revenue guidance for the year	July 2016-revised revenue guidance	Growth drivers	Opportunities / Challenges
TCS	No guidance	No guidance	○ Big data analytics, digital marketing, mobility, cloud ○ Industry specific innovation centers ○ Co-Innovation Network (COIN) with academia and startups ○ IoT-connected products, production systems, customers	○ Reskilling ○ Japan economy
HCL	11.2%-13.2%	11.2%-13.2%	○ DryICE hybrid cloud architecture (automation and AI) ○ IOT ○ Lifesciences and healthcare ○ Digitalization, analytics and business intelligence, mobility, cloud migration, SaaS enablement	○ Application Service Maintenance (esp in BFSI)

A note on Brexit

The impact of Brexit, if any, seemed to be mainly in the financial services segment. Infosys CEO Vishal Sikka acknowledged the short-term uncertainties of Brexit as banks take stock of the short-term impact (a large deal with the Royal bank of Scotland was reported to have been impacted). Wipro sees no immediate impact of Brexit, other than the currency.

However, there could be a delay in some discretionary spending in the near term, especially in the European markets. TCS, with over 27% of its revenues coming from Europe and 16% from the UK, indicated that they are yet to see any client-level impact, and said the company would have to wait and watch.

COGNIZANT

1 Cognizant announced that Kern Health Systems (KHS), a managed care health plan serving more than 220,000 members in California, has modernized and transformed its technology infrastructure and operations using Cognizant's deep healthcare and technology consulting expertise, coupled with its market-leading TriZetto software. In modernizing its operations, KHS implemented the end-to-end capabilities of Cognizant's TriZetto QNXT Enterprise Core Administration Platform. The new platform enables KHS to manage more members effectively, meet changing Medicaid requirements, and improve patient and provider experiences.

2 Cognizant's TriZetto and McKesson Health Solutions agree to integrate McKesson ClaimsXten™ and ClaimsXten™ Select clinically-based claims auditing solutions with TriZetto's QNXT™ enterprise core claim administration system. The collaboration between the two underscores the companies' commitment to helping payers of all sizes and simplifies the management of increasingly complex clinical and reimbursement policies.

3 Cognizant announced the acquisition of Idea Couture, a global firm offering a broad range of digital innovation, strategy, and design technology services.

4 Cognizant advanced to No. 3 in Healthcare Informatics Magazine's 2016 annual listing of the Top 100 healthcare information technology companies. In 2015, it ranked No. 5.

5 Cognizant named the recipient of Insurance and Healthcare Solutions and Services Excellence Award, by TIBCO Software Inc., a global leader in integration and analytics, at this year's annual Partner Excellence Awards.

6 Since TriZetto's acquisition, CTS has signed several large platform based deals where the contract value is approaching $2 billion (including Emblem Health). Overall they are positive about healthcare, while still being cautious. With TriZetto they are confident that they have a compelling product and a market which demands such a product.

7 Srinivasan V is the new chief operating officer; Sridhar T will head Strategic Initiatives Portfolio; C Prasad will head the industry verticals in North America; Debashis Chatterjee, Executive VP and President, technology solutions, will control delivery; and Santosh Thomas will head the market operations of Latin America along with the European Union and Asia Pacific (APAC).

HCL

Key wins announced:

1 Next-Gen IT operations for the North American of a Global 2000 Japanese pharmaceutical major.

2 For a leading US-based healthcare solution provider, HCL became the sole outsourcing partner for the end-to-end management of their Healthcare provisioning platform for Application and Business Process Services.

3 A Fortune 200 pharmaceutical company chose HCL for Delivering Application Services.

INFOSYS

1 In the wake of a weak performance for the quarter, Infosys announced several management changes. The head of the healthcare business, Manish Tandon, exited, and the HLS portfolio was reallocated among other business units.

2 Livemint India published a story on the impact of a major HLS deal that was included in the company's forecasts, and which failed to materialize.

"In November, Pfizer, which outsources more than $150 million of work to Infosys every year, announced its decision to merge with Allergan.

A preliminary work of intent made by Infosys's healthcare and life sciences unit, along with Pfizer executives, and submitted to Infosys's corporate planning group in February suggested that the IT firm could expect '$70-$80 million new business in the fiscal year 2016-17 from the proposed deal. That would have translated to up to $20 million of business every quarter this fiscal year.

The importance of this lost business can be gauged from the fact that the Infosys management said it lost about 1% growth, or about $25 million in business, during the April-June period."

3 Infosys underwent a major revamp by splitting the business into smaller units. CEO Vishal Sikka indicated that breaking the company into more autonomous units, with

profit and loss (P&L) responsibilities, will enable scalability, freedom of operation, and accountability. These smaller units will be handled by the "next generation of management."

4 Vishal Salvi joins Infosys as chief information security officer.

5 While Infosys has firm plans to develop next generation leaders to take over their business units, Executive Vice President Rajesh Krishnamurthy was promoted to the post of a president. News reports suggest that Sangita Singh, former Wipro Healthcare and Life Sciences head may join Infosys. In the interim, Infosys has allocated the healthcare, insurance, and life sciences business between Mohit Joshi and Sandeep Dadlani, who were made presidents, along with Ravi Kumar as head of delivery.

6 Infosys announced an investment of $4 million in Cloudyn, an Israeli cloud computing startup that monitors and optimizes cloud deployments of top Fortune 500 companies.

7 Infosys entered into a global strategic initiative with Amazon Web Services (AWS) to make transitioning to the cloud easier and faster. They expanded their relationship with Microsoft Corporation to accelerate Azure-based and other digital transformations for customers.

TCS

1 TCS announced partnership with GE Health Cloud. TCS and GE will work together to create an innovative "Industry Solutions Ecosystem" leveraging TCS business and digital expertise to enrich GE's Predix platform.

2 TCS announced three client wins in HLS for the quarter:

- Won a deal to deploy digital solutions to help doctors at the Royal College of Physicians of Ireland (RCPI) interact with each other over the cloud to help doctors share expertise.

- Chosen by a North American healthcare provider for a consulting engagement, deploying the TCS iON digital learning platform.

- Selected by a leading North American biopharmaceutical firm to help improve the throughput of their new molecule pipeline.

Update on Epic Systems lawsuit against TCS

Epic Systems, which won a $940 million verdict against TCS, has asked a U.S. court to reduce the damages by $220 million. The reduced amount is to be compliant with Wisconsin law (Epic Systems is headquartered in Verona, Wisconsin), which prevents award of punitive damages of more than twice the compensatory damages. Compensatory damage awarded in this case was $240 million and twice this would be $480 million which brings the total to $720 million (the original award of $940 million is $220 million in excess).

WIPRO

1 Wipro won a multi-year engagement with a large US-based pharmaceutical company to design and implement customized end-to-end procure-to-pay services by reimagining their customers' digital purchasing experience. Wipro will deploy robotic process automation to reduce manual intervention and enable BOT assisted self-help functionalities for a superior user experience. Wipro will leverage Wipro HOLMES Artificial Intelligence Platform™ to improve processes and facilitate rapid business-critical decision making.

2 Wipro has been chosen by a global healthcare major to create a single global Source-to-Pay platform to enable improved collaboration with its supplier community and an enhanced user experience. The solution is based on a SaaS based platform.

3 Wipro was awarded the Best Global Healthcare and Life Sciences IT Consultancy and Outsourcing Company Award 2016 at the International Life Sciences Awards. The company was also awarded the Product Innovation Award for the Wipro 360 Digital Patient Centricity Suite.

ACCENTURE

1. Accenture and GE Healthcare introduced a new offering to help improve medical claims processing and related cash flow for healthcare providers. The alliance targets medical claims management, one of the largest areas of lost revenue estimated at $2 billion in the US healthcare system.

2. Accenture integrated its Intelligent Patient Platform with Salesforce Health Cloud, giving life science and healthcare providers the ability to deliver a personalized patient experience.

3. Sagacious Consultants, part of Accenture, recognized as top performer in electronic health record (EHR) systems in KLAS' 2016 Epic Consulting Report. Sagacious also has the most validated numbers of projects and widest Epic module experience of all the firms.

4. Accenture Interactive in Japan completed its acquisition of a majority stake in IMJ, a full-service digital agency. This enhances the capabilities of Accenture Interactive in the local market, bringing together creativity, knowledge in advanced digital technology, and consulting capabilities from Accenture and IMJ to provide services with an end-to-end solution.

5. Ms. Nancy McKinstry was appointed to the company's board of directors, effective July 13. Ms. McKinstry is CEO and Chairman of the executive board of Wolters Kluwer, a global leader in professional information services and solutions headquartered in the Netherlands.

6. Accenture plans to hire about 100,000 people in FY16 and spend $1 billion on acquisitions, as it invests in new technologies at a scale that far outstrips its Indian rivals. Accenture will focus its business on three "new" technologies — digital, cloud, and cyber security — that contributes $10 billion to its top line. The investments and hires are creating a dramatic gap between Accenture and its Indian IT competitors. Accenture's digital workforce has now expanded to 36,000.

7. Accenture's life science cloud for R&D, a platform to collect, share, and analyze clinical data is being used by seven top pharma companies, including Pfizer, Merck, GSK, and Lilly to accelerate drug development and improve patient outcome.

8. Accenture to provide guidance and insights to digital health startups through TreeHouse Health, a health innovation center. Accenture will help evaluate the portfolio of companies for future viability, and advice and engage with them and other emerging digital health companies. It will be the third anchor tenant to join TreeHouse Health; Blue Cross and Blue Shield of Minnesota and Hennepin County Medical Center are the other two anchor tenants over the past two years.

CITIUSTECH

1. CitiusTech announced the appointment of Dr. Mohit Kaushal to the company's board of directors. He currently serves as a special advisor at General Atlantic and is a well-recognized healthcare professional.

Dr. Kaushal is an industry leader with an extensive career in investing, clinical medicine, academia, and public policy.

DELL SERVICES

1 Dan Allison, formerly managing director of technology and healthcare consulting firm DEAllison Enterprises, has joined Dell Services as vice president and global general manager of the firm's healthcare and life sciences division.

PERFICIENT

1 Perficient added new customer relationships and follow-on projects with leading healthcare companies such as Cedars-Sinai Medical Center, Mayo Clinic, Moffitt Cancer Center and Research Institute, and Trinity Health, apart from others outside the healthcare area.

PERSISTENT SYSTEMS

1 Persistent Systems partners with Salesforce to help implement and extend telehealth capabilities in the Health Cloud. Powered by Salesforce SOS, new solution enables patients to engage with care teams via live video from their mobile devices, delivering timelier, convenient, and contextual care.

SUTHERLAND HEALTHCARE SOLUTIONS

1 Sutherland Healthcare Solutions announced the successful implementation of their SmartHealthConnectTM digital health platform to drive population health and quality improvement initiatives for Atlanta-based Morehouse Choice Accountable Care Organization and Education System, and the Choice Health Care Network IPA.

VIRTUSA

1 Virtusa Corporation positioned as a leader in IoT services in the "New Business Model Development" market segment in Nelson Hall's 2016 IoT Vendor Evaluation and Assessment Tools (NEAT) report. represents the combined strengths of Virtusa and Polaris, including strong software engineering heritage, deep domain expertise, and focus on applying innovation to solving critical core business issues for clients.

2 Virtusa completed the acquisition of 51.7% of the fully diluted outstanding shares of Polaris Consulting & Services. VirtusaPolaris, their new market-facing brand,

TAG CLOUD ANALYSIS

The research team did a tag cloud analysis of the earnings call transcripts of major IT services firms last quarter. The analysis is focused on the top 100 words. We believe the frequency with which a word is mentioned reflects the focus of the firm on the topic. This has to be obviously looked at in conjunction with other data points on the company's strategy.
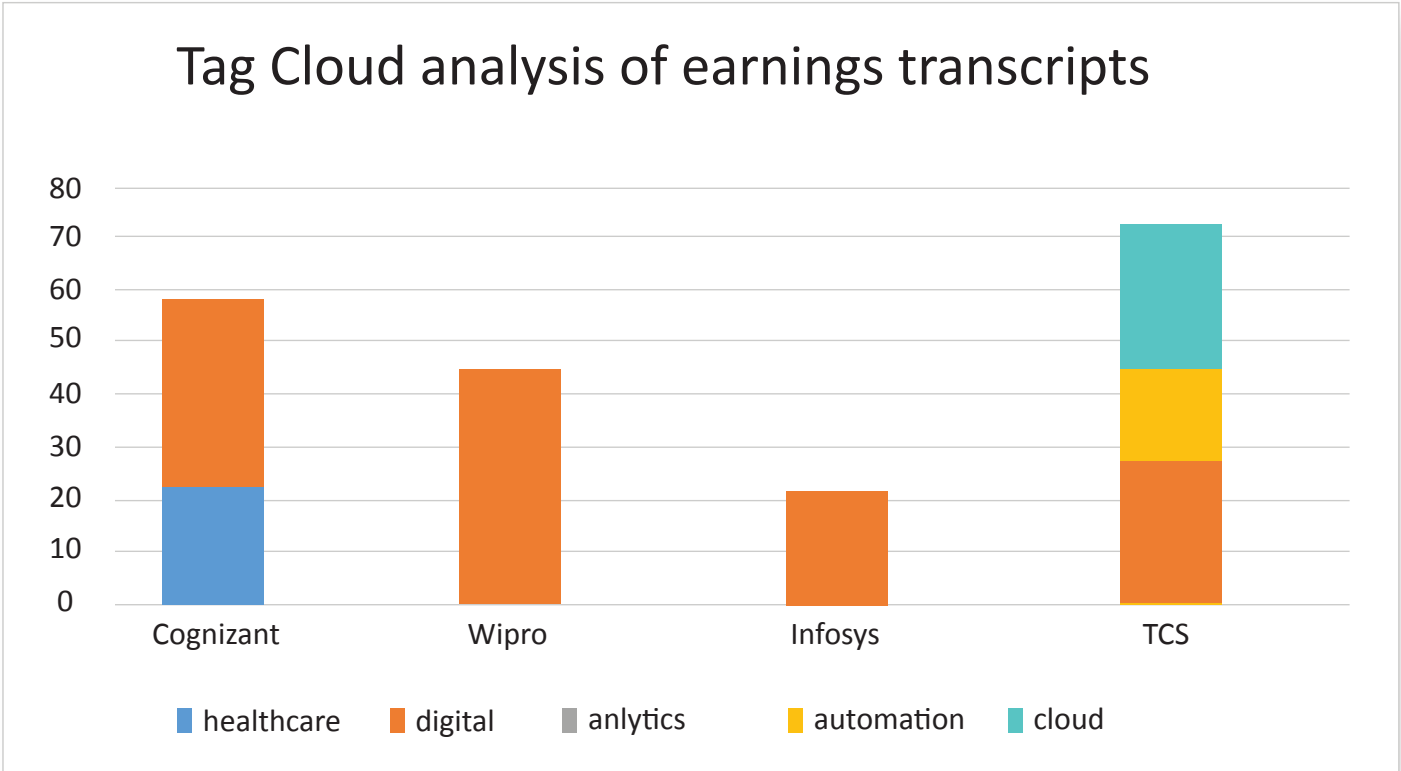

Figure 4: Tag Cloud analysis of earnings transcripts

The word healthcare was mentioned 22 times by CTS. Interestingly, healthcare did not feature even once in the tag cloud of any of the other firms we analyzed (although, to be fair, the top 100 words include a lot of generic words related to overall financial performance). Digital was mentioned the most number of times by all the firms. Wipro mentioned it 44 times, more than any of the others. The words automation and cloud appeared on the top 100 words only for TCS, although these are themes that other firms talk about frequently. The word analytics did not make an appearance on the list, suggesting perhaps that the hype around big data analytics has run its course. We believe that analytics is being embedded in all digital transformation projects, and newer terms such as AI and cognitive computing are perhaps replacing big data analytics in B2B tech firms' lexicon.

ABOUT DAMO CONSULTING

Damo Consulting is a Chicago-based management consulting firm that works exclusively in healthcare. Our clients include healthcare enterprises and technology firms. We provide growth strategy consulting, market intelligence and digital marketing solutions.

USA

One Lincoln Center, 18W140 Butterfield Road
Oakbrook Terrace Suite 1500
Oak Brook, Illinois, 60181

Phone: (630) 613-7200

INDIA

Mariam Center, 7M - 302,
2nd Floor, HRBR Layout,
Bangalore - 560 043

Phone: +91 8064051999

Email: info@damoconsulting.net | Website: www.damoconsulting.net