

IT and BPO Services

Takeaways from an Industry Conference - Positive

We attended the World ITO/BPO Forum, among largest industry conferences in NYC, earlier this week, and our key takeaways are: (1) IT services demand could be better than feared, and (2) suppliers that are closer to their customers, understand their processes and businesses, and are relatively more nimble in adapting their service offerings with the changing market trends will benefit over the long term. We believe the trends should benefit ACN and CTSH given their investment leadership in domain expertise and relationship management. Our takeaways below reflect conversations with various industry participants and IT services buyers.

- **IT services demand could be better than feared.** Many industry participants at the conference indicated IT services demand has not deteriorated in the last three months, although it's worse than what it was last year. While we heard there is some re-allocation of spending from clients' back-end operations to front end (and also in areas such as mobile, big data, social etc.), the overall spending environment remains healthy. Most industry participants (including IT buyers and vendors) believed that the ongoing slowdown in offshore growth stems from cyclical pressure (instead of from secular issues) and that offshore spending will continue to increase over the near term.
- **Client relationships, domain expertise most important.** Many IT buyers attach high value to their vendors' front end team. Domain expertise and knowledge of clients' processes are also important as they enable vendors to be more proactive in their solutions. CTSH's front end appears to be most differentiated in the offshore space, and the company approaches its clients as a partner or a provider of business solutions (instead of being a technical vendor). Moreover, we also heard that business users will be increasingly involved in IT decisions, making business skills among a vendor's front end team more important than technical skills.
- **Cloud, social, mobility, big data – discussion to move from “potential” to “role”.** Almost everyone at the conference agreed, and we believe investors also agree, these trends are going to be significantly positive for IT services firms. However, we believe investors should now focus on the specific role of IT services firms in these areas. We believe most IT services firms will primarily offer assessment and implementation services, instead of solutions. While IT services firms have client relationships and domain knowledge, they will increasingly face competition from “innovative” tech start-ups for offering solutions in these areas. As such, proprietary solutions represent small part of revenue for most ITS firms.
- **BPO demand better, but integrated ITO/BPO should do better.** BPO demand likely remains healthy as the business is not as much dependent on clients' discretionary spending. Many IT buyers indicated they prefer end-to-end IT services/BPO capabilities among their providers. CTSH was mentioned as “successful” in offering joint ITS/BPO and industry specific functions, while we also heard favorable comments on G's last year acquisition of Headstrong. Next generation BPO offering will include platforms as well (along with analytics that's being offered today), and longer term trend will be to integrate BPO offerings with social media. This trend should benefit EXLS which began focusing on offering platforms, along with core BPO and analytics

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- **Other tid-bits.** Consumerization of enterprise IT is a mega trend and is driven by need for faster time to market and better user experience. The trend will drive increased use of agile methodology (or visualization tools in application development) which should benefit VRTU. We also heard many clients could be looking to further consolidate their vendors, which generally favors large cap firms. However, small/mid cap firms could still win by being nimble (SYNT was cited as an example here), providing management access to clients, and pursuing niche strategy. Finally, we did not hear further pressure on pricing (due to FX) or increased demand for insourcing.

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Accenture plc (ACN/\$56.63/Overweight), Cognizant (CTSH/\$56.20/Overweight), Virtusa Corp. (VRTU/\$12.47/Neutral)

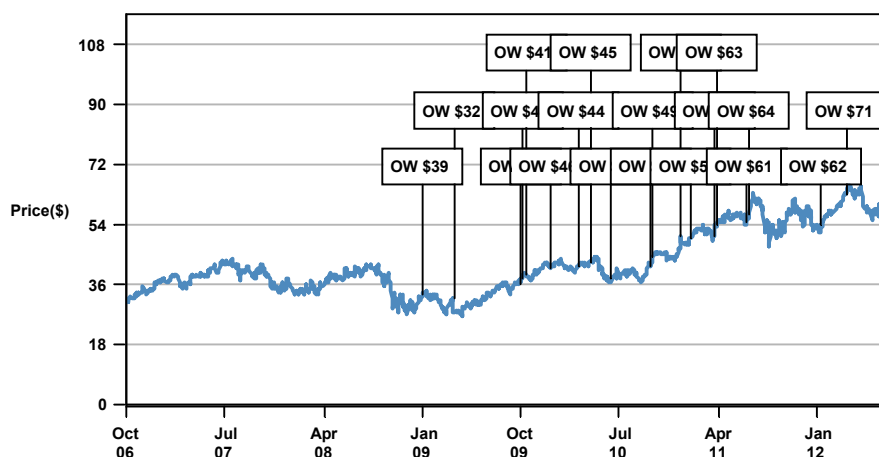
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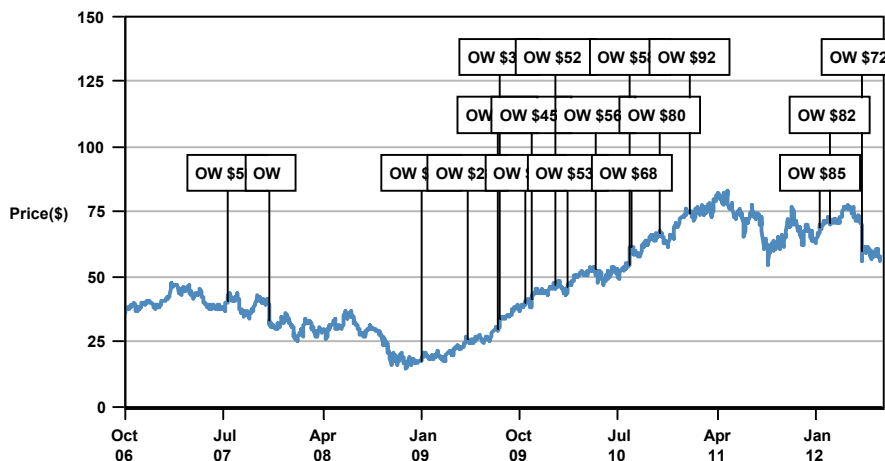
Accenture plc (ACN, ACN US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
31-Dec-08	OW	32.79	39.00
27-Mar-09	OW	31.96	32.00
28-Sep-09	OW	36.12	38.00
02-Oct-09	OW	37.50	42.00
16-Oct-09	OW	38.80	41.00
21-Dec-09	OW	40.63	46.00
08-Mar-10	OW	41.46	44.00
09-Apr-10	OW	42.83	45.00
04-Jun-10	OW	37.85	44.00
27-Sep-10	OW	41.68	45.00
01-Oct-10	OW	44.38	49.00
17-Dec-10	OW	50.32	53.00
13-Jan-11	OW	49.87	55.00
21-Mar-11	OW	50.25	59.00
25-Mar-11	OW	54.29	63.00
21-Jun-11	OW	54.79	61.00
24-Jun-11	OW	57.02	64.00
12-Jan-12	OW	53.94	62.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Dec 31, 2008.

Cognizant (CTSH, CTSH US) Price Chart

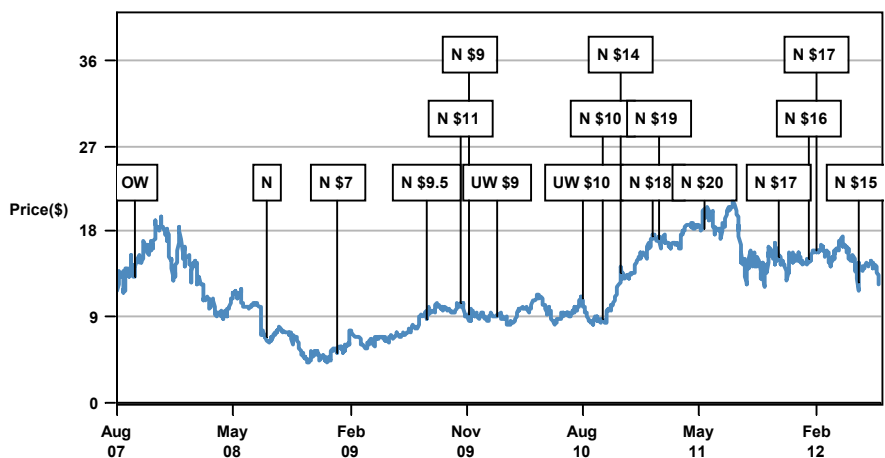


Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Nov 07, 2007 - Dec 31, 2008.

20-Mar-12 OW 63.08 71.00

Date	Rating	Share Price (\$)	Price Target (\$)
12-Jul-07	OW	41.08	50.00
07-Nov-07	OW	33.09	--
31-Dec-08	OW	18.06	23.00
06-May-09	OW	26.29	28.00
31-Jul-09	OW	30.20	32.00
05-Aug-09	OW	33.60	36.00
16-Oct-09	OW	40.15	41.00
04-Nov-09	OW	41.87	45.00
08-Jan-10	OW	46.86	52.00
10-Feb-10	OW	46.34	53.00
26-Apr-10	OW	53.20	56.00
30-Jul-10	OW	54.56	58.00
04-Aug-10	OW	61.57	68.00
25-Oct-10	OW	67.26	80.00
13-Jan-11	OW	74.59	92.00
12-Jan-12	OW	69.11	85.00
09-Feb-12	OW	70.68	82.00
08-May-12	OW	60.30	72.00

Virtusa Corp. (VRTU, VRTU US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Sep 12, 2007.

Date	Rating	Share Price (\$)	Price Target (\$)
12-Sep-07	OW	13.21	-
18-Jul-08	N	7.00	-
31-Dec-08	N	5.31	7.00
31-Jul-09	N	8.87	9.50
16-Oct-09	N	10.54	11.00
06-Nov-09	N	9.22	9.00
08-Jan-10	UW	9.06	9.00
29-Jul-10	UW	10.89	10.00
16-Sep-10	N	8.82	10.00
28-Oct-10	N	13.58	14.00
13-Jan-11	N	17.55	18.00
27-Jan-11	N	17.22	19.00
12-May-11	N	18.26	20.00
03-Nov-11	N	15.29	17.00
12-Jan-12	N	15.10	16.00
01-Feb-12	N	15.99	17.00
10-May-12	N	12.53	15.00

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