

Healthcare IT Services: Q1 2017 Update

M&A, client wins, partnerships and leadership announcements



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- Tech Mahindra
- WNS



This report is a round-up of healthcare sector updates from IT and IT services companies for Q1 2017. The focus of the report is on M&A activities, customer wins, partnerships, new product initiatives and leadership announcements.

PADDY PADMANABHAN : CEO



The IT services sector saw a continued slowdown in the healthcare sector this past quarter and trailed the overall growth of the enterprise for most of the companies reviewed in our quarterly analysis. Most firms have indicated single digit growth outlook for the current fiscal year, with Wipro indicating the lowest growth. A combination of factors, including the uncertain healthcare policy environment and technology-led changes such as automation, have resulted in a muted outlook for India heritage firms.

Among the major firms, Cognizant remains the undisputed leader and HCL seems to have had the most growth over the last year (11.1%). TCS is the only firm that showed a growth this past quarter (4.3%) compared to others who showed a negative growth. The drag from Wipro's HPS acquisition on the healthcare business is yet to bottom out, given their dependency on the ACA exchange markets. Most of the firms have announced a paring of their workforces due to the strong headwinds in the traditional IT services market.

NTT Data Services and DXC (born out of the merger of HP Services with CSC) are emerging as new forces on the healthcare landscape.

M&A activities include Tech Mahindra's acquisition of EHR consulting firm HCI and WNS' acquisition of care management services provider HealthHelp, both of which were healthcare-focused plays. Larger firms continued to acquire for broad horizontal capabilities such as automation, digital, and AI – while announcing share buybacks at the same time. Around \$9 billion in buybacks are in the works.

The Trump administration's focus on H1B visa policy reform created a backlash with several firms, notably Infosys, jumping to get in front of the controversy by announcing 10,000 new hires in the next two years. Media reports indicate an impending wave of layoffs as the IT services business is impacted by automation.

We hope you find this report useful.

Write to us at info@damoconsulting.net

A handwritten signature in black ink, appearing to read 'Paddy Padmanabhan', written in a cursive style.

CEO, Damo Consulting Inc.

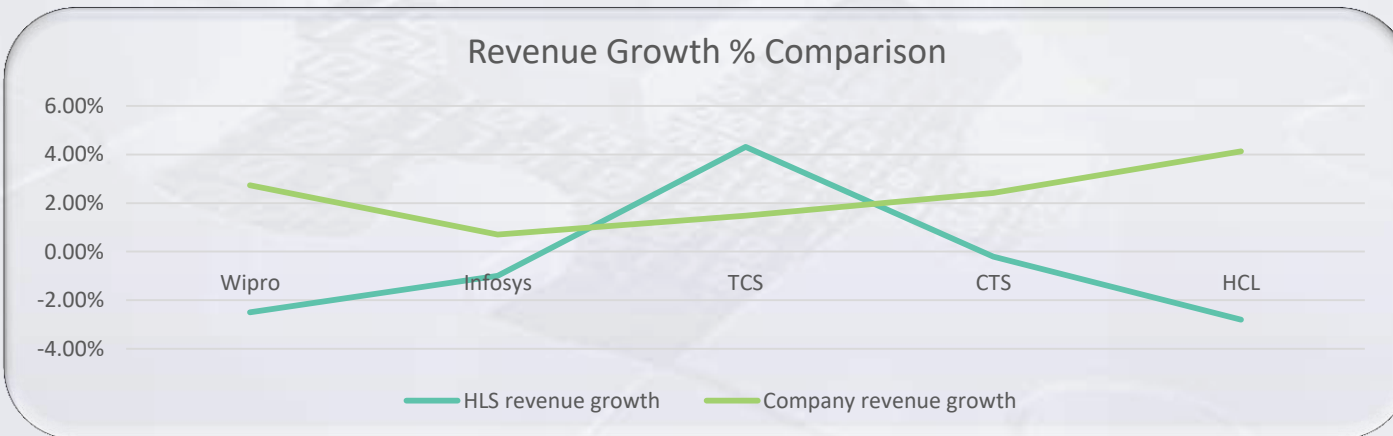
May 24, 2017

DAMODIGITAL™

The WITCH Group: Healthcare Financials

Results for 3 months period ending March 31, 2017	Total revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % revenue	HLS operating margin	HLS revenue growth	Company revenue growth
Wipro	1955	301	15.40%	(0.05%)	(1.00%)	2.73%
Infosys	2569	169	6.58%	27.64%*	(4.00%)	0.71%
TCS	4452	338	7.60%	N.A	4.32%	1.48%
CTS	3546	1003	28.28%	27.54%	(.20%)	2.42%
HCL **	1817	208	11.9%	N.A	(2.80%)	4.13%

*- Operating margin include Insurance business



- Infosys, HCL and Wipro have seen a slowdown in growth of healthcare business in calendar Q1
- TCS is the only major firm to show positive QoQ growth
- For the fiscal year 2016-17, Healthcare & Lifesciences at HCL grew at 11.1%
- During the quarter Wipro recorded an impairment to the extent of approximately 6% of goodwill recognized on the acquisition of HealthPlan Services
- Share buybacks planned by the firms
 - ✓ HCL Technologies -\$535.5 million
 - ✓ Cognizant- \$3.4 billion
 - ✓ Infosys - \$2.5 billion
 - ✓ TCS – \$2.5 billion
 - ✓ Wipro- 1:1 bonus (planning buyback)

* Segment wise margin not available for 4th quarter.

Revenue Guidance and Outlook Trends

Firm	April 2017	Comments
	FY18 revenue guidance	
Wipro	Flat-2%	There might be further risks arising out of HPS acquisition
Infosys	6.5%- 8.5%	Company has reduced the guidance significantly
TCS	No guidance	Margins have inched up higher though segment-wise break-up is not available
CTS	8-10%	Guidance is soft given that it grew by 8.62% last fiscal year
HCL	10.5%-12.5%	Overall margins have come down though the company is upbeat about growth prospects



Wipro: Operating margin for healthcare business moves into negative territory.

Performance highlights

- Healthcare margins which saw a slight improvement last quarter is negative this quarter. Part of it is due to loss recognition on HPS acquisition. (approximately 6% of goodwill was written off this quarter)
- The company has provided a guidance of “Flat-2%” growth for the company
- Wipro board of directors will consider the proposal of shares buyback in July 2017
- With the US election, Wipro witnessed cancellation of projects for HPSE. This trend is expected to bottom-out in Q2. With more clarity on the repeal of Obamacare, Wipro expects the business to regain momentum in Q3

Operating Margins – company and HLS

Results for period ending Mar 31 2017	Total revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % revenue	HLS operating margin	Healthcare % revenue QoQ growth	QoQ growth for company
Jun 30,2016	1931	295	15.28%	14.33%	18.02%	2.59%
Sep 30,2016	1916	307	16.02%	15.49%	3.79%	(.75%)
Dec 31 2016	1903	304	16.00%	16.21%	(0.50%)	(0.70%)
Mar 31 2017	1955	301	15.40%	(0.05%)	(1.00%)	2.73%





- TK Kurien, Executive Vice Chairman & Member of the Board retired on January 31, 2017
- Wipro partners with PATH to improve health outcomes in Africa and Asia Pacific. The collaboration will accelerate progress on health innovations in low-resource environments
- Wipro launches the HOLMES™ Cloud BOT that uses a gamified natural language processing (NLP)-based chat interface
- With greater clarity in Obamacare replacement, Wipro expects to capture a significant market share of new payers onboarding over time



Wipro wins a 12-year contract to develop enterprise master patient index tool for the National Healthcare System (NHS) in Scotland

Infosys: Slowdown in healthcare business but operating margin steady

Operating Margins – company and HLS

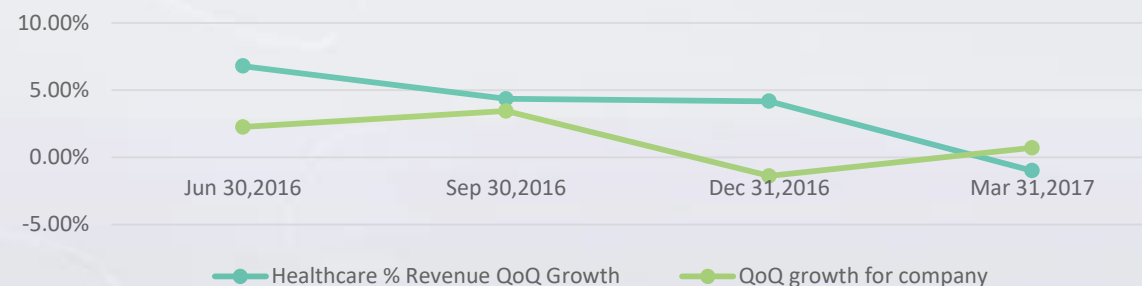
Results for period ending Mar 31 2017	Total revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % revenue	HLS operating margin*	Healthcare % revenue QoQ growth	QoQ growth for company
Jun 30,2016	2501	170	6.80%	26.09%	3.73%	2.25%
Sep 30,2016	2587	173	6.70%	26.60%	1.76%	3.44%
Dec 31,2016	2551	176	6.90%	28.92%	1.73%	(1.39%)
Mar 31,2017	2569	169	6.60%	27.64%	(4.00%)	0.71%

*- Operating margin include Insurance business

Performance highlights

- Revenue growth in healthcare has slowed (negative for this quarter) significantly. Company expects Healthcare segment to show growth but Life Sciences is expected to be a bit soft
- Buybacks announced to the tune of \$2.5 billion starting April 2017
- There was a slight dip of 128bps in Operating margin but it is holding steady. Company has provided a slightly lower operating margin guidance of 23-25% in 2018

Revenue growth over last 4 quarters





- Infosys partners with the Texas Department of Family & Protective Services (DFPS) to modernize the agency's IMPACT (Information Management Protecting Adults and Children of Texas) system
- Infosys achieves Cloud Elite status in Oracle PartnerNetwork
- Infosys joins Salesforce Partner Ecosystem and becomes one of the first Analytics Cloud partners to bring both systems integrator leadership and independent software vendor (ISV) capability
- The Infosys board identifies an amount of \$2 billion that will be paid out to shareholders in the form of dividend and/or share buyback
- Infosys will create 10,000 jobs in the US over the next two years
- Infosys launches Infosys Nia, which is a unified, flexible, and modular platform converging the capabilities of Mana, AssistEdge, Skytree, optical character recognition, natural language processing and infrastructure management services

- N.A

TCS: Healthcare business continues to grow. Focus on digitization at company level.

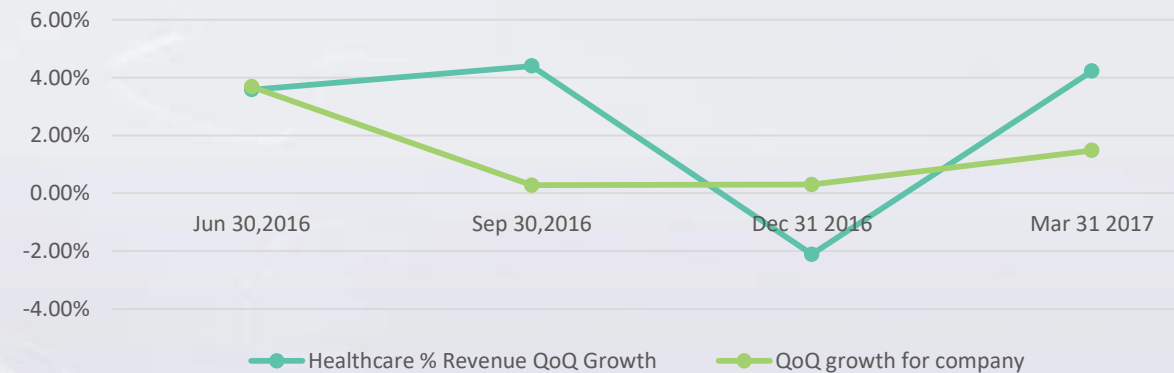
Performance highlights

- The company is confident about its continuing growth in healthcare (healthcare portfolio appears weighted towards Pharma and Life Sciences)
- Digital revenues at \$3 billion for FY17; growing at 29% YOY
- Planned buybacks to the tune of \$2.5 billion

Operating Margins – company and HLS

Results for period ending	Total revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % revenue	HLS operating margin	Healthcare % revenue QoQ growth	QoQ growth for company
Jun 30,2016	4362	318	7.30%	N.A	3.58%	3.68%
Sep 30,2016	4374	332	7.60%	N.A	4.40%	0.28%
Dec 31 2016	4387	325	7.40%	N.A	(2.11%)	0.30%
Mar 31 2017	4452	338	7.60%	N.A	4.32%	1.48%

Revenue growth over last 4 quarters





- CEO Rajesh Gopinathan and COO NG Subramaniam appointed to the board
- V Ramakrishnan appointed CFO of TCS
- Receives shareholders approval to buyback shares worth \$2.4 billion



- Selected by a leading European Life Science company to design and transform IT solutions to institutionalize an agile, replicable divestiture capability
- Engaged by a North American pharma company to manage its applications across the Enterprise and Manufacturing Operations
- Selected by a North American biotechnology company as a strategic partner for Digital transformation

CTS: Leadership position in healthcare. Uncertain policy environment impacting growth

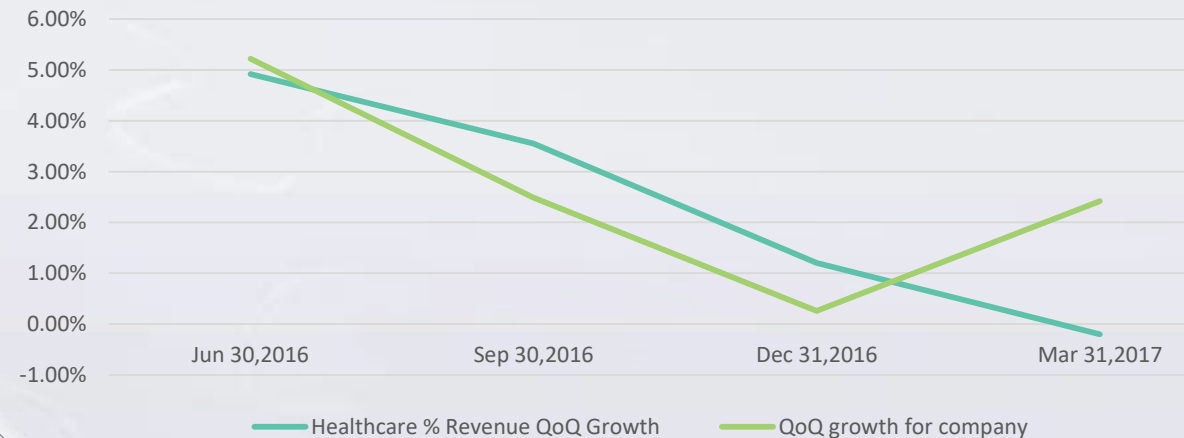
Performance highlights

- Revenues in Healthcare business segment continue to be affected by uncertainty in the regulatory environment (US)
- Internal investigation has identified a total of approximately \$6 million in payments made between 2010 and 2015 that may have been recorded improperly. The company has spent up to \$14 million in relation to FCPA investigation and will continue to spend in 2017
- In May 2017, the company announced a voluntary separation program for certain groups of employees, which is expected to result in severance costs primarily in the second quarter of 2017. Employee costs is the primary reason for drop in operating margin and margins are expected to go down further this year

Operating Margins – company and HLS

Results for period ending	Total revenue (in USD MM)	HLS revenue (in USD MM)	Healthcare % revenue	HLS operating margin	Healthcare % revenue QoQ growth	QoQ growth for company
Jun 30,2016	3369	959	28.47%	28.15%	4.92%	5.22%
Sep 30,2016	3453	993	28.76%	31.62%	3.55%	2.49%
Dec 31,2016	3462	1005	28.70%	N.A	1.20%	0.26%
Mar 31,2017	3546	1003	28.28%	27.21%	(0.20%)	2.42%

Revenue growth over last 4 quarters





**Cognizant
Technology
Solutions**

- Cognizant acquires Brilliant Service Co. Ltd. ; strengthens digital transformation portfolio and capabilities to enable clients to build connected, collaborative businesses
- Cognizant elects Betsy S. Atkins and John M. Dineen to its Board as new independent directors, effective April 1, 2017
- Cognizant will buyback shares during fiscal 2018 worth \$3.4 billion



- Santa Clara Family Health Plan (SCFHP) selects TriZetto to support their overall administration of its business operations on a single, modern healthcare platform
- LifeBridge Health, Maryland, teams up with Cognizant to innovate on a new communications system serving the LifeBridge network of more than 1,700 physicians, their patients and regional health facilities
- Cognizant is working with a large US-based pharmaceutical and medical device company to transform their field services, quality, and complaints processes

HCL: One of the best growth stories by numbers

Performance highlights

- Numbers indicate overall growth is one of the best among its peer, though had a negative growth in the most recent quarter
- Quarter-wise performance for healthcare business seems out of sync with company growth in last 4 quarters
- Very little public info on client portfolio and revenue profile

Operating Margins – company and HLS

Results for period ending Mar 31 2017	Total Revenue (in USD MM)	HLS Revenue (in USD MM)	Healthcare % Revenue	HLS Operating Margin	Healthcare % Revenue QoQ Growth	QoQ growth for company
Jun 30,2016	1690	201	11.89%	N.A	(1.00%)	6.49%
Sep 30,2016	1722	217	12.60%	N.A	8.20%	1.89%
Dec 31,2016	1745	215	12.40%	N.A	(0.90%)	1.34%
Mar 31,2017	1817	208	11.50%	N.A	(2.80%)	4.13%

Revenue growth over last 4 quarters



The HCL logo is displayed in white, bold, italicized capital letters on a blue rectangular background.

HCL

- HCL and IBM partner to take the best of their shared knowledge and teaming experience to build industry-leading application security solutions
- HCL Technologies will buyback up to 3.5 crore shares worth \$535.5 million

- N.A

Q1 2017 Highlights – Other Key Players in Healthcare IT Services

- Accenture
- Capgemini
- CitiusTech
- DXC Technology
- IBM
- NTT DATA
- Persistent Systems
- TechMahindra
- WNS

Accenture

- Accenture acquires UK-based Genfour to strengthen its capabilities as a leading provider of intelligent automation services
- Accenture acquires Altitude, a product design and innovation firm, to help clients innovate and develop new physical products and services
- Accenture and Blue Prism collaborate to provide RPA solutions to help organizations across industries automate a wide range of business processes for reduced costs, improved compliance and increased productivity

Capgemini

- Capgemini acquires Idean. The acquisition will reinforce the Group's user-centered and digital-first experience design and strategy services, particularly in North America. It will also extend its network of Digital studios

CitiusTech

- MEDHOST product achieves MU Stage 3 certification for Clinical Quality Measures (CQM) 2015
- Centra Health completes 2016 Physician Quality Reporting System (PQRS) Submission Using CitiusTech's BI-Clinical Platform

DXC Technology (strategic combination of CSC and HPE)

- DXC Technology, formed by the merger of HP Services and CSC Corporation, is expected to have \$26 billion in annual revenues and nearly 6,000 clients in over 70 countries
- CSC chairman, president and CEO, Mike Lawrie, will serve as DXC Technology chairman, president and CEO
- Healthcare portfolio comprises 11% of DXC Technology's total industry mix
- Healthcare is one of the four integrated P&L units at DXC Technology
- DXC Technology has its own IP portfolio in healthcare
- Fiscal 2017 was a difficult year in terms of the healthcare industry as DXC Technology transitioned out of the NHS contract and moved into the next phase of that contract. DXC (formerly CSC) was to deploy an integrated electronic patient records system using CSC's Lorenzo Regional Care software products
- In April 2015, CSC signed a new contract to deliver and co-manage a first-of-type Patient Care Co-ordination Centre (PCCC) in Trafford for NHS
- CSC had lost about £2 billion by the end of 2014 due to its billion-pound NHS contracts
- The DXC Technology board approved the establishment of a share repurchase program for the new company with an initial authorization of \$2.0 billion for future repurchases of outstanding shares of its common stock

DXC Technology (strategic combination of CSC and HPE) Contd..

Some of the key healthcare clients include:

- NHS Trafford
- HSE, Ireland
- Penn Medicine
- Ain Al Khaleej Hospital
- Pre-hospital Patient Journal (PPJ)
- Cabrini
- Allergy Therapeutics
- Intermountain Healthcare
- H. D. Smith
- South/South West Hospital Group (SSWHG)
- The Fred Hollows Foundation (FHF)
- Oklahoma Health Care Authority (OHCA)
- Mundipharma Research
- Cytolon
- UL Hospitals Group
- Sheffield Teaching Hospitals Trust
- North Bristol NHS
- Hull and East Yorkshire Hospitals NHS Trust

IBM

- IBM and the Avamere Family of Companies partner to help caregivers improve eldercare at senior living and health centers. Using IBM's cognitive computing, Avamere will analyze data streaming from sensors in senior living facilities to gain insights into physical and environmental conditions
- IBM and Illumina Partner to expand access to genome data interpretation by integrating Watson for Genomics into Illumina's BaseSpace® Sequence Hub and tumor sequencing process
- IBM is working with the FDA to research how blockchain can be used to benefit public health
- Of the top 25 life sciences companies, about half are using or implementing IBM's cognitive offering
- IBM collaborates with MedyMatch Technology to distribute MedyMatch's A.I.-based clinical decision support application to imaging experts in hospitals
- IBM Watson Health inks a five-year agreement with IDx to advance eye health through cognitive computing applications
- IBM Research is training Watson to identify eye retina abnormalities
- Central New York Care Collaborative (CNYCC) selects IBM to create a cognitive population health platform to connect over 2,000 healthcare and community based providers across six counties in Central New York
- Atrius Health and IBM Watson Health forge agreement to bring cognitive insights to primary care physicians and their patients
- Jupiter Medical Center will adopt Watson to deliver personalized, evidence-based cancer treatment

NTT DATA (formerly Dell Services)

- Dell Services merged with NTT Data in Q4, and some public information is available about their healthcare business
- In FY 2016, they witnessed an increase in new orders, 16.3% YOY to touch \$14.62 billion
- With the Dell Services acquisition, NTT DATA will expand its revenue in North America in healthcare from 13% to 33%
- The combined entity has a strong reputation for industry-specific digital solutions and BPO services it provides to healthcare institutions and health insurers
- The company has collaborated with Oracle to provide data integration and warehousing of clinical, financial, administrative and -omics modules in a cloud solution to customers worldwide
- UCA, NTT DATA's Vendor Neutral Archive (VNA), expands automated imaging analytics to include incidental findings that could signal potential patient risk and may otherwise be unreported
- Has won a five-year, \$62 million contract with the Centers for Disease Control and Prevention (CDC) to provide application hosting, file storage, operations monitoring, data center support and cloud management
- Partnered with Praxify to provide enhanced clinical workflows to hospitals and health systems using MIRA technology

NTT DATA (formerly Dell Services) Contd..

Some of the key healthcare clients include:

- Robert Wood Johnson Health System
- Ernest Health
- Bronx-Lebanon Hospital Center
- CareOne LTAC Hospitals
- Ohio healthcare insurance exchange
- New York healthcare insurance exchange
- Massachusetts Health insurance exchange
- Saensuk Smart City
- CarePoint Health
- The Innovation Institute
- Baystate Health
- Translational Genomics Research Institute
- Wheeling Hospital
- Texas A&M Health Science Center (TAMHSC)
- Community Health Plan of Washington (CHPW)
- The Shrewsbury and Telford Hospital NHS Trust
- Inland Empire Health Plan (IEHP)
- Affinity Health Plan
- Aspen Valley Hospital
- Pomona Valley Hospital Medical Center
- Green Clinic Health System
- Warrington and Halton Hospitals NHS Foundation Trust
- BCBS Rhode Island
- Centers for Disease Control and Prevention (CDC)

Persistent Systems

- Persistent Systems partners with MuleSoft to help clients speed their digital transformation utilizing MuleSoft's Anypoint Platform™
- Persistent Systems teams up with Partners HealthCare on new industrywide digital platform with a goal of bringing digital transformation to clinical care

Tech Mahindra

- Signs a definitive agreement to acquire CJS Solutions Group LLC "The HCI Group" for \$110 million

WNS

- WNS acquires HealthHelp, an industry leader in care management, for \$95 million. The acquisition gives WNS' healthcare payer capability a major boost and enables WNS to position on reducing the direct cost of care for healthcare payers
- WNS signs a definitive agreement to acquire Denali Sourcing Services (Denali), a leading provider of strategic procurement BPM solutions, for \$40 million

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About Damo Consulting, Inc.



Founded in 2012: Technology and management consulting firm based in Chicago focused on healthcare sector

Technology growth strategy advisory, digital marketing and content solutions, market intelligence and research

Founding principal has over 18 years in healthcare IT, including leadership stints in Accenture, Wipro and Silicon Valley startups

Thought leadership and deep market knowledge: In house research, publications in industry journals, speaking engagements at leading industry conferences

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Want to start a conversation?

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