

# Healthcare IT Services: Q3 2017 Update





This report is a round-up of healthcare sector updates from a select group of publicly held technology services companies. The focus of the report is on M&A activities, customer wins, partnerships, new product initiatives and leadership announcements. For consistency, timelines are referred to in calendar quarters, though the fiscal year periods are different for the companies covered here.



# Growth rates declining for traditional services; companies pivoting to new technologies and solutions

Our Q3 2017 analysis of major technology services firms in healthcare indicates that growth rates continued to slow down for most of the firms in our coverage. Firms that have a high exposure to public sector and the ACA exchange markets, such as Wipro, are the most challenged (Wipro's QoQ revenue declined by 5.48 % this quarter, and has consistently declined over the past few quarters). HCL, with its overweight position in the slowing infrastructure management business, has seen significant swings in growth in the HLS business over the past few quarters.

Despite a slowdown in growth rates, Cognizant's healthcare business remains strong and continues to outperform the peer group as well as overall company growth.

With traditional outsourcing and services businesses under pressure, most firms in our coverage have stepped up their M&A activity.

Firms with cloud, AI and digital capabilities are favored targets. French IT firm Atos made three new healthcare acquisitions this past quarter. TCS, on the other hand, is not very active in M&A but is showing steady organic growth in healthcare, at rates above overall company growth.

In the coming quarters, we expect the impact of the recent M&A activity to play out, as individual firms refresh their go-to-market strategies and develop new, platform-based offerings (an example of which is TCS's new clinical trials platform). The impact of automation on top line cannot be underestimated as technology replaces labor, a mainstay of the global tech services industry for the past 25 years. In the new digital era, deal sizes tend to be smaller, and competition for platform-based deals includes specialist firms with focused solutions addressing the emerging needs of the digital health ecosystem. As a result, we expect growth rates will remain in the low to mid-single digits for most firms in the near future.

We hope you find this report informative and useful. We would like to hear from you on any suggestions and comments that you have on the report. Write to us at [info@damoconsulting.net](mailto:info@damoconsulting.net)





## Glossary of terms

- OM: Operating margin
- QoQ: quarter on quarter
- YoY: year on year
- All figures in USD
- BPS: Basis Point
- YTD: Year to date
- MM: Million

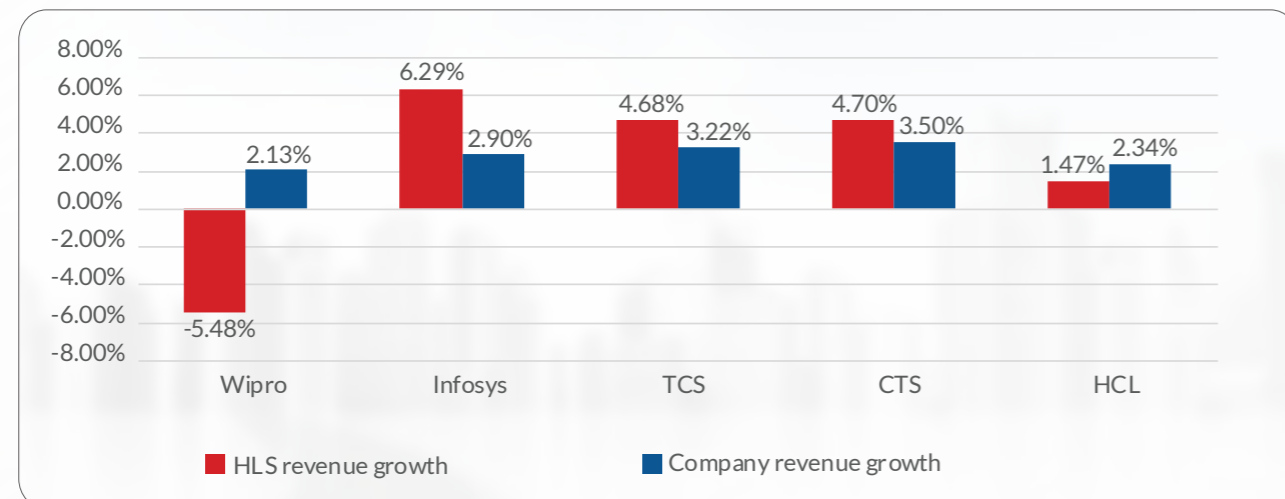


# The WITCH Group: Healthcare Financials

Results for 3 month Sep 30, 2017	Company revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % of total	HLS operating margin	HLS revenue growth (QoQ)	Company revenue growth (QoQ)
Wipro	2014	276	13.70%	15.00%	(5.48%)	2.13%
Infosys	2728	186	6.81%	26.33%*	6.29%	2.90%
TCS	4739	341	7.20%	N.A	4.92%	3.22%
CTS	3766	1085	28.81%	31.98%	3.33%	2.62%
HCL	1928	225	11.70%	N.A	1.47%	2.34%

\* Operating margin is combined for HLS and Insurance business

Revenue growth comparison (%)



## Performance highlights

- Wipro continues to see a drag due to the HPS business which has been impacted by the policy environment. Wipro trails the peer group in HLS revenue growth as well as margins.
- Most companies are acquiring talent in Digital and Cloud through acquisitions. Companies estimate that around 20% of revenues are in new technologies which include digital, cloud, automation and cybersecurity.
- CTS (72 bps increase) and TCS (164 bps increase) witness an increase in overall operating margin in the last quarter. Wipro, Infosys and HCL did not see a significant change in operating margins, despite the ongoing pivot to new technologies.
- HCL revenue growth from HLS segment drops, and is lower than company growth for the quarter.





## Operating margin for healthcare business finally stabilizes but healthcare revenue growth slows down further

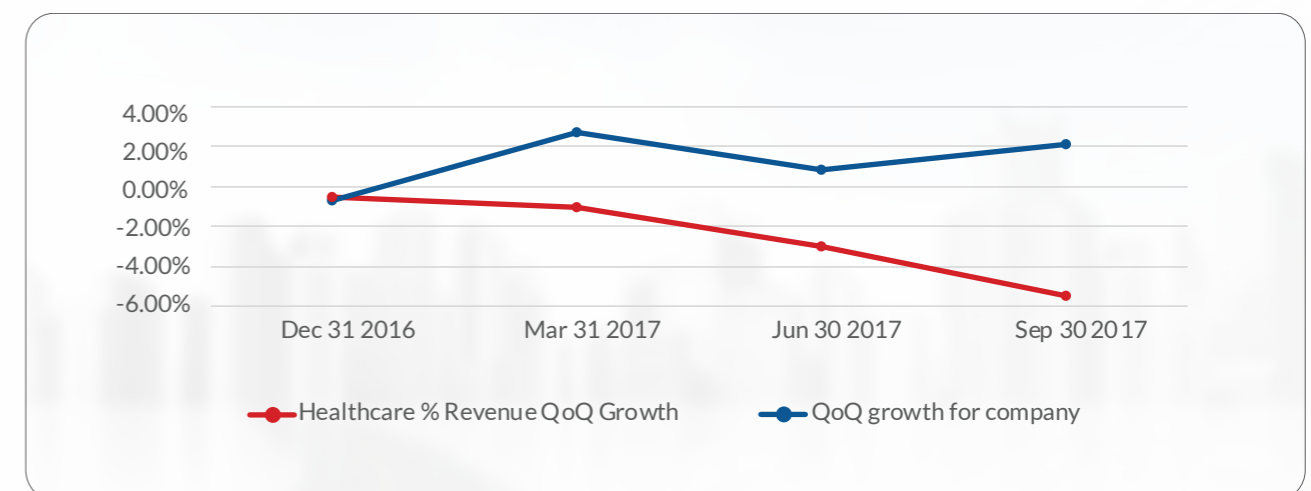
- Slowdown in healthcare is primarily due to HPS which relies on the ACA exchange markets (estimated revenue loss of \$125 million in the past few quarters).
- The company recently won and will offer its Data Discovery Platform Solution to a Mid-Size Healthcare Provider in the US.



Operating Margins – Company and HLS

Results for period ending Sep 30, 2017	Company revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % of total	HLS operating margin	HLS revenue growth (QoQ)	Company revenue growth (QoQ)
Dec 31, 2016	1903	304	16.00%	16.21%	(0.50%)	(0.70%)
Mar 31, 2017	1955	301	15.40%	(0.05%)	(1.00%)	2.73%
Jun 30, 2017	1972	292	14.80%	14.28%	(3.00%)	0.87%
Sep 30, 2017	2014	276	13.70%	15.00%	(5.48%)	2.13%

Revenue growth over last four quarters





## Healthcare business recovers and operating margin stays steady. Ongoing pivot to new technologies

Had the highest revenue growth in healthcare numbers among its peers at 6.29%, however numbers reported are combined for HLS and Insurance segments.



### Operating Margins – Company and HLS

Results for period ending	Company revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % of total	HLS operating margin	HLS revenue growth (QoQ)	Company revenue growth (QoQ)
Dec 31, 2016	2551	176	6.90%	28.92%	1.73%	(1.39%)
Mar 31, 2017	2569	169	6.60%	27.64%	(4.00%)	0.71%
Jun 30, 2017	2651	175	6.60%	27.60%	3.55%	3.19%
Sep 30, 2017	2728	186	6.82%	26.33%	6.29%	2.90%

\* Operating margin is combined for HLS and Insurance business

### Revenue growth over last four quarters





**TATA CONSULTANCY SERVICES**

## Steady growth in overall business; healthcare growth higher than company growth

- The company classifies Healthcare business under 'Others'.
- Punitive damages from Epic lawsuit reduced from \$940 to \$420 million.
- Launches Connected Clinical Trials Platform in its Advanced Drug Development Suite. This new platform will enable pharmaceutical companies to significantly transform patient engagement in clinical trials and improve the efficiency and accountability of the clinical supply process.

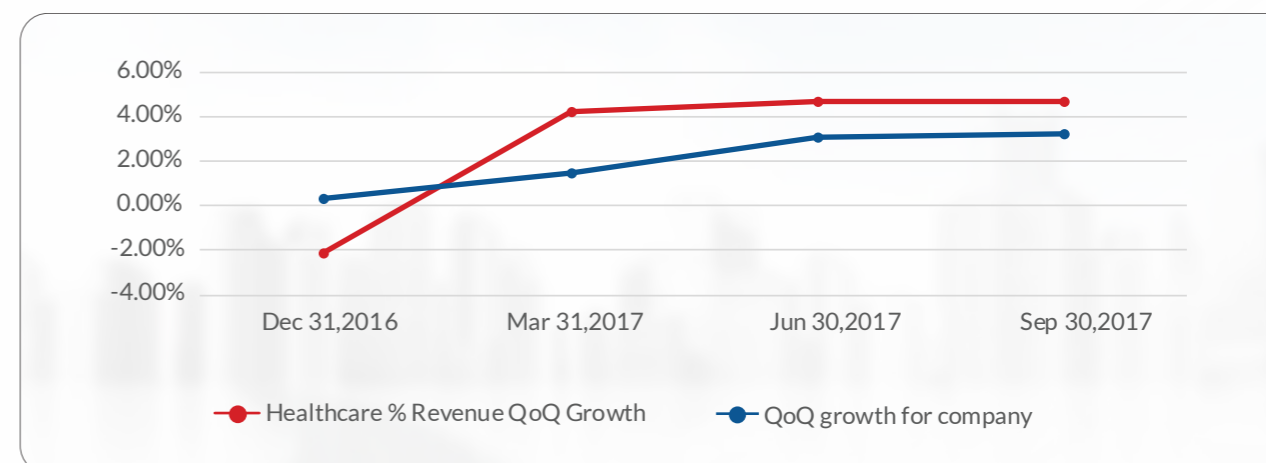


### Operating Margins – Company and HLS

Results for period ending Sep 30, 2017	Company revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % of total	HLS operating margin	HLS revenue growth (QoQ)	Company revenue growth (QoQ)
Dec 31, 2016	4387	298*	6.80%	NA	(2.11%)	0.30%
Mar 31, 2017	4452	307*	6.90%	NA	4.22%	1.48%
Jun 30, 2017	4591	325	7.10%	NA	4.70%	3.12%
Sep 30, 2017	4739	341	7.20%	NA	4.68%	3.22%

\*Company recast their business segment numbers, hence the revenue 'alone' has been changed to reflect that.

### Revenue growth over last four quarters







## HLS outperforms company: Continues to be the leader in HLS



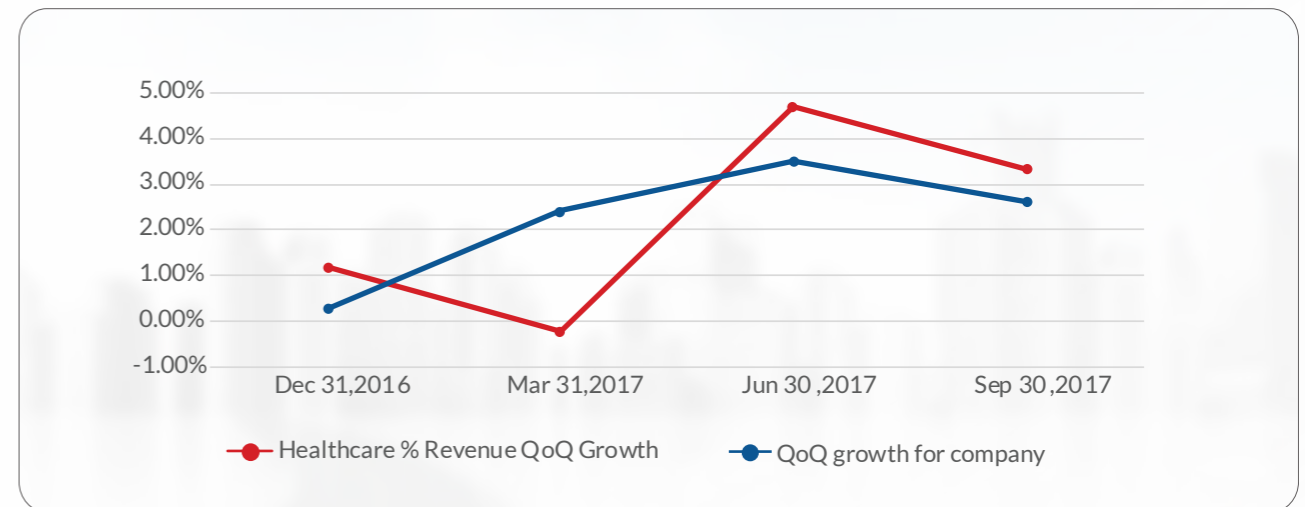
- HLS revenue growth and operating margin slows down from previous quarter, as does overall company growth.
- The company now provides products and services to more than 230 organizations that support a substantial percentage of the Medicare Advantage and manage Medicaid markets.
- Completes the acquisition of TMG Health, a provider of business process services to the Medicare Advantage, Medicare Part D and Managed Medicaid markets in the United States. TMG Health will augment Cognizant's BPaaS solutions for the government and public health program markets.



Operating Margins – Company and HLS

Results for period ending Sep 30, 2017	Company revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % of total	HLS operating margin	HLS revenue growth (QoQ)	Company revenue growth (QoQ)
Dec 31, 2016	3462	1005	28.70%	NA	1.20%	0.26%
Mar 31, 2017	3546	1003	28.28%	27.21%	(0.20%)	2.42%
Jun 30, 2017	3670	1050	28.61%	32.67%	4.68%	3.50%
Sep 30, 2017	3766	1085	28.81%	31.98%	3.33%	2.62%

Revenue growth over last four quarters





## Healthcare growth drops below company growth this quarter

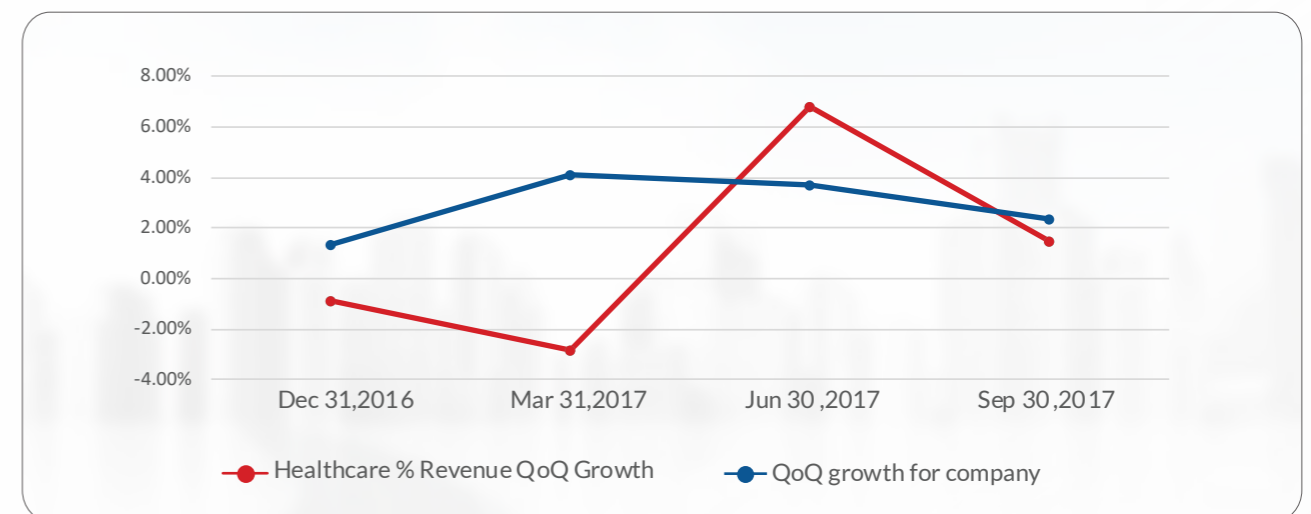
- The company's core Infrastructure Management Services business is soft and this appears to have impacted the entire business, including HLS.
- HLS business growth rates have swung significantly from quarter to quarter over the past four quarters.
- The company announced a deal to provide a Predictive Maintenance Solution to a Fortune 500 Global Life Sciences Technology provider.



Operating Margins – Company and HLS

Results for period ending Sep 30, 2017	Company revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % of total	HLS operating margin	HLS revenue growth (QoQ)	Company revenue growth (QoQ)
Dec 31, 2016	1745	215	12.40%	NA	(0.90%)	1.34%
Mar 31, 2017	1817	208	11.50%	NA	(2.80%)	4.12%
Jun 30, 2017	1884	222	11.80%	NA	6.80%	3.69%
Sep 30, 2017	1928	226	11.72%	NA	1.47%	2.34%

Revenue growth over last four quarters





## Q3 2017 updates: Other

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- Accenture
- Atos
- DXC Technology
- IBM
- NTT DATA
- Persistent
- Tech Mahindra



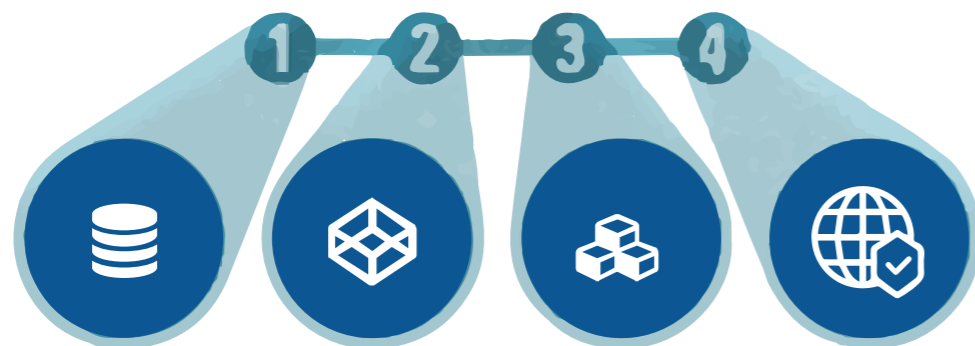
## accenture

- Accenture witnesses 4% growth in Healthcare and Public Services (H&PS) primarily led by growth in public services. (H&PS) came in lower than expected at 2% growth; Healthcare continues to be impacted by uncertainty in US healthcare legislation.
- Collaborates with Roche to develop an analytics platform that will enable Roche to underwrite data in a secure environment and generate insights to provide patients with more customized care.
- Helps Dai-ichi Life Insurance Company enhance its Kenko Dai-ichi (Health First) app that promotes healthy lifestyle choices and enables users to monitor their well-being.
- Joins the Partnership on AI, a prestigious alliance of businesses, researchers, academics and policymakers that works to advance the understanding of artificial intelligence (AI) technology and develop best practices on the challenges and opportunities within the field.



# Atos

- The four divisions of Atos - Infrastructure & Data Management, Business & Platform Solutions, Big Data & Cybersecurity, and Worldline - posted a growth of 2.5%.
- Acquires three key healthcare consulting companies in the US - Pursuit Healthcare Advisors, Conduent's Healthcare Provider Consulting business and Conduent's Breakaway Group business. These companies are expected to enable Atos to expand its presence in the fast-growing US digital health IT market.



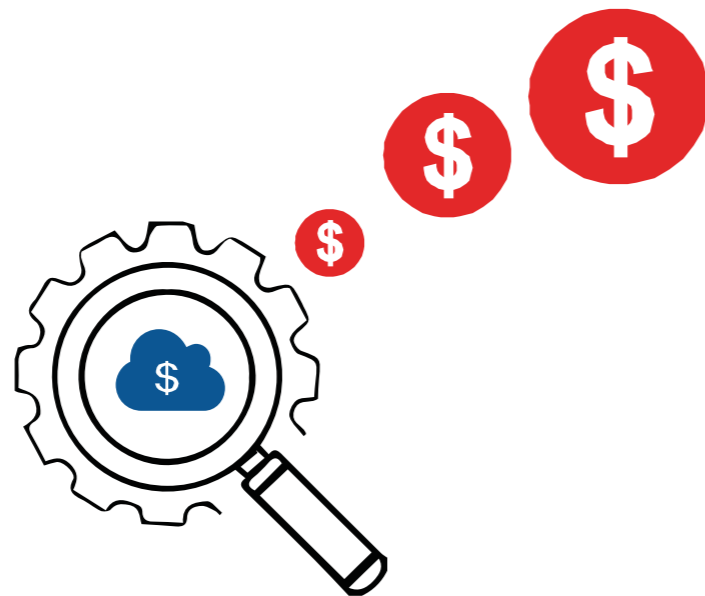
# DXC.technology

- DXC digital GAAP revenue grows at 23% year-over-year and 15% sequentially. However, the industry IP and BPS GAAP revenue for healthcare is relatively flat year-over-year driven by the completion of several large contracts last year.





- IBM's cloud revenue accounts for 20% touching \$15.8 billion. Cloud revenue comprises 20% of IBM's total revenue. Watson Health continues to drive double-digit growth this quarter, with strength in Government, Oncology and Life Sciences similar to last quarter.
- IBM Research and UC San Diego collaborate to advance the use of AI for Healthy Living to enhance the quality of life and independence for aging populations.



## NTT Data

- Announces the expansion of the agreement with Automation Anywhere to include its Robotic Process Automation (RPA), cognitive and analytics solutions in NTT DATA's end-to-end automation ecosystem.
- Joins the "Enterprise Ethereum Alliance" to boost its technology skill in blockchain.





- Persistent posts a QoQ growth of 4.5% and YoY growth of 12.3% for the quarter ending Sept 30.
- Indicates momentum in healthcare business, highlighting a new client engagement to build a patient engagement platform with Salesforce technology.
- Strengthens its Salesforce capabilities with the acquisition of Parx, a European consulting firm with string Salesforce capabilities.
- The Ohio Department of Commerce selects Persistent Systems to design and build the e-licensing system for tracking various industry licenses required by the Ohio Medical Marijuana Control Program.



## Tech Mahindra

- Revenue for Q2 increases to \$1179.2 million from the previous quarter, a sequential growth of 3.6% and 10% YoY growth. The Enterprise business on reported revenue basis grows by 3.9% excluding the recent acquisition of EMR consulting firm HCI. Approximate revenue accretion from HCI for one month of integration stands at about 9 million.
- Terumo BCT, a global leader in blood component, therapeutic apheresis, and cellular technologies, selects Tech Mahindra as their global innovation and development partner.



# Customer wins and M&A: Jan - October 2017

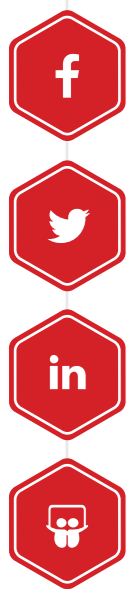


Company Name	Clients Name	Nature of deal	Announced
	PATH	Partnership to improve health in developing countries	Jan-17
	NHS Scotland	Customer win: Enterprise Master Patient Index (eMPI) solution	Mar-17
	Ramot	Partnership for joint research in emerging technologies	Jul-17
	Tricentis	Strategic investment cum partnership to deliver end-to-end hyper automation	Aug-17
	Cooper	Acquisition	Oct-17
	ConsenSys	Partnership to create an Ethereum engineering community on the Topcoder platform	Sep-17
	Texas Department of Family & Protective Services (DFPS)	Partnership to modernize the agency's IMPACT (Information Management Protecting Adults and Children of Texas) system	Mar-17
	Bodhtree Consulting Limited	Partnership to offer Goods and Services Tax (GST) solutions in India	Jun-17
	Siemens	Partnership for Industrial IOT	Q1 2017
	Palo Alto Networks	Collaborate to offer public cloud security services	Jun-17




Company Name	Clients Name	Nature of deal	Announce
	Santa Clara Family Health Plan (SCFHP)	Selects Trizetto platform for business operations	Oct-17
	TMG Health (subsidiary of Health Care Services Corporation (HCSC))	Acquisition	Jun-17
	Red Hat	Partnership: Collaborates to offer Enterprise Platform Services	Nov-17
	LabAnswer	Acquisition	Jun-17
	Genfour	Acquisition	Apr-17
	Altitude	Acquisition	Jan-17
	Roche	Customer win: Collaborate to develop a data-driven core analytics platform in diabetes	Jul-17
	BioCelerate	Collaborate to develop a platform that will improve drug development efficiency	Apr-17
	Intrepid	Acquisition	Jun-17
	MATTER	Acquisition	Sep-17
	Wire Stone	Acquisition	Aug-17
	Phase One Consulting Group	Acquisition	Aug-17
	Dai-ichi Life Insurance Company	To enhance Kenko Dai-ichi (Health First) app	Oct-17





Company Name	Clients Name	Nature of deal	Announce
<b>Atos</b>	Anthelio	M&A	Sep-16
	University College London Hospitals (UCLH) NHS Foundation Trust	Partner / service delivery	Jan-17
	Pursuit Healthcare Advisors	Acquisition	Oct-17
	Conduent's Healthcare Provider Consulting	Acquisition	Oct-17
	Conduent's Breakaway Group	Acquisition	Oct-17
 Capgemini	Idean	Acquisition	Feb-17
 DXC technology	Tribridge	Acquisition	Jul-17
<b>NTT DATA</b>	Centers for Disease Control and Prevention (CDC)	Application hosting, file storage, operations monitoring, data center support and cloud management	Feb-17
	Oracle	To expand cloud capabilities for Oracle Health Foundation	Feb-17



Company Name	Clients Name	Nature of deal	Announce
<b>IBM</b>	Jupiter Medical Center	Use Watson for Oncology	Feb-17
	Sutter Health	Partners to predict heart failure	May-17
	Novartis	To develop a cognitive solution for improved breast cancer treatment options	Jun-17
	Baheal Pharmaceutical Group	Partners to bring genomics to China	Jun-17
	Hackensack Meridian Health	Collaborates to combine Watson with Cota technology	Jun-17
	Arthritis Research UK	To develop Watson-powered 'virtual personal assistant'	Mar-17
	Central New York Care Collaborative (CNYCC)	To create a cognitive population health platform	Feb-17
	Atrius Health	To develop a cloud based service to improve the physician-patient experience	Feb-17
	UC San Diego	Collaborate to advance the use of AI for Healthy Living for the aged	Sep-17
<b>Tech Mahindra</b>	CJS Solutions Group LLC (The HCI Group)	Acquisition	Mar-17
 <b>PERSISTENT</b>	PARX	Acquisition	Jul-17
	Ohio Department of Commerce	Design and build the e-licensing system for the Ohio Medical Marijuana Control Program	Sep-17





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## ABOUT DAMO CONSULTING, INC.

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# DAMOINTEL™

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