

INFOSYS TECHNOLOGIES LTD
INDIA ANALYST MEET
AUG 27, 2008
CHENNAI

COMMUNICATION SERVICE PROVIDER – SESSION 1

Mr. Subhash Dhar

Once again, my name is Subhash Dhar heading Communications Media and Entertainment. The overview of the segment that I am going to share with you is basically what you have seen today and I know you need the relevant information which is absolutely current and not something which we saw three months ago. I believe we have about 30 minutes for this session and I will take about half of that hopefully presenting this and the other half for your question and answers. Safe harbors. I will just start off with the numbers of how this segment has done over the last few years. It has been a relatively strong vertical for us. It is also a very major vertical business unit for us. Across the world, we do approximately 20% as we can see in the numbers of our revenues.

We believe the key spending drivers for the industry are intact. They haven't changed much over the past few years. The number one is the ongoing transformation of network and systems and just wanted to put this in perspective. Different service providers have different approach to do this network transformation. There are technically three levels of transformation in the network that they need to do, but broadly we can understand our core and what is the last mile. So, obviously the last mile is more extensive than the core. The core is where you start and last mile is where you end up spending rest of your transformation effort into. So, to give you a perspective on how it is different, different plan, for example, in the United States, Verizon and AT&T have taken the route of acquiring the core digital IT network. In case of AT&T, it was SBC acquiring AT&T and in case of Verizon, they acquired MCI. This was all internet protocol network. Across the Pond in the UK, British Telecom took a build approach rather than acquire approach and you might have heard of their program called 21C Network, 21 Century Network, which is really building the core of what is called the transforming internet protocol network. So, that is one aspect of it and then there is the other long-scale transformation which is the last mile transformation which is a lot more expensive, needs to be a lot more customized, it cannot be done in one go, it requires a lot of local planning and most companies don't do it without having a revenue model in place which will pay for it. So you have heard of in case of AT&T, the whole new program where they are going to, this is basically their program for delivering converged services and that would be something which would be ongoing and that you can expect from this segment, I mean that is the precise reason why you would even transform your network and that would be top heavy business which would play into our core part and the third evolution and proliferation of consumer devices, iPhone is in this country as well now. It is a great example of what that means all the way from the handsets that we use for communications to handsets that we do not use for communications today, but have the capability to have communication, the whole colliding world of entertainment, media, communications, devices are striving that a lot. The devices are probably now hooked into converge it altogether. We end up having multiple devices as we have figured out over the years. So, that by itself means you have to have applications written for multiple devices. When you do a net upgrade of your application, you got to make sure that, 1,000 devices support them. All of this leads to a lot of application development, testing, verification, certification and those kind of opportunities, not to mention the embedded opportunity in the devices themselves and of course the last one is the new market, new emerging market which I don't think I need to explain that in this country which is one of the biggest drivers for this segment per se. Now, which one of these are drivers for offshoring and how does it compare with the spend that will come to offshore. You look at the transformation programs, whether it is network or it is

applications, they demand a lot of talent in newer technologies which are very rare and traditionally this industry has not attracted software program. They have attracted a lot of network engineers but not software people, specially in the developed world where the alternate for a software careers are through silicon valley companies. So, on one hand they have a huge demand for that talent. On the other hand, they have not so great ability to attract and retain that talent. So, that kind of puts a big demand-supply gap which companies like us can fill and then there is the other driver which is so far the offshoring has been largely driven by the wire-line business, primarily because they are mature businesses and look for efficiencies and that is usually the low hanging fruit or low hanging driver for offshore adoption. Interestingly we are seeing that in wireless as well especially in Europe where business environments are matured, fast maturing, they are looking for the same kind of efficiencies that the wire-line guys were looking at about 4-5 years ago. So that we look at as another emerging driver for offshoring and the last point there is a fact that a lot of the new stuff also which is going to happen both on wire line and wireless and even other industries that we focus on, cable and satellite, who want to learn these things for survival, a lot of these business models and even technologies are actually certainly the technology adopted, if not technology development is happening in these parts of the world where our engineers, it becomes easy for them to learn and learn on the job as you work in these technologies, whether or not they are paid for projects for out clients. So, in a way, there is a natural synergy that our clients are seeing, if you are coming from the emerging economies, the talent which work out of those economies have proximity and exposure to these emerging models and technologies.

What it takes to be a leader in this industry and this is really what I am talking about for our clients and then I will come to how Infosys can help them do that. Clearly, there is one big difference that they need to, that they have look at is to move to a customer-centric view as opposed to the network centric view that they still have, especially the older you are, the closer you are to the network centric model and who can blame them when they have billions of dollars invested in their network. Some of the leaders, the top leaders of these companies have become leaders because of their network centricity and their core competency in the network, but interestingly even as they transform their network from the old to the new, basically creating the next generation of commoditized pipe, it will take another two or three years, maybe four, but not much longer for them to face the same thing that they have been facing with their traditional network which is everybody riding on their pipes and generating more out of those applications which are run on the pipes and the pipes themselves. Even in the United States, we saw the wireless programs getting fixed price. For the first time that was something which was not per month flat fee in wireless until it started about 6-8 months ago. So, commoditization curves are going to catch up with no matter what pipes you build, wire line or wireless. Circuit switched or packet switched internet protocol, doesn't matter, the pipes will be pipe, people who are going to make more money out of this or get more value out of this are the people who are going to write applications and services on top of them and that takes a customer centric view and not a network centric view to decide what those applications will do, what those killer apps would do. The second thing they would really need is many ideas that they need to proliferate the market with because if they don't do, there are competitors and they are looking very different every year who the competitors are. So, idea to launch cycles have to be very, very short. That is another thing which giants search or certainly the giant phone companies have not had in the past and that is something they need to learn really fast. Focus on applications and connectivity, we touched upon that. Ultimately, they have to watch out for not losing their economic advantage to so called new age web firms. I mean this is what is going on. If you look at the dichotomy between our phone provider and say somebody like Google, the phone provider has my phone number, has my address. They also know how many phones I have in case all my phone numbers are with the same service provider, they probably know a lot more about me than Google will ever dream to know and yet Google is more customer centric because they, almost all that Google knows about me is voluntarily provided by me, not by force. I see value in giving that information. I voluntarily offered that information and they are able to...Google is just an example of web company. Amazon is a great name there of how they use

the information that I give them to give me back something which is personal for me and how the phone company doesn't do that. So, this is what is say, I mean you create the next generation high-speed broadband, high available network and then somebody else comes and makes value out of it. So that is something we need to watch out for.

So, what are our strategies and what is our market position that we are aspiring for given this opportunity, clearly there are just two steps here. One is of course, we have to be positioned as a transformation partner for all our clients, the operators, the network, the studios. I am really talking about media and entertainment as well. Believe me media and entertainment also has some very big, giant customers who are wedded to the whole model of how content will be produced, content will be delivered, distributed and monetized and that is changing very fast. If that were not the case, why would a company which will become the next big retailer of music, I mean Apple, whoever thought that it would be Apple who would do those and not one of these three companies who are in the value chain. So, that is the kind of competition they are up against. Our strategy is to be clearly in that space where we have some natural capabilities to do that as we saw in the first slide. These guys have large stake in this transformation, whether they like it or not because it is the question of their survival. They need partners with large scale execution capabilities, rare talent which is not necessarily available or attracted to these companies and they often have to do more with less specially the maturing businesses and I think sooner or later everything is going to mature in the pipe business. The second, we are investing in solutions with a future view of the industry. This is the opportunity because this is not a new industry. You can't just walk in and say, I mean we can't just walk in and say that hey, we are the new kids on the block and we have got all the great solutions. They will say, there are companies which have been doing this for 20 years, what is the big deal. The opportunity is, I mean the future view of the industry, the emerging landscape which is completely different from the past, we have to take a position in that because that is the opportunity, the one in the past. Those positions are taken and positions are probably not going to get us very far in the future, so that is a unique opportunity for kind of an upstart, I mean I am calling myself an upstart in this business on a solutions perspective. So they are some examples, of what we have developed over the last one year and we are going to drive that, the last one is a very interesting one, the customer value management. It is very interesting. We talk about phone companies. I think it is about the only services company that comes to my mind which we use very regularly and doesn't even have a loyalty program. I mean who is going to give that wakeup call that when I go and buy even a CD in a store, in a retail store, they give me a loyalty card. Not that it is a great idea because they end up thinking the customer is probably never going to come back to them but the fact that it is all stable stake than in most other industries is not even done here. I mean no matter whether you spend Rs. 20,000 or Rs. 40,000 a month on your phone call and I spend Rs. 200, probably the plan I can live with if I only receive calls, we both get the same call center service, we both get the same quality of network. This is amazing, I mean in no services business you get treated this way. So, this is the potential difference between where telecom is and the financial services or travel industry or retail business has been. So, customer centric view is extremely important. The customer value management is actually a program where we don't profess a loyalty program but we profess a higher value customer engagement program. We of course start by identifying those higher value customers are which by the way is non-trivial when you have multiple products and each one being managed as a different, pretty much a different division or different company in these companies. Even if you buy your broadband or your wireless from the service provider, they won't be able to add it up and that is the revenues we are talking about. If you ask about the profitability of your businesses to them, that is a completely different story and only after they have determined your profitability can they go and engage with you in a different way, in a differentiated way. So, in a way, this program and obviously intellectual property that we have built in is going to be in my view, extremely important for our customers and some of the early discussions that we are having, not that we are 100% ready with it now, but the discussions we are having with progressive operators, we are getting good views on that.

These are the numbers of how well we have penetrated in this segment across North America and Europe where most of our business is and Asia is a growing part, not yet a big part of our revenues in the segment. As you can see, we are in wire line, we are in a few wireless companies, we are in cable, _____ which is a very big player in this industry, internet service provider and we work with the top guys. That is a few examples of the client testimonials. I think the one I really like is the second one where this is where I think the free spot for a company like Infosys is. If we are able to bring to a very, to a very innovation heavy demand stage, a lot of the discipline of the process and while we did extreme program, in this case, we did extreme programming, used extreme programming model to develop new applications, at the same time giving them the benefit and the predictability of all the process and reuse and tools that we have. It is very rare that the same companies can do both. One is more to do with talent and capability, the other is to do with more organization capacity. So this is a unique value proposition which they need to look at. They have to look at because they have to do a lot of things. They do have a lot of spend, but they also have to do a lot of things, so they have to stretch their dollar or pound or whatever.

We see these are the challenges in this environment today. I think longer decision cycles due to the prevailing economic conditions are really the big one in my opinion. Somebody asked me how the pipeline is, pipeline is getting better and better and part of the reason is because the decisions are not being taken, so the pipeline is getting bigger and bigger and richer. So, that is something which is really the challenge, number one challenge that I would say exists beyond what we imagine would be, say early part of this year. So, the second one is the lack of best of breed core package solutions for this industry. As the industry is transforming into a new model, the tradition solution guys are not necessarily transforming themselves. I am talking about ISVs and other packaged software companies and the products because they have been used to working in one industry and therefore they have created a very non-best of breed model where they have a package and then have services around it, wrapped in a way that only they can implement that software. They are the only ones who can maintain the software. It is an expensive model. The CIO today does not have that flexibility or the budgets to do that because he has to do many things. In the olden days, they had to run three services, local, long distance, and international, right. Now, they have to run 30 services if not 100 in the future, right. This is exponential increase. They don't even know which service is going to last for how long. They can't be getting wedded to these solutions, in a hardwire kind a way. They have to go where the rest of the competitive industry is going, that is the other one. And the third one is the legacy investments which these guys have made as they are very network heavy companies, they need to maintain those, they need to make sure those lights are on and they need to upgrade those and that kind of takes away from what really matters which is the application sitting on the top. So, I think these are the top three challenges when we talk about large incumbent companies that we do business with.

So overall, I would say the demand is strong and intact, but coming from few but very large spenders. Deal sizes are mid to large. It does induce some lumpiness in our revenues because there are few spenders, they take decisions, the decision cycles are long, when they come, they come big and then there is a lull between the two deals and the growth will definitely depend on the speed of the client decisions. Thanks and I will open for questions now.

Moshe Katri

Thanks. Could you quantify the sales cycle, obviously they are getting longer, where are they now, where were they a year ago and then a different question, are you seeing a lot of vendor

consolidation going on in this vertical that you are focusing on and then also a comment on pricing?

Subhash Dhar

On the sale cycle, I would say we were used to 6 to 10 weeks or 12 weeks is what we would look for, the decisions and the ideas which have been, for which business cases have been established. We are seeing that moving to months, in the sense it is probably more than 3 months or 4 months now. So, it is really going beyond that 6 to 10 weeks thing that we are looking and this is an average and I am just pulling this out of my hat in some ways, but the fact is once you establish the business case, then from there on, the proposal to close vendor selection, all of that should not take more than a few weeks. It was long, but it was not that long. I think now what is happening is even after that business has been established, the end decision goes higher in the organization and then it is just caution, even if they do have budgets, they would postpone it one more quarter and see if they can take it one more quarter forward. I think that is the difference we are seeing on the sales cycle. On the second part, vendor consolidation, I think everyone talks about vendor consolidation, I think it is just a question of which time of the year or which year are we talking about. If one vendor does or one client decides to do it in one year or the next year, it would start going the other way. I think the important thing is there are very few spenders, so they have very, very mature procurement and vendor management organization. One of the things about having a very mature vendor management organization is that we need lot of vendors to manage, otherwise the maturity doesn't show. So, I think I wouldn't say there is a trend to consolidate vendors. There are clients who talk about it in certain ways and there are others who don't want to actually expand. So, either way, we have found that we have not lost favor or we have actually gained favor whether or not we are talking about consolidation or otherwise. In clients where they are talking about consolidation saying, we are going to have these local incumbent category and we will make into two instead of five and we will have the offshore category where you will have two instead of five. So we are okay with that because we have never seen getting out of those shortlists. On the pricing, this is definitely not an environment to go and ask for increase in price. For pricing is we got one of the major clients price increases earlier this year, this fiscal which was part of the agreement that we get year on year increases, so we did get it this year. We have not had any price decrease requests, therefore we have not had that. There have been a few where we went and they said cool off this year and may be next year and that is pretty normal and natural I thought given the environment right now. Depending on which segments we are talking about, we tend to get newer deals at different prices, for example, cable and wireless are less sensitive to price as the wire line segment is and we have those segments growing with us. Yeah, so that is really on pricing. Do you have a question?

Male Speaker

Just a clarification on the service line, like we are recently seeing the telecom equipment manufacturers who have been more on the hardware side moving to the service, I just wanted to know whether it is like now Infosys competes with someone like Nortel or Alcatel, I mean is it getting more fears with some of the hardware manufacturers in the service from the stability point of view. That is one question which I had. And second is from service providers point of view like we have seen a lot of companies like Verizon and AT&T have their offices in India as well, so how is it complementing, what Infosys is doing for some of the service providers, is it complementary to what these guys are doing or is it something like you have to compete and just to do the similar stuff. These are the two questions.

Subhash Dhar

Actually, my answer is the same for both. To be honest, the market out there is big enough for all of us and more. I mean, really at big picture level, I don't think there is enough talent on this earth to do what these guys really have to do and want to do. Putting all our countries and companies together, we don't have that kind of talent. Problem, I mean if the rubber meets the road, how much investment dollar do you have in a given year and budgets and those kind of things. Do these models compete with us? Yes they do compete with us. We don't see them competing as heavily as our regular competitors but yes, they are competitive models but we feel that as companies are realizing the transformation dream, they are further up the road, they realize that the best of breed model that they have to work with and not one road for everything, I mean this is amazing, that trend is so secular that further up they are on the transformation journey, the more they want to work with best of breed guys and not with one guy who does hardware, software services, everything else. So, yes they compete and they don't, the OEMs. The captives, yeah, like any other industry where there are captives, there would be some business would go that way but it is amazing that there is so much to be done that the testimonial to that fact is that these are captives of surviving as opposed to the financial services where many of them have kind of burnt out. The fact that they are surviving shows that there is enough to be done. In fact, there is one customer where we actually do the heavy lifting of most of the stuff which needs to be offshored and once it is done over two years, they hand it over to the captives and first we thought this was unfair and then we realized there is enough coming down the pipe anyway, why worry about it, we will worry about it later but they still depend on us to do the heavy lifting of taking something, splitting it into activities, making sure what gets done here, what gets done there when it becomes that nobody wants to get in that company, they won't risk of taking something critical and getting into the captives even here. It is just the other way around, they want to work with us for stabilizing it and then handing off to captives, this is one case and though we were worried earlier, we are not worried anymore because there is enough going on.

Note: Please verify one blank at 09:35