



Analyst Meet

August 11, 2003

Reinventing Customer Processes

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Akshay Bhargava: Thank you very much. Good afternoon everyone. I am very pleased to be presenting to all of you. Let me start with what my first slide is going to be

Lady Speaker: We can hear you clearly here.

Akshay Bhargava: Okay fine. Anyway, to start the presentation, I want to spend a little bit of time talking about BPO before I come to Progeon. The reason I want to do that is because I find that BPO is a term that is used in many ways and it actually means different things to different people, and so perhaps it might be good to define some of the things that underline the term BPO.

The first point is that there are many kinds of services that are included in the term BPO. For those of you who have been tracking this industry for a period of time you will find the first wave, was really the medical transcription, the content graphic, and some of the lower level low value added activity. The second wave, which started a few years ago was really the contact center wave, and these services were aimed at call centers, managing e-mail traffic, and other forms of customer support from India. The third wave which is a little more recent is what I term the transaction processing wave and that includes end-to-end services and some of the analytical processes, and these services are then provided by a bunch of players in India which range from the captive which provide services only to one company, their parent company, and the tier one companies, tier two, and tier three companies which are really very small.

With this background, I want to talk a little bit about Progeon. On slide #3, which is the Progeon profile, we will find a few details. We were incorporated in 2002 April, we are 80% owned by Infosys. In the last quarter which is quarter ending June 2003, we reported revenues of \$2.7 million with a net profit of about \$160,000. We, again as of the same period, reported 882 employees on our own and we currently have eight clients most of whom belong to the financial services sector. Our main facilities are in Bangalore. As you may have seen during the tour, there are premises we have earmarked in Pune and that is under preparation. If you move on to the next slide you will see our geographic footprint, which is slide #4. We already have a 1000 seat facility in Bangalore. We will have a second facility in Pune, which will also serve as a second center. We find this an important attribute while selling our services to customers and it gives us an important means of insuring redundancy within India. We are also opening up a second center in Bangalore in a building that was previously with Infosys. It is our intention to (as far as possible) remain within the Infosys footprint because that is something that is important from our point of view as well as from our customer point of view. We are actively in the process of finalizing our decision on a location outside of India. We have identified Czech Republic as a location and the details are being worked out, we are in the process of looking at all the legal and other formalities.

The next slide, which is slide #5, which will give you an idea of sample clients. There are some details here. There is a telecom and network equipment manufacturer, there is a mortgage bank, there is a telecom service provider, there is an employee services company, there is transaction services bank, an insurance company and so on. While I cannot share names with you at this stage, what I can tell you is that all these customers are pretty much marquee names in their own rights. These are very large companies in their own countries. What is very important here is that when these companies start to do business, their proposition in terms of achieving meaningful savings in their organizations does not stop with the small deal and that is really our thinking when we pitch our business to these large companies, because they might start small while they are all undergoing the pilot phase and getting a sense of comfort with India, but once that happens, the expectation is that they will ramp up fairly quickly.



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The next slide will give you an idea of how we expect the revenues to grow, last year which is year ended March 2003, we reported \$4.4 million in revenues and our guidance for the year is \$16 million for year 2003-2004.

Moving on in terms of business challenges, there are three large major challenges that we see. The first of all is maintaining operational excellence while continuing to grow and I think that is the challenge with most BPO companies who are in the position that we are and I think we have been very successful in recruiting people and professional managers who have a lot of experience in this segment and in this industry. We have introduced and implemented some very strong internal processes both in terms of managing the matrix, managing the service level agreements, the governance relationship with customers, as well as six-sigma and other quality processes, and we believe they will go a long way towards ensuring that we deliver a quality product to our customers. The second challenge in this business is demonstrating transaction processing expertise and this is really, really important, especially if we are to become meaningful in the transaction processing space. In order to respond to that, we have created a group called product management group. This group consists of, it is very small group of four or five people, but each individual here has 15 to 20 years solid industry experience in their particular area. We have an individual for banking, we have an individual for securities, we have an individual for finance and accounts, and we are actively looking to get on board an individual for insurance, and just to give you an illustration of what I am talking about by way of industry experience. If I take for instance the securities product manager, he is an individual who was formally a managing director with JP Morgan Chase and prior to that he was the head of global custody for Morgan Stanley and has about 21 years of experience in the securities industry. Again we find this extremely important in terms of getting a sense of comfort with our customers, helping customers realize that we have people on our side who are equally knowledgeable about their industry and quite frequently, more knowledgeable about their industry than they themselves are, and we found this to work very, very effectively.

The last challenge and you know the world sort of belies the seriousness of this, is really facilitating change in client organization. As we have discovered, BPO deals or any BPO outsourcing is a very invasive change in client organizations and many times it really slows the process down or creates a huge amount of resistance to making something like this happen. Now, the overall cost and quality proposition is so compelling that the clients will undertake that change, but it is not easy, and we have developed a very robust and proven methodology that we have used more than a few times actually in several situations to execute process transition, and it goes all the way from managing a process transition to actually going back inside the customer organization to be able to help a customer introduce change and bring about change within their organization. Clearly we do not insist that we do that, but should a customer require our assistance, we are there to help.

The next slide talks a little bit about our strategy. The simplest way that I can put it is that we will either work for strategic customers or for strategic segments. If either of these two are not present or neither of them are present then there is really no compelling reason for us to get engaged in it and clearly where a strategic customer from a strategic segment gives us some words that is something we are very, very happy about. The same slide will also give you a sense of what we consider to be our strategic segment and the sub-vertical segments within that. These are banking, securities, insurance, finance and accounting, and telecom, and again you will see the kind of breakout we have, we actually practice within by sub-vertical and we hope that overtime we will have a footprint that will reflect this.

Moving on to a value proposition, why should customers do business with us? We really believe that continuous improvement is the heart of this whole thing. The cost proposition in India is well understood, I do not believe anybody comes to Progeon for a cost proposition. They will get that from a number of vendors in India. What people get from Progeon that is over and above the cost proposition is year-on-year productivity and quality improvements. There are two major ways we achieve that, one is through just managing the process, introducing quality techniques, six-sigma methodology to achieve process benefits. There is one particular customer where we have done



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extraordinarily well. This customer had three shared service centers across the world, and they had 400 people across this having outsourced almost all of it to India, to us in Bangalore. This customer now has 340 people doing this, so forgetting the fact that you know people cost less in India there are less people, and I think that is a very compelling argument that we are able to demonstrate and we are able to get customers convinced about. Another part of this is the close integration between process and technology and that is something we have worked very hard to create. I think this is an under appreciated fact for BPO and the integration between process and technology will really play out. We are very strongly positioned to do that. I believe we are perhaps much better than some of our competitors in a position to integrate with Infosys. There are several cases where we made joint pitches and a joint proposition to our customers. Again it is something that works very well.

In conclusion, some of the things that really underline our business process offerings, which allow us to really bring about dramatic change in customer processes, are things like process maturity. As I talked about, we have and we are continuing to create very strong domain expertise. We have a very structured approach that allows us to create a very predictable experience for our customers and product management is something as I talked about earlier that supports this very strongly. I think sustainability of what we do is very important in a very similar way that Girish talked about in the earlier presentation. The financial strength and the fact that Progeon is profitable while even though it is a relatively new company and the financial strength of Infosys and the support we have from our parent company, all create an unquestioned position on this. Our flexibility to work with customers, because when we consider a customer strategic, we are very, very flexible on how we work with them in terms of scalability, in terms of migration, in terms of mitigating risks, in terms of change management, and also in terms of laying out a wide variety of commercial structures that might work, and it is a discussion we have had with several customers around this. And finally, we hold ourselves accountable for what we deliver to our customers as much as customers hold us. We are very willing to share risk and reward and very often we go to customers and say, we believe we can improve processes around what you are giving us and if we affect a improvement we would very much like to share in the benefits and likewise if we are not able to do that and that is something we hold off as accountable for. What I believe is, all these four things go together to create a very strong experience of predictability, which is what customers are looking for. I would now like to pause for questions. Thank you very much for listening to me, and I am very happy to answer anything if you like. Thank you very much.

Lady Speaker: Thank you Akshay. Since we have some time we would like to take a couple of questions, so any one from the audience would like to ask the question, please raise your hands we will give you the microphone.

Male Participant: Hello, okay you referred to the risk and reward sharing kind of a pricing mechanism and something like that, is the appreciating rupee, are the clients willing to take that kind of a risk on the BPO segment where in a certain depreciation is passed onto them as a benefit and a certain appreciation is while _____ on the appreciation part that is taken care of by the client?

Akshay Bhargava: That is a good question. It is something that clients are becoming increasingly sensitive to. If I look back into contracts that we were signing three to four months ago, this was not really a point that came up for discussion. But clearly, this is something that is very much on the forefront of both the BPO service providers as well as the clients, and it is something that is one of the points that gets discussed during any contract discussion.

Male Participant: Thank you.

Lady Speaker: We have another question, yes you can go ahead.

Female Participant: Can you brief us on the timeframe that would be required to grow you up on the value chain, which you just explained, during what timeframe do you expect that we can provide the value added services?



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Akshay Bhargava: To some extent I believe transaction processing is you know by itself a higher value added service than some of the earlier things that were apparent in the Indian market. Now within transaction processing, I think the real high value added is the end-to-end processes. When you talk to large customer, and this is especially to a very large customers, they are inherently uncomfortable outsourcing end-to-end processes because they do not want to do that unless they see very strong domain expertise and a very strong commitment on the other side. Now I am very happy to say that in two customers, we are handling pretty much end-to-end processes for them, but it is a discussion that is really important. I think as the industry (and now I am talking about the industry not just about Progeon) as is able to demonstrate more and more domain expertise and ability to understand client processes and ability to handle the risks that come with end-to-end processes, we will see more end-to-end processes, because you got to understand with these very large customers who are outsourcing end-to-end processes to Indian service provider, it is very important that the outsourcing be at a meaningful size. If it is not meaningful they might save half a million dollars or two million dollars but for a very large company that will get lost in the rounding off. So in order to achieve savings of any magnitude they will have to look at end-to-end processes and I believe that is the real challenge rather than just value added nature of the specific service they can provide.

Lady Speaker: Okay, thank you Akshay. We shall now break for tea, after which we will move on to the open house sessions. Thank you.

Akshay Bhargava: Thank you.