INFOSYS ANALYST MEET 2011

AUGUST 18, 2011

RETAIL CPG, LOGISTICS & LIFE SCIENCES

CORPORATE PARTICIPANTS

Pravin Rao
Retail CPG Logistics & LifeSciences

INVESTORS

Mitali Ghosh
Bank of America

Pravin Rao

Good afternoon. My name is Pravin Rao and I am the senior Vice-President and Global Head of Retail, CPG, Logistics and Life Sciences (RCL) practice. I have been told that we are running out of time, so I will try to rush through my slides and we can quickly have some question and answer at the end of it and then we will get into the general session. This is the standard safe harbor clause.

RCL is one of the fastest growing vertical. We ended FY 11 with revenues of over $ 1.2 bn with 50% of our revenues coming from retail. In Q1 FY 12, our revenue was $ 361 mn. In terms of split by offerings, we have roughly 51% in Business IT Services, Consulting and System Integration is 44% and Product and Platform is about 5%. Geography-wise about 70% of our revenue comes from North America, 25% comes from Europe and 5% from Rest of the World. In terms of client distribution, we have about 110 plus clients out of which 66 are global 2000 clients. We work with lot of marquee names- 8 of the top 10 retailers in North America, 6 of the top 10 retailers in Europe, 4 of the top 8 CPG companies worldwide. We work with all the Class 1 railroad companies in North America. We work with 7 of the 10 large pharma companies globally. We have a fairly good set of clients.

Overall the market size is pretty huge. The addressable market is about $ 95 bn and we are roughly over 1%, so there is enough headroom for growth. In terms of offering as well, we find good traction for all our three offerings-Business IT, Consulting System Integration as well as Products and Platform. In terms of global 2000 profile we have about 250 prospects which we are yet to open. A significant chunk of these are in the Continent and Asia-Pacific but about 100 of G2K clients which are prospects, are in North America. So in that sense, both with existing accounts as well as with prospects, we have enough headroom for growth at least for the next 3-5 years.

Overall when we look at the state of the market, these are uncertain times. The market is soft and there is lot of uncertainty and clients are extremely cautious. There is tremendous pressure on the operating budgets. Given the rising fuel cost, given the soft labor market, the consumer mood is fairly pessimistic. This is reflecting on the spend. When we look at the last few months, retail has shown marginal growth every month but in some sectors the growth has been better than the others. In the grocery/supermarket space we are seeing decent traction. In apparel most retailers are struggling. Electronics again expect for Amazon, almost all retailers are struggling. In fact in electronics, most of the physical stores in some sense have become a museum of sorts. People go in, check the product but later they go online and then start doing the shopping. So online retailers like Amazon are benefiting from this trend. Looking at it from a segment perspective in retail, most of the retailers are looking at growth outside their market because the growth is very limited in their home market. They are looking at international expansion- American retailers are looking at Canada and Europe for expansion; European retailers have already been looking at Asia-Pacific for their next wave of growth. They are also looking at online channel as another medium of growth because today online is growing at 18-20% as against 1-2% of growth on the physical store side. Hence more and more retailers are investing in online as a channel of growth. From an IT perspective, this translates to a lot of spending in multi-channel, lot of spending in Digital Consumers, quite a bit of spending on business intelligence and analytics, quite a bit of spending on the social media and mobility side.

In the CPG space, again there is tremendous pressure on the CPG companies on the cost side. Commodities prices are having an impact. CPG companies are looking at emerging market as their growth market, there is lot of focus on investing in the emerging market. From an IT perspective this actually translates into lot of ERP implementation where clients are looking at standardizing and simplifying their IT footprint. There is also lot focus on digital marketing as more and more ad spend is shifting from the traditional media to the digital media.

Some sectors in logistics are doing well. The railroad industry is doing extremely well, the air freight industry is also doing well. On the other hand, the ocean side is struggling. These logistic companies are also impacted by the rising fuel cost and lower freight rates. From an IT perspective they are focusing on supply chain efficiencies, they are focusing on optimization, they are focusing on green technologies. There is a lot of legacy technology in the logistics world and more and more we are seeing lot of opportunities in terms of platform re-architecting, legacy modernization etc.

In Life Science, while they have been growing in the developed markets, they are also looking in the medium-to-long term developing at emerging markets as their growth channel. One of the big thing that is impacting most of the life science companies is that many of their blockbuster drugs are coming out of patent, so this means they are losing exclusivity on some of the big drugs. For instance if you look at Pfizer they are losing patent on Lipitor which is a drug for blood pressure and with that a significant chunk of their top-line is under pressure. Many companies are struggling for top-line growth because of this phenomenon and they are looking at merger & acquisition as a way to grow their top-line. Again in terms of IT spending, there are opportunities in digital marketing, opportunities in ERP implementation, there are opportunities in vendor consolidation. On data mining, clinical research and analytics, we continue to see opportunities.

Overall, our investment in building capabilities around business transformation and industrial solutions has started paying dividend. Today, we are increasingly delivering tangible business results in many of the programs to our client. If you look at online, we have built tremendous capability in digital commerce with more than half a dozen implementations on digital commerce side. We have also built lot of IP and accelerators around personalization, social media interactions, social commerce. By leveraging all these, we are clearly seeing in our e-commerce implementations driving higher traffic to stores, increasing the conversion rates and increasing the top-line. For a global alcoholic beverage major, we implemented a digital marketing solution and that clearly reduced the lead time for campaign launch from 4 weeks to 1 day, significantly lowering the campaign cost. Similarly our distributor connect platform which we are co-creating with a CPG major, has resulted in a revenue lift up of about 6-7% in the emerging market purely by improving the visibility to inventory and by increasing the order fill rate. Similarly with an apparel retailer, we did a portfolio rationalization and by just adopting the managed services model, we were able to lower the total cost of ownership by about 25% through innovation and continuous productivity improvement. This is outside the labor arbitrage benefits or the benefits one would get from an onsite-offshore conversion. This was purely based on some of the innovation and productivity improvement initiative.

These are some example where we have delivered business value. I will probably touch upon briefly at least couple of case studies little bit more in detail. The first one is a case study example of co-creation. The client is a leading specialty retailer in North America. Here we co-developed a mobile POS solution with the client. This mobile POS solution gives capability to the salesperson to service the customer better by staying continuously connected to the customer when the customer is in the store. This is a solution which we jointly developed and this was developed with a very aggressive timeframe of 6 months, right from conceptualization through implementation. This today is in implementation in 110 plus stores and this application runs on 6000 Apple iPhone devices. The kind of benefit it gives - one of course, a clear business benefit on lower total cost of ownership on the device side. A typical POS terminal would cost about $4000 as compared to a $1000 or less compared with an iPhone device. So there is a 50% plus saving when you move from a traditional POS to a mobile POS. In addition to that, there are lot of other benefits in terms of a better ability to connect with the customer. When the customer is shopping, you can search for merchandize. If merchandize is not available in the store you can find out in which other store it is available or you can even order online and get it directly shipped to the client's home. In addition there are timeframes, particularly if you are looking at a shoe and if you want show different brands, typically what happens is the sales associate goes to the back office and get some 6-7 pairs and then starts showing it to the customer, but with this solution they can show it in the handheld device and thereby improving the productivity of the sales associate. Similarly in lean times sales associates can get ____ (11:34) and start fulfilling some of the customer orders which you would have got through online channel. So there is tremendous benefit through this mobile channel and we expect more and more retailers to adopt this solution going forward.

The second example is business transformation we did at hallmark.com. This is a 4 year journey. We were involved from day one in this transformation journey. Their existing technology was archaic. It had lot of stability and availability issues. Particularly it had trouble handling peak volumes during peak periods like Valentine's Day or Christmas. Lot of times customers were not able to complete the order and this resulted in lost sale. About 4 years back we got involved and we have now re-architected the whole e-commerce solution for hallmark.com using best-of-breed packages and some of our own internally developed IP. With the result today, the system is more available, the traffic has increased 400 percent. It has been able to handle that kind of higher peak load. It has been 100% up during holidays. There has been 370% improvement in response time. Last quarter, the CIO Magazine highlighted this case study as an example of an outsourcer becoming a strategic partner to a client.

This a testimony from the VP of Hallmark on this program. I am not going to read it out; I will just leave it for a few seconds for you to read that.

Over the years based on our domain capability and execution excellence, we have won several accolades from both industry analysts as well as our clients. This is an industry recognition that we are very proud of. The RIS Journal which is a leading retail journal, does a yearly survey of leading retailers. This survey asked retailers to rate IT and consulting service provider on seven dimensions like strategy, execution, recommendation and so on and we are really proud to say that Infosys was ranked no. 1 last year. About 70-odd retailer participated in this survey and they evaluated about 30-odd both Consulting and IT Service Providers. So we are extremely proud of this achievement.

This was my last slide and this I think I am also on the dot 4 o'clock for the next session but I think we have time to take may be 2-3 question.

Mitali Ghosh

Retail has seen very good growth over the last several quarters and one of the key things has been the spending on enterprise solutions which I think has been a large part of retail. So in the last especially couple of months, have you seen any signs that retailers may be pushing out some of these spends.

Pravin Rao

See on the opex side definitely we are seeing lot of pressure. There is cut down on the opex side and I think in some of the existing contacts they are actually trying to either rebid or trying to force some of their incumbent vendors to give some more concessions or go little bit more aggressive or at least show value for what we are delivering, but on the discretionary spend we have not seen any slow down as such. Though in the past historically when you win a discretionary project, you will win the project for the entire life cycle but in the recent past, we have seen clients awarding only one phase at a time. To that extent, we have seen some amount of slowdown in the decision making but we have not really seen any aggressive pushing out of projects so far.

Mitali Ghosh

Sir I understood the first part of your answer correctly, as seen on the maintenance kind of side of contract you are seeing some amount of push _____

Pravin Rao

Absolutely.

Participants

Yeah my first question will be on the life science part since you are a dominant player there you cater to almost 7 out of 10 is what you were stating. How do you see that particular industry moving forward, from clinical data side to regulatory ICD 10 transaction which is coming up and also your pharma core vigilance as I understand it has predominantly three markets - Japan, Europe and US? How well you are placed in all these markets, some color on that? And just taking her point forward, in the CPG space you mentioned projects coming in the enterprise application space. Since you have not seen that kind of bounce back in the discretionary spending, I just wanted you to clarify a little bit more on that.

Pravin Rao

On the Life Sciences we are working with 7 of the top 10 global major and with about 4 of them our relationship is pretty strong. We have been working for quite some time. The other 3 are relatively newer clients where we have to build the market. From an overall share perspective when compared with some of our peers, our footprint is on the lower side. From that perspective, there is enough headroom for growth because our presence is limited. There are 2-3 trends that are happening. One is as I said, lot of pharma companies are losing their patent on their blockbuster drugs, so there is tremendous pressure on the top-line. There is some amount of merger & acquisition happening. There are some opportunities in this space. Second, earlier Pharma companies used to spend quite a bit on IT and they were not very mature in the outsourcing thing. But in the recent past, we have seen them start looking at vendor consolidation, shared services and those kinds of things. That is another area of opportunity we are seeing. The third area is digital marketing. There is huge spend there because Pharma company spend significant chunk of their revenues on marketing and today just like there is a shift in CPG companies, even in Pharma there is shift from the traditional marketing to the digital thing. As we speak, we have at least 3-4 Pharma majors which have started looking at digital marketing opportunities. So we are extremely bullish about the pharma companies primarily because of the opportunities and primarily from where we are. Even though we are working with 7 of the top 10 global majors, in some of the clients our presence is limited and so we see tremendous opportunities headroom for growth there.

Coming back to your CPG question, most of the CPG players have grown through acquisition. When they are acquired different companies, they have inherited a heterogeneous platform. In the recent past in the last 3-5 years, we have seen opportunities to simplify. The organizations have become very complex and they are not getting the benefits through the acquisition. They have started focusing on simplifying their IT landscape and getting into standard ERP thing. But historically they would have had unrealistic or some smaller package in the Asia-Pacific they would have had one incident of SAP in North America and may be another incident in Europe. Today they try to standardize and come with a single global template. These are changes going on for last 3-4 years and these are all 5-6 years kind of journeys because we will start with one region and then we will start replicating it to multiple regions. It is long 3-5 year journey. The spend continues. During recession there was some slowdown, now we have seen some uptake but now again because of the uncertain environment, we anticipate some slowdown could potentially happen. That is the kind of thing happening in CPG front.

Okay thank you very much.