INFOSYS ANALYST MEET

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Sudhir Chaturvedi

Good morning ladies and gentlemen. I am Sudhir Chaturvedi. I head the manufacturing vertical in Europe. As you heard this morning from Kris and Shibu, Europe is a key part of our growth strategy. Our aspiration is to have 40% of our revenues coming from Europe. We also heard from a macro perspective that there are several challenges in Europe. The macro noise in Europe in different countries is different but the fact remains that almost all the European economies have now officially emerged out of recession with Germany really leading the way and poised to have 5% GDP growth in the next 4 quarters. The key difference from a macro perspective between the US and Europe is that in Europe, almost all major governments, all countries have announced severe spending cuts and austerity measures and there are economists who believe that this will lead to a slowdown in growth, but the overall consensus from the business community is that they are broadly supportive of all these spending cuts. They believe it is the right thing to do and that is one of the things that we will see play out in the next few quarters and we are watching closely to see what impact that will have. The way we look at it is that if the French can agree to continue working their 35-hour work week for 2 years longer, then there is hope for us all in Europe from a point of view of the acceptance of the spending cuts that are happening in Europe. So that is going to be a key difference between Europe and the U.S. and we are going to watch that closely. As I said, our clients are broadly supportive of these cuts and they are confident about their growth prospects going ahead especially because there is broad-based growth. Our European client base is wide-spread. There is a wider set of manufacturing customers in Europe, a wider set of Energy & Utilities companies in Europe which have global markets as their customers and they are seeing growth across those markets.

So moving on to the specifics in Europe, in quarter 2 of this year, we had 15% sequential growth in Europe which is one of the highest growth rates we have seen for a while. All the major countries for us - U.K, Germany and France grew in double digits sequentially and now our non-UK revenues as a percentage of our European revenues are at 46%. This is an all-time high.

We have 5,000 people based onsite in Europe right now with 33% of these being local European nationals. We have a blue chip client base. We have over 120 clients of which 42 clients are Fortune 500 clients today. The pickup in new logos is proceeding steadily in the last 2 quarters. We have added 6 new Global 1000 accounts and the business transformational deals are on the rise. One of the things that I would like to tell you is that some of the largest deals that Infosys has done have happened in Europe. From an IT outsourcing perspective, the ABN deal or the AstraZeneca deal has happened in Europe. From a BPO perspective, the Philips deal happened in Europe. From an infrastructure management perspective and from a transformation perspective, the Syngenta deal happened in Europe. There is a broad trend towards business transformation deals being on the rise. As Shibu, Kris and Bala mentioned the ticket size of these deals are getting smaller and that is actually playing to our sweet spot too.

Revenue by geography - I mentioned that 46% of our revenues came out of the non-UK part of Europe and this is broad-based growth across all the major countries in Europe today. Shibu mentioned that this is a heterogeneous market and each of these markets we look at separately. I will add some more color to this when I come to the slide on market characteristics and market strategy, but the key part of our strategy is to enhance our revenues from the non-UK part of Europe. Just to give you an idea between Germany and France, they have twice the number of Global 1000 companies than the UK has and their IT spend is 1.7 times that of the UK. There is tremendous growth potential in these markets and my colleague FJ who is the country head for Germany will address will do a deep dive into Germany just to give you an idea of the things that we are doing. So we will address that in the subsequent slides.

From a verticals perspective, as I mentioned earlier the two key verticals for us are Manufacturing and BFSI in Europe. The Manufacturing vertical gets about 70% of its revenues from Continental Europe, there is not much manufacturing left in the UK. Almost all our new business comes from our forays into Continental Europe in the global deals that we do with our clients there.

From a service offering perspective, Bala talked about superior quality growth and we have very high quality revenues from Europe. The business mix in Europe is very strong. The consulting, package implementation and system integration practices are three leading transformational related practices. All get more than 30% of their revenues from Europe. Whereas Europe is 23% of our overall revenues, these three service lines get more than 30% of their revenues from Europe. Also our two newer service lines, Business Process Outsourcing and infrastructure management services also get more than 30% of their revenues from Europe. Europe has a different revenue mix compared to the European average compared to Infosys and this trend is trending towards higher quality of revenues and a very rich business mix.

In terms of market characteristics, I think Shibu mentioned that Europe is not a homogenous market. In fact it is a bit of a misnomer to call it 'Europe' because every country has its own buyer behavior. You cannot get an English person to sell in France or French person to sell in Germany. It just does not work there. Those models do not work. You have to have a different strategy per market. Within that, clients have very large internal IT teams. There is very inflexible labor regulation. For example rebadging is compulsory in large outsourcing deals. There are other aspects in the regulatory environments which inhibit outsourcing. The clients tend to be more circumspect, they are more risk averse and hence this results in much longer decision-making cycles. Shaji mentioned that Europe lags 6 to 9 months, that is from an economic cycle perspective. But from a decision making cycle perspective, even simple project decisions take 6 to 9 months and large deals take anywhere between 9 and 15 months and we have seen even 24 months for large deals to happen. But there is good news. There is low penetration of offshoring. Several Global 1000 companies in Europe still do not do any meaningful offshoring and there is very high adoption of package software and this plays into our our consulting and package implementation sweet spot which is our high growth business globally. The good thing is that the last two years have been a wake up call to almost all the Global 1000 companies in Europe where they are all looking to see what is the global best practice, what our competitors outside the Europe are doing and aping them in terms of their sourcing of services.

We have a vertically aligned strategy for the UK, Nordics, Switzerland and Benelux markets. These are more mature markets in terms of offshore outsourcing. They are language neutral markets. In Germany and France, we will talk in due course about our country-led strategy. The key difference again between Europe and U.S. in terms of the attitude towards the offshore outsourcing is that in U.S. and I would even include the UK, the end is more important. What you achieve out of doing a project or doing an outsourcing initiative is very important where as in Continental Europe, the journey to get there is very important. The means to the end are very important. You have to have a differential strategy that you take with the way you structure a deal, the way you talk about the status of the deal. Going back to a question somebody asked as to how would you structure a deal? It would be structured differently in Europe. The journey will begin at a much slower pace with lower levels of offshoring and then increase and that is essentially a very European way of doing business and the more we identify with that way of doing business, the higher the likelihood of our winning deals and that is what we are doing more and more. As I mentioned, we have a rich business mix and that is something that we want to expand on. We have local competitors, the likes of Atos Origin or Logica or even Capgemini who are very local to Europe. These are very large companies local to Europe but they lack the global capability that we have. When clients are looking at global implementation across 50-60 countries globally, that is really playing into our sweet spot and as Kris talked about the changes that we are making from our transformation capability perspective or 'building tomorrow's enterprise' perspective are playing firmly into that sweet spot.

In terms of some of the examples or some of the work that we are doing, I have just picked a few which are a bit different from the normal ADM and package implementation led services. I am talking about some of our New Engagement Models here. We have recently won an online platform-based transformation project for a large wireless telco provider where we will be managing their online properties across all their major countries in Europe on a single platform. For them this is a multi-billion dollar revenue generating initiative and the platform is going to be provided by Infosys. Just one last example and I will hand over to FJ. We were also running the Digital Marketing platform for one of the largest drinks and beverages companies in the world. This is the company that is essentially confined mostly to Digital Marketing because of the restrictions and advertising their products on television and in print. They had a platform initially which was being run by Accenture. We replaced that platform and today we are providing services at a much faster pace than before. The platform is an Infosys platform which coordinates within the client, our own services, the advertising agency and the media agency and delivers faster content. They can react very quickly to happenings that are going on over the world. If the forecast is for a hotter day, there are promotions on beer and other aspects of the business increase and that is done on almost a real-time basis on an Infosys platform.

With that, I am going to hand over to FJ to talk about our Germany presence and our strategy in Germany.

Franz-Josef Schurmann

Good morning ladies and gentlemen. Thank you Sudhir. Let us have a closer look at Germany. When we do that, Bala earlier on talked about our increased portfolio of geographies, out of which France and Germany are two particular ones where we are taking significant steps forward this year and in this context, we see these growth opportunities in Germany and let me just give you a little bit of context there.

In Germany from a client base, we probably have about 150 companies with more than $ 5 bn annual revenues. It is the largest economy in Europe and that provides fantastic potential client base for us. We have been in markets for quite sometime and we are currently observing a huge uptake. When you look at the growth which we are seeing in Europe, GDP growth in Germany latest estimates are at 2.2% and that is leading compared to France and also U.K. This is providing a great opportunity for us and it is still a very fragmented market. When I look at the market in services, it is a $ 14 bn market according to Gartner. When we look at the IT service providers in the market, the largest ones are having 11% of market share and going down to 5-7% by IBM, T-Systems and Siemens IT services. That provides a really good opportunity for us to enter into the market.

A few particularities which we have learned over the last couple of years and we have been in this market for 11 years. One is sometimes that the sales cycles are a little bit longer. Some people say the Germans are a little bit more stubborn and there is probably a little bit lesser uptake on the offshoring and there are still some quite prominent captive IT service providers. Nevertheless, how are we tackling this market and what we are going to market strategy? We are building and leveraging what Kris and Shibu have earlier explained on our innovation and advisor-led positioning in the transformational space. I am probably meeting every week with at least 2 clients CFOs, CIOs, board members of various potential clients and existing clients. I have to say that we are seen as a challenger and that companies are amazed. Sudhir has just given examples where we have taken over ad where we are in the space now exploring and developing.

We have alliance partners like Microsoft which I would like to point particularly out. Oracle and SAP which have been waiting for Infosys to invest into Germany and to go to clients together with them on the solutions which we can leverage from our global clients. These are areas and which are helping us in our go-to-market strategy.

If you look at market performance, a few data points. We have been very very successful in these last two quarters. We have been very happy about it. We have opened 4 new top clients in the last couple of months and all these clients which we have opened are in transformational or innovation space and that is important. So the strategy which we have been developing is paying off. We are seeing very good traction in the manufacturing verticals. In the retail industry we are building on our existing client base and now expand into further clients, as well as a lot of uptake in the Energy & Utilities and telecom market. Energy & Utilities in German market according to recent poll is actually growing by more than 20% in the outsourcing spaces this year.

What have we changed in the sense is how we are doing business here. Originally in the last 11 years, we have been leveraging our Global Delivery Model, mainly English speaking and English speaking engagement. We have listened to our clients. We expand our services especially with a German speaking front-end. What you have seen earlier on the earlier slides as the German front office, it is an instrumental part to engage with the business as well as the IT of our clients. This has proven very successful and we have been acquiring a lot of good talent in the last couple of months. You probably know that the German IT industry is restructuring in several ways. We have been seeing layoffs throughout the crisis and several of the big players and their effort to reduce SG&A cost and we are very happy with the cost structure which we at Infosys can provide but at the same time we can provide space for talent. That is why talent at the moment is coming to us and we have built a new leadership team in Germany which is helping us now to recruit the next levels. We are acquiring top talent.

Finally I would like to put it in a way one of our new employees has is put it when he was going through the interview process. The way he has put it was ‘Franz when I realized that you are not only doing this stuff outside right now and growing, but you are also investing into bricks and mortar which is the new office which we will be opening in the beginning of next year which is the open firm in the Opernturm City Center of Frankfurt, that is the moment I realized you are serious’. So people look at opportunities. They look at our seriousness in the market and given the 150 plus companies which are the market for us across all verticals, it has been a tremendous journey I have to say. I am sure you will hear more about it on our journey to get about 40% of our global revenues out of Europe and out of France and Germany. I think we are well set up for this year to embark on ‘Infosys 3.0’ in France and Germany.

With that, I would like to welcome Sudhir back on stage and we probably take questions.

Participant

Just in the German markets that we were talking about, could you talk about may be the delivery model versus say the US or the UK? I mean obviously you got a center in Poland and a center in Czech Republic. How much volume can be driven out of India on back-end versus using local centers and how the Germans feel about where the sourcing comes from versus from other geographic players?

Franz-Josef Schurmann

Let me start probably with the backend of your question. What we have seen toward the crisis is a catalyst and new types of deals from vendor consolidation. Large deals companies like BMW, Ford, have come in this market and for the first-time ever have done large vendor consolidation. This is a significant offshore portion in a labor sensitive country as Germany is. Let us go into delivery model. Traditional delivery models are based 30% onsite, 70% offshore. When I look at it in the way we are, in absence of better statistics probably doing it across the market at Infosys. In the English speaking part, you would probably have a 5% German front-end for client management and for the beginning of a project 25% colleagues which are on a temporary or project-basis allocated or deputed to Germany and 70% working offshore. That's the traditional model. We augmented that model for our growth aspiration by a 20-20-60 model; 20% German, 20% deputees working alongside onsite and 60% offshore. Now that is the typical IT type of word and where we have to differentiate of course ADM work versus package solutions and consulting. When you come into the BPO space or when you come into a platform space, you need more client interaction in the various languages, we do benefit then from our delivery centers in Lodz. That is probably true for part of the IT work but only as it relates to IT work and not for the project base work. Thank you.

Participant

How long do you think it would take for your European customer set to achieve similar levels of GDM adoption compared to North American customers?

Sudhir Chaturvedi

I think the answer to that would be different in different countries. I think the UK is almost at the same levels of GDM adoption as the U.S. Even in the UK, there are re-badging related regulations etc. which inhibit offshore outsourcing even in the UK. It will be different in different markets. For example in the Nordics market, the potential is a lot more in different sectors, in the hi-tech sector or in the engineering sector. I think there what we are doing is we are focusing on certain verticals and certain services in every country and that is what is leading our drive. The approach is to change ourselves in our capability to match the country rather than just push offshore adoption. That's the way we will deliver it, the real go-to-market is to actually provide the services that are being demanded in the market.

Joe Foresi

I just had one question. I think you said that had 5,000 employees in Europe and then I think it is 23% of the revenues coming from that region. Maybe if you could just talk about revenue per employee much higher there because more onsite work, it sounds like model was still roughly the same, I am just trying to reconcile that?

Sudhir Chaturvedi

Actually that data point was 5,000 onsite employees. So they would be supported by approximately almost 20,000 offshore employees. The revenue productivity within Europe is similar to that of the U.S. It may be slightly higher because of our mix of package implementation and system integration and consulting services. But that 5,000 number is just the onsite employee percentage. We have a higher number of onsite people in Europe for reasons that FJ explained that there we will need to have higher ratios onsite for service delivery.

Joe Foresi

Do you know the split of work that you are doing for Europe-centric companies headquarters within the Europe versus what you are doing for US companies in European market?

Sudhir Chaturvedi

What I have talked about is the work that we do only for European companies. We did not include the work that we do for US companies in Europe is what we talked about.

Franz-Josef Schurmann

I would like to augment that question in respect of maturity level. Whereas in the US, we have a very mature market with a very high sophistication of pushing work actually and entrusing it, I think especially in Continental Europe, we see that clients still want to have a significant portion onsite. So you cannot push as much as quickly as you can probably do in a more mature market at the moment.

Hari Srinivasan

Given the tough outlook for European economy growth, how do you see the next 12-24 months playing out? Do you see the outsourcing adoption accelerate or are you going to find more resistance given the tough environment?

Sudhir Chaturvedi

Actually this is where the dichotomy is. As I said macro environment in Europe is not very positive, but just specifically looking at the manufacturing market which is our largest market in Europe and within that if I look at the automotive sector which is perhaps the worst impacted sector in Europe, it is actually one of the highest growth of market for us today. I think the difference is that in non-financial vertical that market as Europe is, in 2009 they were at the bottom end of the inventory. What we have seen in 2010 is really a pick-up on the basic manufacturing since people have shut down plants etc. The same thing is happening across different sectors. What we are seeing is that even though the macro picture does not look very good, from a micro perspective we are seeing an uptake in demand. Now the question is really in terms of how long will this last and can we see this continuing and that is where your prediction is probably as good as mine there. So what we are saying is that we are being cautiously optimistic about what is coming ahead but the thing is to watch it carefully. Gartner's prediction is that 2011 budgets will increase by about 3%. Our own client feedback also said yes, a similar number of 3-5% budget increases. So that is a sort of numbers that we are looking at. The key thing to watch will be what is the discretionary spend because that is what we are much more likely to win in Europe going ahead.
