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Global Sourcing (GS)

Market Vista: Key Highlights for Q2 2010



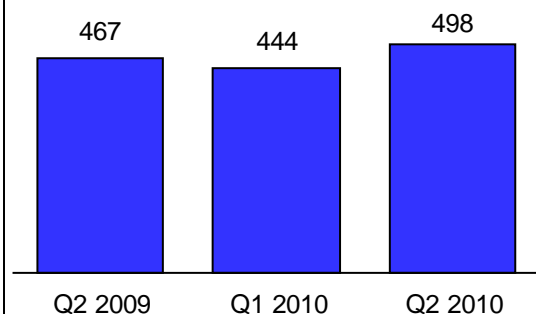
Key market indices - Q2 2010



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Outsourcing/offshore market overview

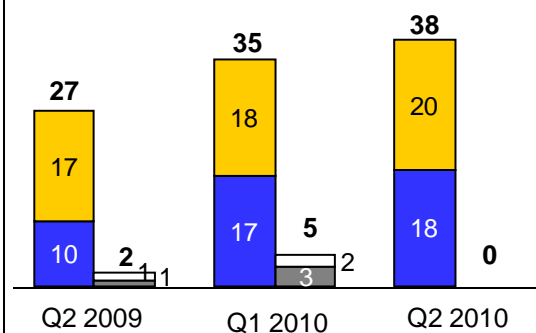
Transaction activity continued to increase in Q2 2010



The captive market continued to witness activity with 38 new announcements

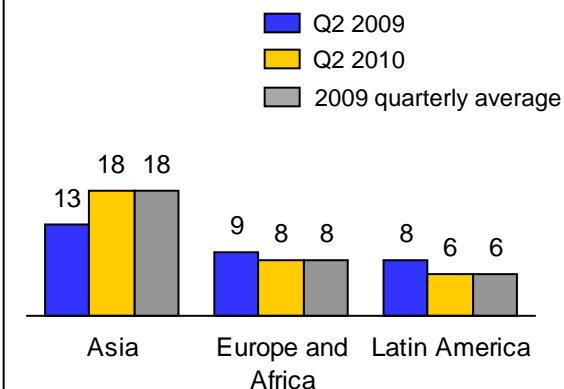
Captive announcements = ■ Actual + ■ Planned

Captive divestures = ■ Actual + ■ Planned

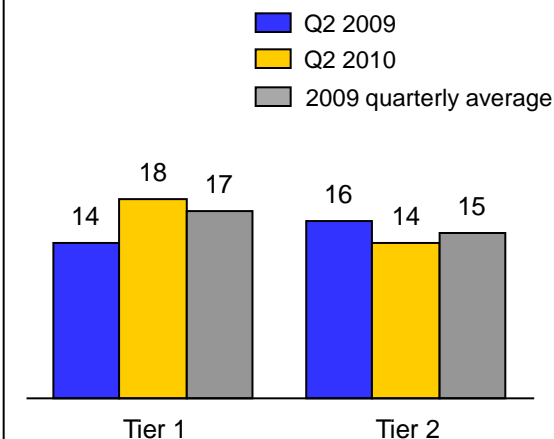


Location dynamics

32 delivery centers were set up in Q2 2010; majority of these in Asia

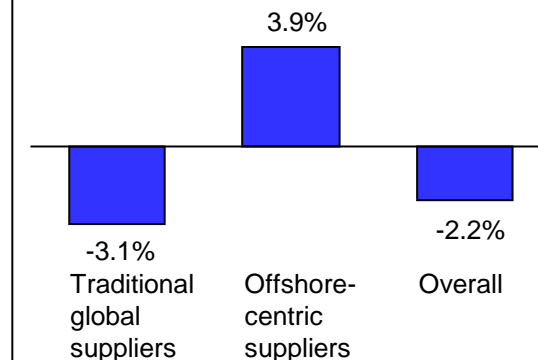


More activity in Tier-1 cities compared to Tier-2 cities

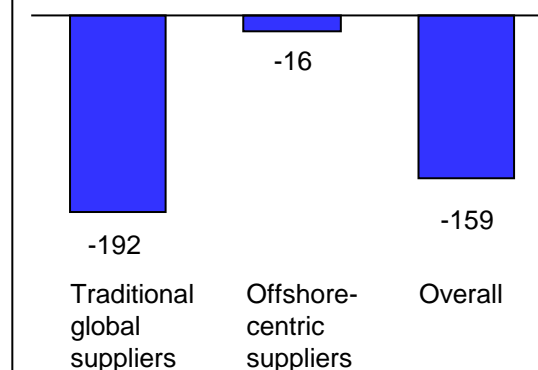


Supplier developments and trends

In Q1 2010, aggregate revenues for the supplier group decreased by 2.2% compared to Q4 2009



Operating margins declined across both traditional global and offshore-centric suppliers in Q1 2010



Executive summary: Global Sourcing market overview

Q2 2010



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Key messages

- **Continued growth in the overall outsourcing and offshoring market with healthy growth in transactions and captives**
 - Transaction volumes increased to 498 in Q2 2010 compared to 444 during Q1 2010. This growth was led by BPO transactions with ACV increasing by 33% during this period
 - In Q2 2010 activity in the BFSI (Banking, Financial Services, and Insurance) vertical increased by 41% compared to Q1 2010 while North America continue to register high activity in outsourcing transactions
 - There was healthy growth in the captive market with 38 new announcements. Companies such as J.P. Morgan, ANZ, Oracle, Microsoft, Western Union, Shell, HP, Huawei, and Intel made announcements in Q2

- **32 new offshore delivery centers were set up in Q2 with more activity in Tier-2 locations**
 - Asia continued to capture the largest share in the number of established centers during Q2 2010, followed by Eastern Europe and Latin America
 - On a relative basis, there was more activity in Tier-1 cities than Tier-2 cities
 - However, recent momentum in the Indian market has resulted in Tier-2/3 Indian cities also emerging as credible locations for offshore delivery besides established locations (e.g., Bangalore, Delhi/ NCR)

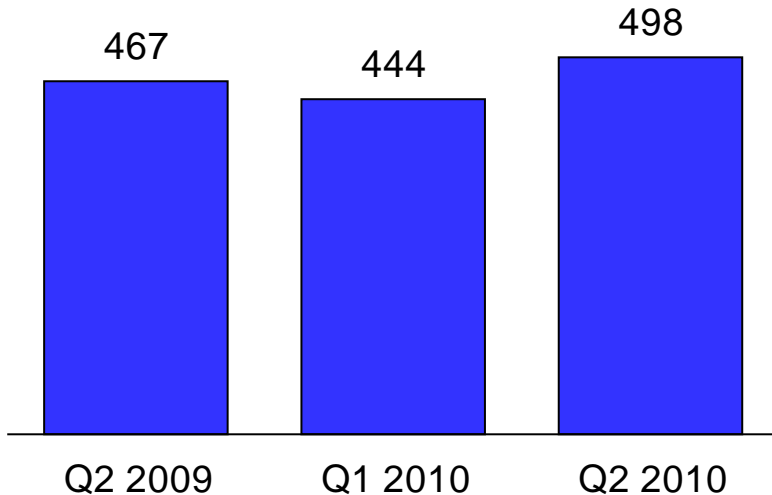
- **Traditional global and offshore suppliers witnessed activity across multiple dimensions**
 - Compared to Q4 2009, operating margins of Q1 2010 decreased for both supplier groups while revenues decreased only in case of traditional global suppliers
 - M&A activity increased compared in Q2 with 12 acquisitions (versus nine in Q1 2010), while the number of alliances increased to 61 (compared to 52 in Q1 2010)
 - From a location perspective, although overall activity remained almost similar compared to Q1, onshore location activity significantly increased

The outsourcing market witnessed growth in terms of transaction activity while the captive market remained healthy

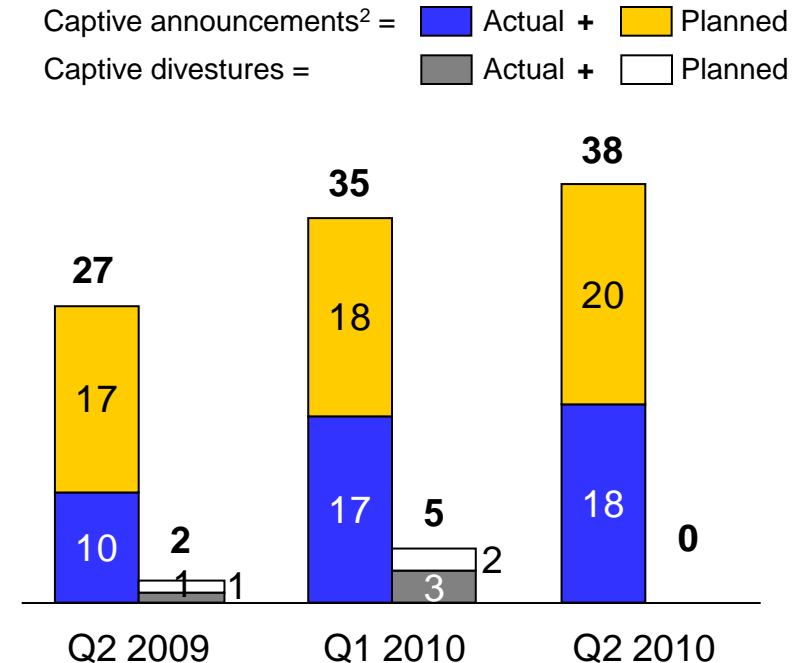


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Index of outsourcing transactions¹
Number



Index of offshore captive health¹
Number



- The outsourcing market witnessed robust growth with transaction volumes increasing by 12% compared to Q1 2010
- The captive market continued to witness growth with 38 new captive announcements this quarter

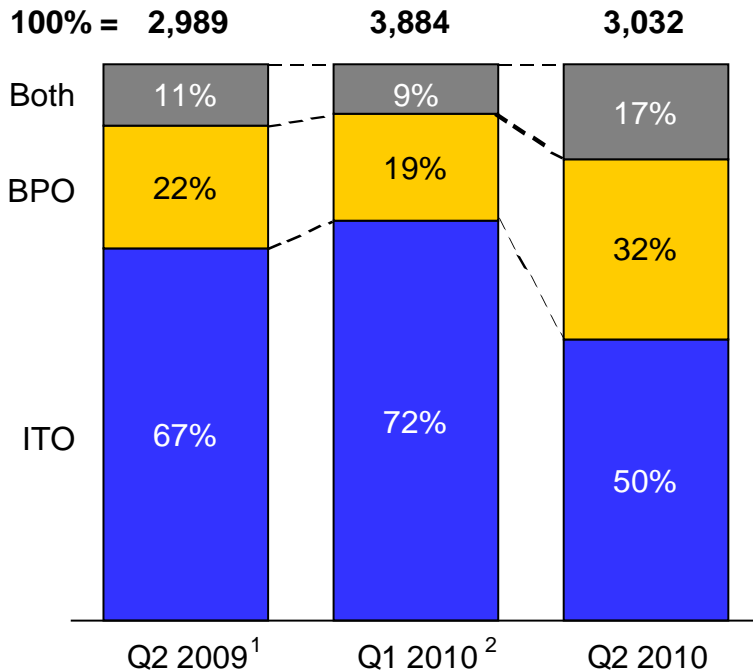
¹ Includes only data that has been publicly disclosed

² Announcements include both new set-ups and expansion of existing captive operations

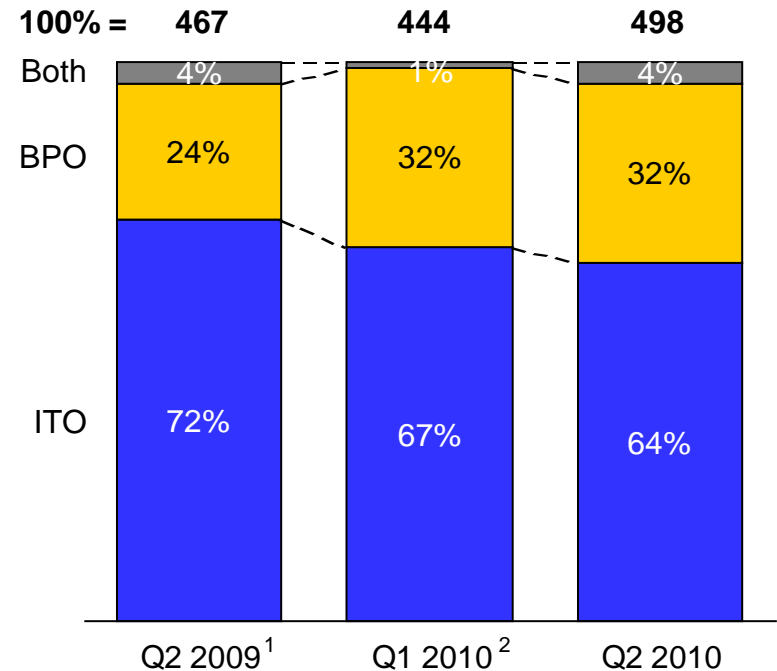
Source: Everest Research Institute Transaction Intelligence Database

Transaction volumes and ACV increased in BPO market in Q2 while activity in the ITO market declined in terms of ACV

ACV of outsourcing transactions announced US\$ million



Outsourcing transactions announced Number of transactions



- Compared to Q1 2010, the BPO market increased by 15% and 33% in terms of transaction volumes and ACV respectively in Q2 2010
- ACV in the ITO market declined by 22% although transaction volumes registered a modest increase
- The number of transactions with both BPO and ITO components marginally increased compared to Q1 2010

1 For the purpose of this analysis, Q2 2009 includes all transactions announced in Apr-Jun 2009

2 For the purpose of this analysis, Q1 2010 includes all transactions announced in Jan-Mar 2010

Source: Everest Research Institute Transaction Intelligence Database

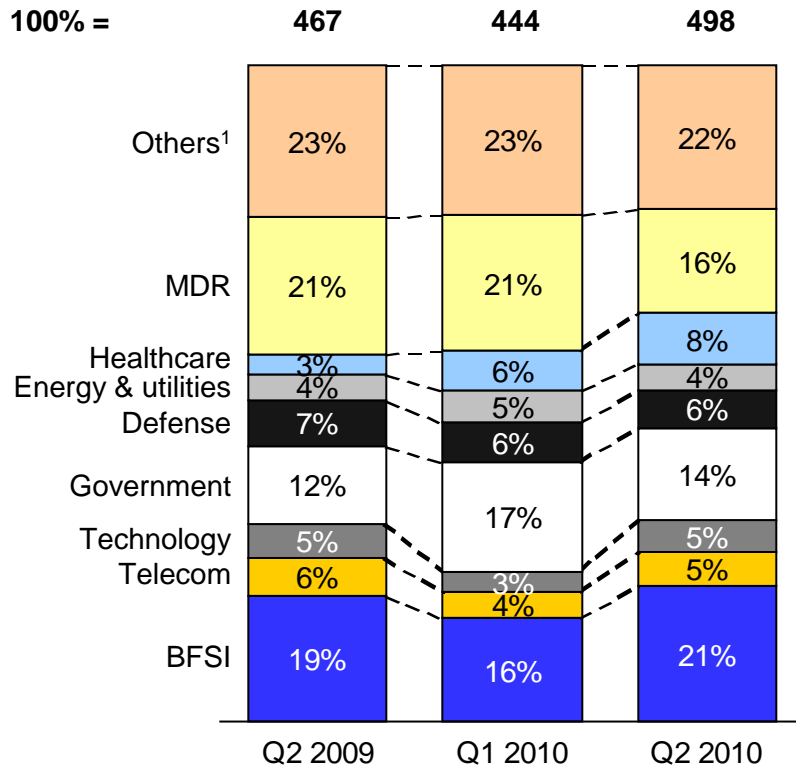
The BFSI vertical contributed towards one-fifth of transactions while activity declined in the MDR vertical



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Outsourcing transactions by vertical

Number of transactions



ITO AND BPO TRANSACTIONS

- Market activity in the BFSI (Banking, Financial Services, and Insurance) vertical increased by 41% compared to Q1 2010. Some large deals signed in the BFSI vertical include:
 - Deka Bank signed a six-year contract with T-Systems estimated to be valued at US\$298 million²
 - RBS signed a seven-year contract with Williams Lea worth US\$153 million²
- The MDR (Manufacturing, Distribution, and Retail) vertical saw a decrease in contract signings and ACV by 12% and 17% respectively
 - Hallmark Cards signed a five-year ITO contract with ACS for US\$125 million²
 - Mitsui & Co. and Verizon entered into an agreement worth US\$100 million²
- Large deals continued to be signed in the public sector (Government and Defense), although its share in total transactions marginally dipped
 - The U.S. Department of Agriculture signed a seven-year deal with SRA International for US\$500 million²
 - The U.S. Transportation Security Administration signed a five-year contract with CSC for US\$489 million²
- Besides BFSI, transaction activity increased in verticals such as healthcare, technology, and telecom

1 Includes logistics and wholesale, services, travel and transport, media and entertainment, education, etc. Also includes any transactions where buyer identity/industry were not disclosed

2 All values refer to Total Contract Value (TCV)

Source: Everest Research Institute Transaction Intelligence Database

North America and Europe contributed towards three-fourths of reported transactions

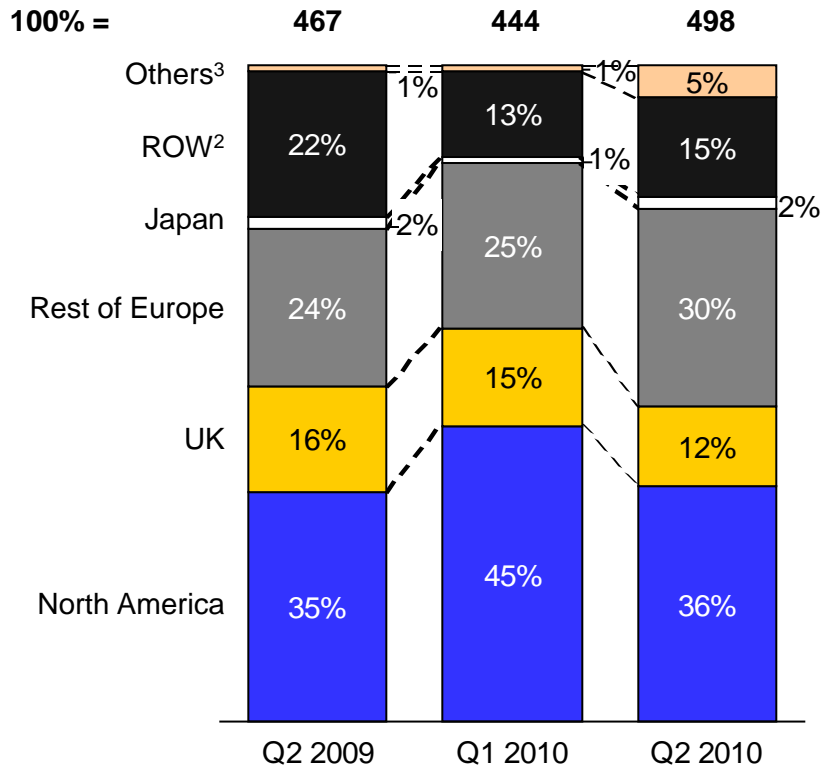


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ITO AND BPO TRANSACTIONS

Outsourcing transactions by buyer geography¹

Number of transactions



- In North America, transaction activity increased by 3%, but ACV decreased by 16% compared to last quarter. Some of the large deals signed in North America include:
 - The U.S. Department of Health Care Services signed a ten-year contract with ACS worth US\$1.6 billion
 - The U.S. Transportation Security Administration signed a five-year deal with CSC worth US\$489 billion
- In UK, transaction activity decreased by 15% in terms of volumes but was similar in terms of ACV. One of the large contracts signed in UK was between CMS Cameron McKenna and Integreon
- In Rest of Europe (ROE), ACV substantially declined by 41% compared to Q1. On the other hand, transaction volumes increased compared to Q1 mainly due to activity in the BFSI vertical. Some of the key deals signed in this region include:
 - Telenor signed a 4½ year deal with EDB worth US\$819 million
 - P&C Insurance signed a five-year agreement with Tieto worth US\$195 million
- Rest of World (ROW) witnessed increase of 13% in volumes with Australia and India, accounting for half of all reported transactions. The largest reported deal from ROW was signed in Brazil between Sul America and IBM (TCV of US\$200 million)

¹ Buyer geography is the buyer location or the signing region associated with the transaction

² Rest of World includes Asia Pacific, Middle East, Africa, and Latin America

³ Includes transactions where the signing region of the transaction was not publicly disclosed

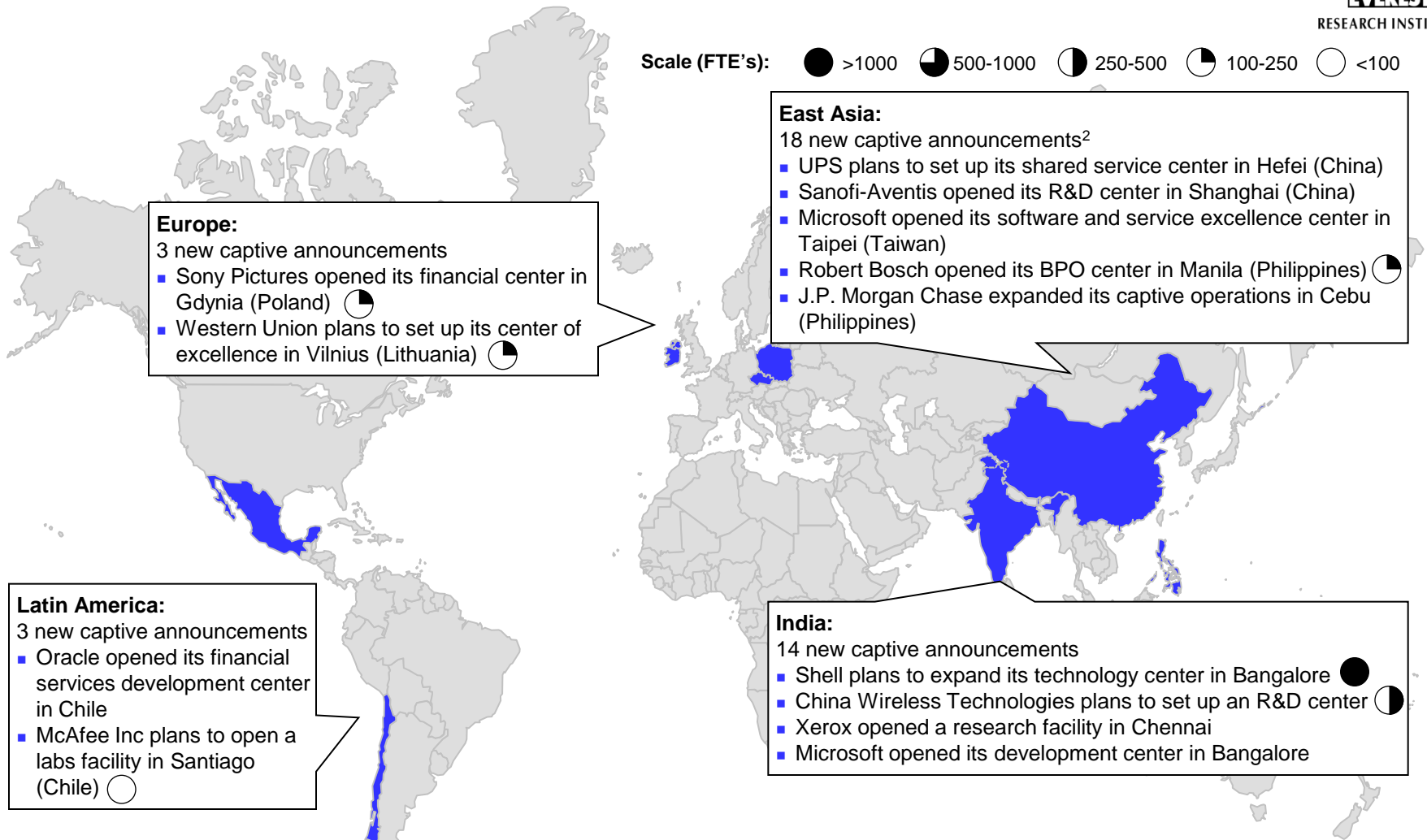
Source: Everest Research Institute Transaction Intelligence Database

The majority of captive announcements were made in Asia and India



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Scale (FTE's): ● >1000 ◐ 500-1000 ◑ 250-500 ◒ 100-250 ○ <100



1 Indicates announcements related to new captives and expansion

2 This includes the captive announced by ARM Holdings in Asia Pacific region

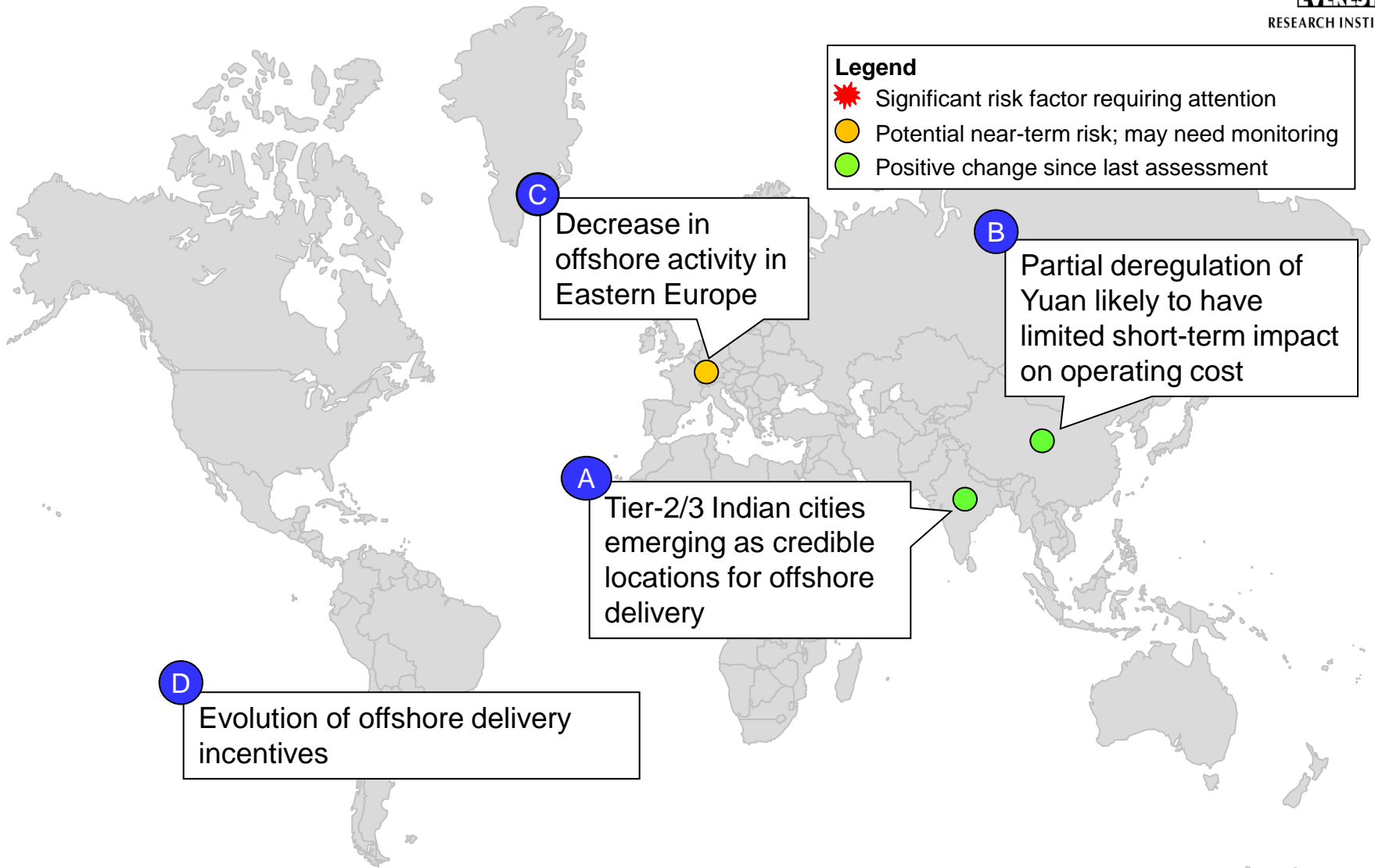
Note: All references to captives include only offshore captives

Source: Everest Research Institute analysis

Locations | Risk and opportunity dashboard



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Source: Everest Research Institute analysis

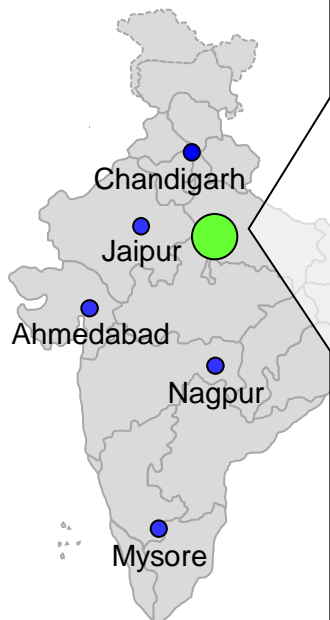


A Locations | Risk and opportunity analysis

With buoyancy in the Indian market, players have started actively considering Tier-2/3 cities for offshore operations



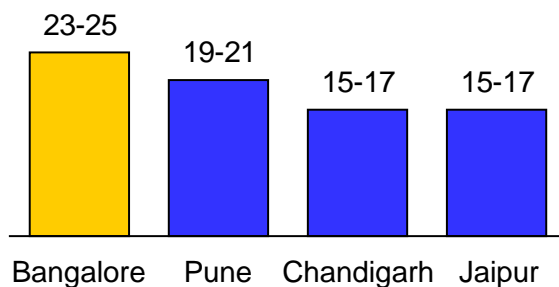
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NOT EXHAUSTIVE

City	Companies with offshore operations
Jaipur	<ul style="list-style-type: none"> Deutsche Bank Genpact
Ahmedabad	<ul style="list-style-type: none"> EDS-Mphasis¹ 24X7 BPO
Chandigarh	<ul style="list-style-type: none"> Mahindra Satyam Dell
Mysore	<ul style="list-style-type: none"> Infosys Wipro
Nagpur	<ul style="list-style-type: none"> Tech Mahindra

Operating cost per FTE for IT services
2010; US\$ '000s



- Traditionally, Tier-2/3 locations were primarily used for serving the growing domestic IT/BPO industry in India
- However, both global and large Indian companies are increasingly considering these cities for their offshore operations
 - Almost half of all Forbes 2000 captive and Top 50 supplier centers set up in India during the last year were in Tier-2/3 locations
 - In recent months, EDS-Mphasis and Mahindra Satyam have set up offshore delivery centers at Jaipur and Chandigarh respectively
- Major growth drivers include:
 - Lower operating cost (20-30%) of Tier-2/3 cities compared to established locations such as Bangalore
 - Additional incentives by the local/state government for investment promotion
 - Helps players manage city-level concentration risk
- However, this growth has been mainly restricted to third-party suppliers. Captives continue to prefer Tier-1 cities in India given the
 - Better infrastructure support
 - Ease of travel
 - Evolved support services
 - Large labor pools – both entry level and experienced
 - Overall better quality of life

¹ Now part of HP

Source: Everest Research Institute analysis



Supplier developments | Overview

Highlights of Q1 2010



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Top three and bottom three suppliers in terms of sequential financial growth

By sequential growth in revenues
(Q1 2010 vs. Q4 2009)
Percentage

By sequential growth in operating margins¹
(Q1 2010 vs. Q4 2009)
Basis points (bps)



Top events in Q2 2010

Top outsourcing transactions by deal value

- Department of Health Care Services-ACS (subcontract with IBM and CGI): US\$1.6 billion (10 years)
- Hydro One-Capgemini: US\$626 million (5 years)
- Merck-HCL Tech: US\$500 million (5 years)
- Transportation Security Administration-CSC: US\$489 million (5 years)
- Nordea Bank-IBM: US\$325 million (6 years)

Top suppliers by number of transactions announced

- Atos Origin: 21 deals**
- IBM: 19 deals**
- CSC: 16 deals**
- Accenture: 15 deals**
- TCS: 15 deals**
- Infosys: 13 deals**
- Wipro: 12 deals**
- Capgemini: 11 deals**

Significant M&A deals

- IBM-Sterling Commerce: The acquisition, valued at US\$1.4 billion, will give IBM new tools to help clients build dynamic business networks
- Cognizant-The PIPC Group: The US\$34 million acquisition will add to Cognizant's existing project management and consulting capabilities
- EXL-PDMA: The US\$14 million acquisition will help EXL provide policy administration solution for clients along a wide range of insurance products

¹ Normalized operating margins excludes ACS, Atos Origin, Dell Services, and Capgemini, as information is not available

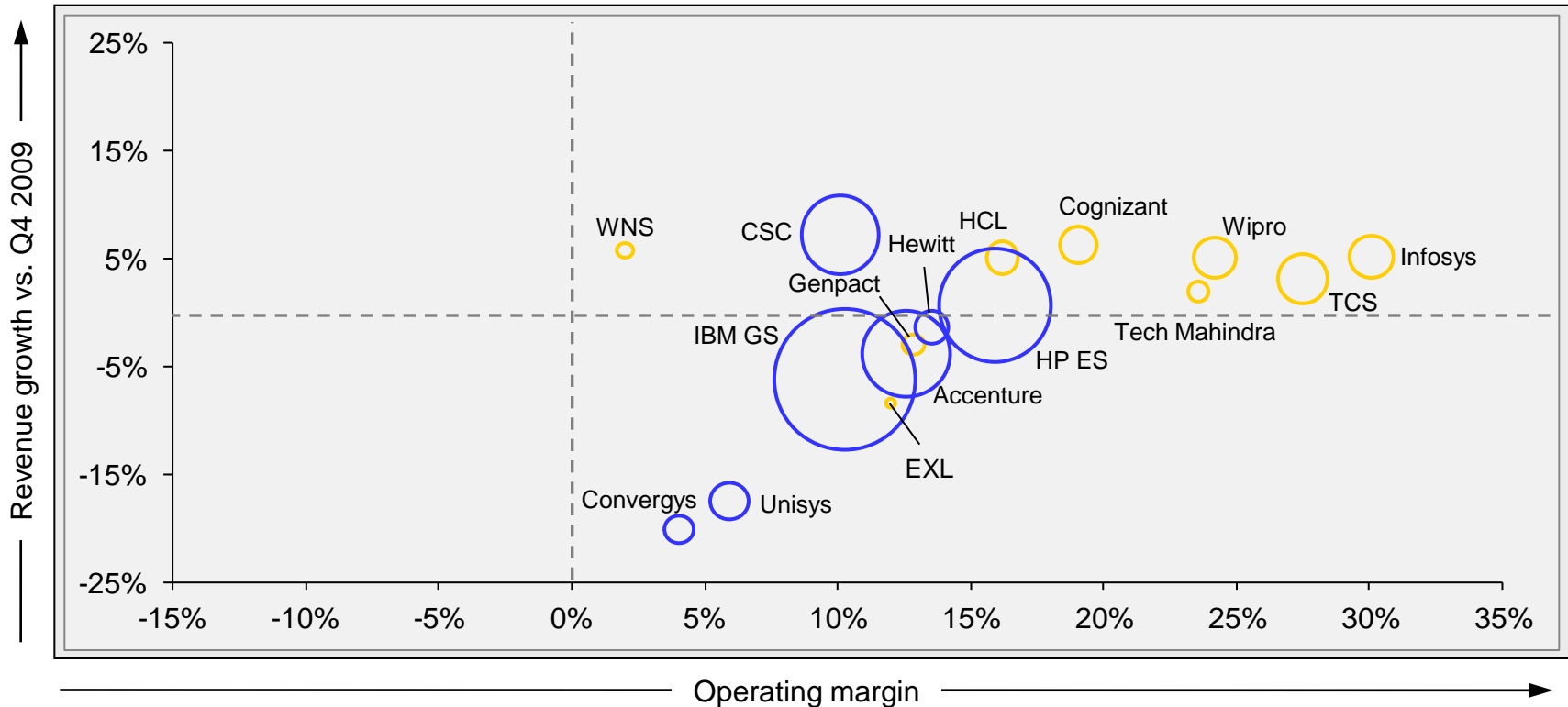
Sources: Company disclosures; websites; press releases; Everest estimates



Revenue and operating margin growth for offshore suppliers continue to outpace traditional global suppliers

Comparison of supplier financial performance (based on Q1 2010 results)

- Traditional suppliers
- Offshore-centric suppliers
- *Size of bubble represents quarterly revenue



Similar to last quarter, all the suppliers maintained positive operating margins this quarter as well, with higher margins registered mainly by offshore-centric suppliers

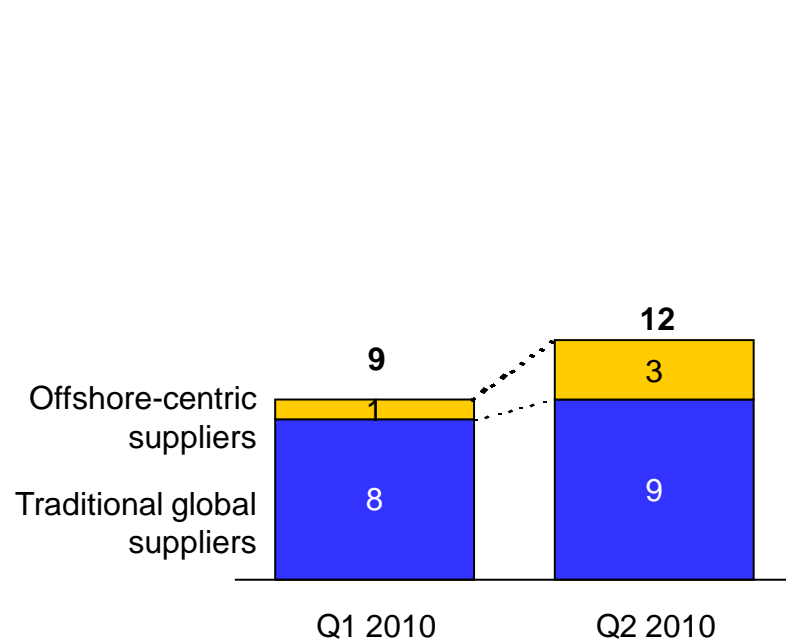
Note: Analysis excludes ACS, Atos Origin, Capgemini, and Dell Services as data is not available

Sources: Company websites; financial releases; press releases; Everest analysis and estimates

Both M&A and alliance activity increased significantly for offshore-centric suppliers; however, the activity remained similar for the traditional global suppliers

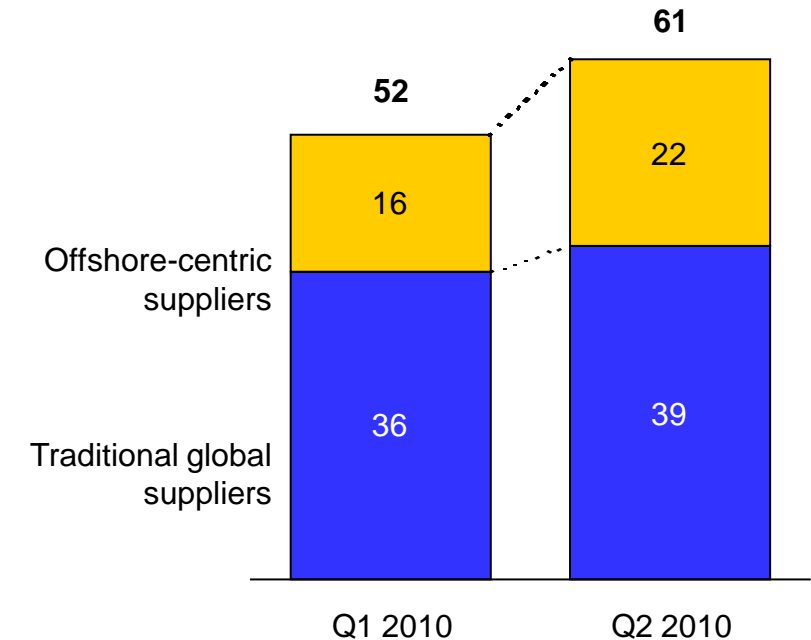
M&A by supplier category

Number of acquisitions



Alliances by supplier category

Number of alliances



- Overall M&A activity increased significantly compared to Q1 2009, led by offshore-centric suppliers. Offshore-centric suppliers registered a considerable growth, with the number of acquisitions increasing from one in Q1 2010 to three in Q2 2010. However, the activity for traditional global suppliers remained similar compared to the last quarter
- Alliance activity also stepped up in Q2 2010, again driven by the offshore-centric suppliers; the activity remained similar for the traditional global suppliers compared to Q1 2010

Sources: Company websites; press releases

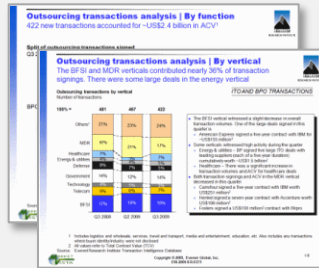
Market Vista enables perceptive decision-making by providing insightful research, analysis and data



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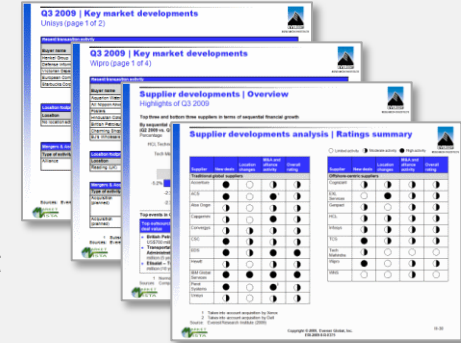
General sourcing market

- Detailed analysis of trends by industry vertical and geography
- Report of transaction volume, size, and momentum
- Perspective on events with significant industry impact (e.g., M&A)
- Implications of regulatory changes



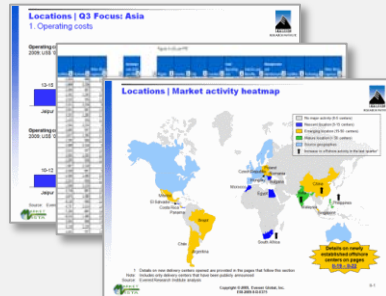
Supplier landscape

- Updates on supplier market share, capabilities, and performance
- Supplier profiles, including data on:
 - Transactions
 - Location footprint
 - M&A activity



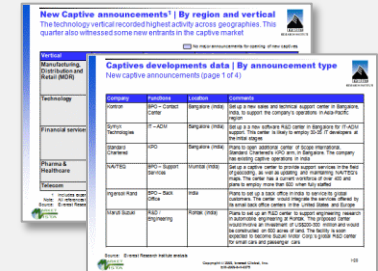
Location data and dynamics

- Data on market activity in key offshore geographies
 - Political
 - Macroeconomic
 - Promotion incentives
- Trends in wage inflation, attrition, and arbitrage



Processes and models

- Process-level trends
- Details of captives set ups, divestures, and overall trends
- Fact-based insights on adoption of emerging pricing models
- Data and perspectives on new opportunity areas



Market Vista encompasses a suite of offerings

Multiple delivery formats allow Global Sourcing Managers to access information in a way that supports the decision-making process



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Market Vista offering	Description	Standard subscription access (annual)	Premium subscription access (annual)
Quarterly Report	Quarterly report with in-depth coverage of transaction, location, and supplier trends	✓	✓
Primer	Quarterly brief of expert perspectives on emerging market trends (e.g., new pricing models)	✓	✓
Location database	Annually updated database of location stats (e.g., cost, attrition, inflation rates) for 23 major cities	✓	✓
Breaking viewpoint	Flash reports highlighting breaking industry news and expert perspectives on key implications	✓	✓
Locations Insights e-newsletter	Bi-monthly Global Location Insights e-newsletter containing detailed country and region info	✓	✓
Supplier capability profiles	Annually updated library of 200+ supplier profiles, including functional views (e.g., FAO, HRO)		✓
Analyst consultation	10 hours of analyst access per year for personalized insights and additional perspectives		✓

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Everest has the resources, experience, and capabilities to provide companies with the strategic intelligence, analysis, and insight that are crucial to making the right decisions in today's outsourcing marketplace.

With the vision of our leadership team, the personal commitment, and indeed, the passion of our professionals to deliver real value to our clients, our organization is unsurpassed in its ability to guide your company's future success.

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