
A Global Investment Outlook

The Outsourcing Industry in Emerging Markets

September 2008

O&O still fast-growing industry despite recent challenges

- India pioneered O&O industry and remains global industry leader
- In 2005, India accounted for 40% of US\$45b global market and the Philippines 5%
- In FY2007-08, India's O&O exports grew 29% to US\$40.4b

O&O exports	US\$40.4b	up 29%
ITO	US\$23.1b	up 28%
BPO	US\$10.9b	up 30%
ESO	US\$ 6.4b	up 29%
- In FY2008-09, Nasscom expects India to grow 21-24% to US\$50b
- Lower growth rate is natural result of larger base
- 70% of IT spending is to sustain existing infrastructure
- 30% is discretionary spending for new projects, affected by challenging economic conditions

O&O still fast-growing industry despite recent challenges

- By 2010, global O&O expected to be US\$130b
- Highest growth in BPO, forecast at 35% CAGR
- ITO is forecast to grow 25% CAGR
- ESO is forecast to grow 15% CAGR

- Spreading financial turmoil spilling over into greater economic weakness in the US and other developed countries
- These economies constitute the bulk of the addressable market, ie, the total global value of services identified as candidates for O&O, currently estimated at US\$450b
- Currency appreciation in emerging markets against the US\$ increases costs
- Aggravated by rising costs of inputs, especially labor

Dynamics of offshore BPO industry

- Usually start off with one major client (eg Intelenet – Barclays) or as a captive unit (eg Genpact – GE)
- Client acquires a major stake in BPO
- BPO grows business organically and through acquisitions
- Client divests from BPO operations at a profit through IPO or sale to private equity investors
- BPO continues to expand

Look at example

Genpact – GE

- Established in 1997 in Gurgaon, India as business process services operation of GE Capital and named GE Capital International Services
- Captive operation of GE for eight years when it was provider to many of GE's financial services and manufacturing businesses
- In December 2004 GE sold 60% of GECIS equity to General Atlantic and Oak Hill Capital Partners, investors in IT-enabled and knowledge-based companies. Name changed to Genpact.
- At the time had operations in India, Mexico, China, Hungary and had acquired EDM
- In 2005-07 expanded to Romania and Philippines, continued to open centers in India and China, acquired Creditek, USA; Moneyline, USA; ICE Enterprise Solutions, Netherlands; Axis Risk Consulting, India; and started NGEN, a media process JV with NDTV, India

Genpact – GE

- In July 2007 listed on the New York Stock Exchange
- IPO consisted of 35.2m common shares at US\$14/share, of which 17.6m were new shares and the balance sold by GE, General Atlantic and Oak Hill Capital Partners
- Current network of more than 30 delivery centers in 10 countries

Value drivers for offshore BPO companies

Growth, profitability and visibility of revenues are key value drivers for BPO companies

Value drivers for BPO companies

Growth

- Profitable organic growth is crucial
- Ability to have growth rates in-line or higher than industry
- Prior success with acquisitions

Margins

- Growing scale should lead to increase in margins
- Ability to hold/increase margin on renewal
- Ability to innovate against margin erosion (pricing structures, cost efficiencies, automation etc.)

Recurring revenues

- Strong renewal rates
- Contracts with strong customer tie-in
- Expanding wallet share with existing clients

Barriers to entry

- Scale creates barriers
- Established customer relationships with good renewal rates
- Deep domain expertise

Investment criteria of some private equity investors

Investment parameters

- Expansion, growth, acquisition, greenfield with strong sponsors, privatizations, buy-outs
- Qualified management, good credit standing, positive cash flows, proven track record of profitability
- 2-3 year exit through IPO or trade sale
- IRR of 16-25%
- Special situations – Turnaround, bankruptcy and emergence financing
- Industries with low beta, avoid greenfield
- Concentrate in ASEAN, India and Australia
- Focus on Asian companies that aspire to expand globally and US companies that can benefit from offshore strategy

Investment criteria of some private equity investors

Financial instruments

- Debt: term loans, 4-10 years with grace period, fixed or variable interest rates, project assets as collateral
- Debt: mezzanine loans, 4-8 years, bullet repayment
- Debt: senior credit facilities (secured, unsecured), bridge financing, subordinated debt, asset-backed securities
- Equity or equity-linked: primary or secondary sale, 3-7 years investment horizon, board representation
- Equity or equity-linked: Maximum 5 years horizon with exit through IPO, trade sale or sale to another private equity

Investment criteria of some private equity investors

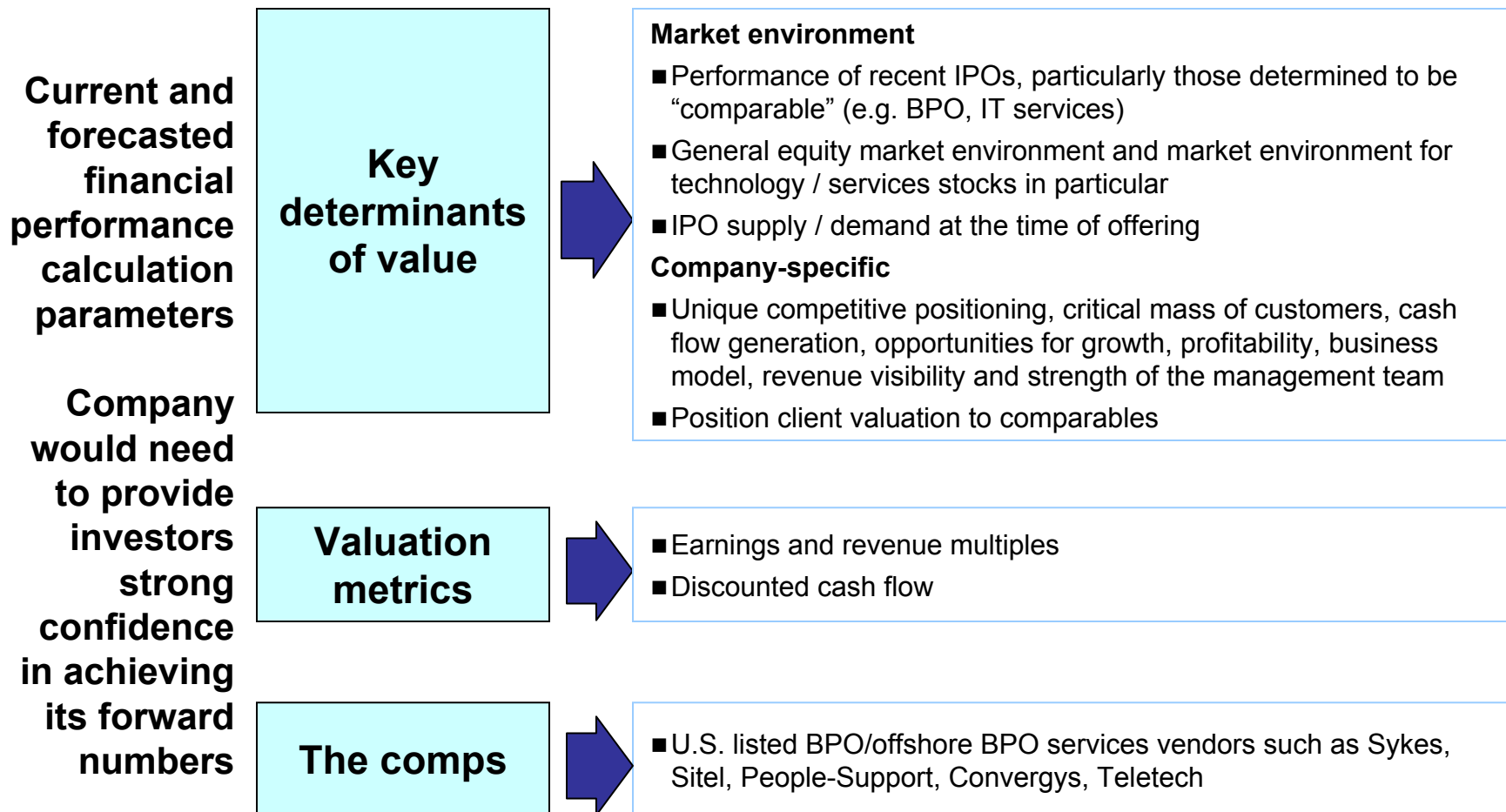
Investment amounts

- Range of US\$5m-150m for debt and equity
- Wider range for equity deals
- Enterprise value of US\$50m-US\$650m
- Revenues of over US\$10m

What to expect in IPO listing – 4 basic stages

- Corporate due diligence
 - Legal and financial due diligence
 - Audited financial statements
 - Prepare registration statement/prospectus
 - Corporate housekeeping
- Regulatory approvals
 - SEC registration
 - PSE approval
- Underwriting and selling activities
 - Develop/implement selling, distribution and underwriting strategies
 - Organize underwriting and selling syndicates
- Offer period, listing and post-listing activities
 - Road shows, investor briefings

Valuation drivers



Listing considerations

•Philippines Stock Exchange	•NASDAQ	•New York Stock Exchange
<p align="center">•Pros</p>	<p align="center">•Pros</p>	<p align="center">•Pros</p>
<ul style="list-style-type: none"> ✓ Maximize “home market” branding ✓ Relatively short timeline ✓ Lowest listing and ongoing costs ✓ Research coverage and investor education 	<ul style="list-style-type: none"> ✓ Reputation for listing high growth technology / services companies ✓ High visibility among customers ✓ Specialist IT Services / BPO investors ✓ Healthy liquidity 	<ul style="list-style-type: none"> ✓ Greatest prestige and visibility among customers ✓ Specialist IT Services / BPO investors ✓ Very high liquidity
<p align="center">•Cons</p>	<p align="center">•Cons</p>	<p align="center">•Cons</p>
<ul style="list-style-type: none"> ✗ Limited number of listed peers ✗ Relatively low overall market liquidity 	<ul style="list-style-type: none"> ✗ Sarbanes-Oxley compliance ✗ Higher listing costs ✗ Many subscale or underperforming remnants of tech bubble ✗ Risk of becoming “orphan stock” ✗ Longer timeline than PSE 	<ul style="list-style-type: none"> ✗ Sarbanes-Oxley compliance ✗ Highest listing costs ✗ Typically issuers of significant size ✗ Risk of becoming “orphan stock” ✗ Longer timeline than PSE
<p align="center">•Peer group members</p>	<p align="center">•Peer group members</p>	<p align="center">•Peer group members</p>
<ul style="list-style-type: none"> • Paxys • eTelecare 	<ul style="list-style-type: none"> • Sykes Enterprises • ICT Group • People Support • West Corp 	<ul style="list-style-type: none"> • Convergys • Sitel