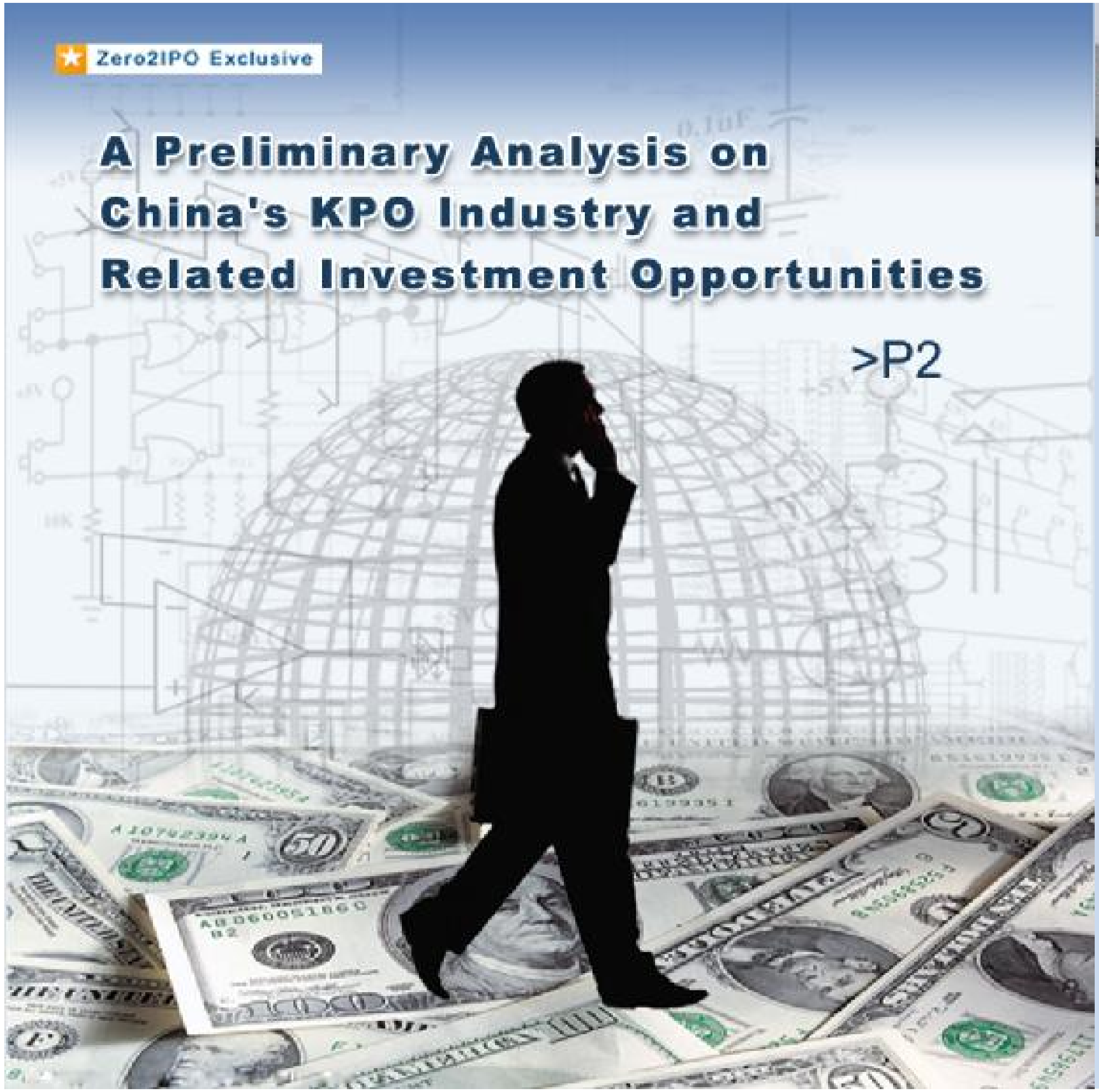
May. 14 2010 No.0436

Zero2IPO eWeekly 清科投资资讯

http://www.zero2ipo.com.cn/eweekly/0436/en

Zero2IPO Data

Hot News



Jiuding Capital Injected RMB50M into Qinglian Food

> P9

A Preliminary Analysis on China's KPO Industry and Related Investment Opportunities

Written by Lucida Liu, Zero2IPO Research Center

As a high-end service of Business Process Outsourcing (BPO), the Knowledge Process Outsourcing (KPO) brings higher added-value and profit margin than average outsourcing services, marking a continuous climb of businesses provided by outsourcing enterprises along the value chain. KPO businesses are predominantly knowledge-based, with a focus on process innovation, marketing, development as well as business analysis. Compared with traditional BPO, KPO is more positioned towards support and information integration services, including diagnosis, assessment, clarification, decision-making and conclusions to some extent. KPO, by its nature, is a higher-level BPO. The specific differences between KPO and BPO are demonstrated in the following table (See Table 1):

Table 1 Introduction of KPO and BPO Services

Sector	BPO Services	KPO Services	
Insurance	Call Center Customer Support	Claims Analysis	Underwriting Asset Management
Consultation	Helpdesk Support	Worldwide Research and Analysis	Integrated Report
Bank	Clearing	Financial Analysis	Investment Analysis
Health Care	Call Center Customer Support	Patent Design	Patent Portfolio and Analysis
Telecom/Retail	Call Center Customer Support	Data Analysis	Strategic Research

Source: Evalueserve Solutions

Globally, the development of KPO services has gained traction over the recent 10 years. Especially after the outbreak of the global financial crisis, western financial institutions are likely to gradually outsource the traditionally higher-end segments of their value chain activities, such as R&D, analysis, innovation, decision-making, etc. An increasingly strong demand for KPO is expected to be seen in BPO tenders of Western financial institutions. Some industry analysis indicate that the size of KPO market is likely to grow at a compound annual growth rate of 46% to US $17.00B in 2010 from US$1.20B in 2003.

Currently, there are three forces dominating the KPO market on the supply side (See Table 2):

(I.) In-house research departments of banks or financial institutions. The in-house helpdesk centers and research departments of these banks / institutions are actively pushing forward the upgrade of their services from BPO to KPO;

(II.) Large-sized traditional BPO firms. These firms have become aware of the emerging trend of the sector and have been building up their workforce and capacity for increasing KPO demand;

(III.) Emerging professional KPO firms. These professional KPO firms share similar mode for growth and expansion: Setting up headquarters and sales departments in developed markets such as Europe and North America, etc., establishing research centers in India for project implementation and combining with ongoing efforts to gradually expand to China, Chile, the Middle East and South Africa, etc. Over the recent years, the world's leading professional KPO firms like Evalueserve (one of the pioneers of the KPO concept), Copal Partners and Grail Research have entered the Chinese market. After expanding to China one after another starting from 2005, these firms have witnessed a very fast growth.

Table 2 List of Types of KPO Enterprises

Bank/In-house Research Department	Traditional BPO Firm with Expansion to KPO	Professional KPO Firm
Goldman Sachs	Progeon	Evalueserve
Morgan Stanley	Genpact	Amba Research
JP Morgan	WNS	Irevna
UBS	Nipuna	Copal Partners
Deutsche Bank	Office Tiger	Aranca
SAP	EXL	Lexadigm
GE	Wipro	IP Pro
Intellevate	Accenture	Roc Search
IBM	Mphasis	Market Rx
DataMonitor	Infosys	Inductis

Source: Freewill Solutions

Meanwhile, the global KPO industry has also seen the waves of consolidation and expansion, as more KPO firms prefer to achieve fast growth by means of mergers and acquisitions instead of organic growth. In 2007, Philippine's bellwether firm Ayala set up a fund focusing on the BPO sector, known as LiveIt Solutions, Inc. As a matter of fact, LiveIt Solutions has acquired BPO firms including eTelecare, Integreon, Affinity Express, etc. In 2009, Integreon, controlled by LiveIt, extended its olive branch to KPO firm Grail Research. Similarly, peer firm Infosys has also been pursuing M&A opportunities for growth in the KPO sector. By comparison, Copal Partners, which has got capital injections from institutional investors like Deutsche Bank and Citigroup, is eyeing a public listing, said Joel Perlman, President of the KPO firm in a recent interview with Reuters.

In China, the local service outsourcing mode is still mainly confined to Information Technology Outsourcing (ITO) covering software development and data processing as well as basic BPO services. In 2009, the businesses of China's top 50 service outsourcing firms were still concentrated in software outsourcing, IT services, data processing and call centers. Only a few outsourcers could provide higher value-added services such as R&D, human resources management, financial services, game and animation design, etc. (See Table 3).

Meanwhile, as the core business of KPO, the high-end services like industry analysis and investment analysis are still in their infancy in China. Nevertheless, some pioneers in ITO sector including iSoftStone and HiSoft Technology International Limited have gradually realized their expansion to BPO and started to provide higher value-added KPO and advisory services while continuously strengthening their existing ITO portfolios. In August 2009, Shaanxi Haishi Venture Investment Co., Ltd. acquired a 30.8% stake in Join Innovation Technology Co., Ltd. (JOIN) via a direct capital injection. Incorporated in 2006, JOIN is a professional BPO provider of digitalization solutions, offering data entry and processing, as well as data conversion services among others. According to a senior executive with Haishi Venture, part of the capital injection would be used to fund the expansion in KPO and other businesses. Huaqiao Financial Service Outsourcing Fund, China's first fund focusing on the BPO sector was also set up at the end of April 2009. As higher-end BPO providers, KPO firms are undoubtedly attracting more attention from investment communities. The following table highlights the major lines of business and financing or listing status of leading ITO / BPO / KPO firms in China (See Table 4). ■

Table 3 Core Business of China's Top 50 Service Outsourcing Firms in 2009

Core Business	No. of Enterprises with the Core Business
Software Outsourcing	35
IT Services	32
Data Processing	20
Call Center	17
R&D Outsourcing (Including Pharmaceuticals)	13
HR Outsourcing	8
Financial Outsourcing	4
Animation	2
Supple Chain Outsourcing	2
Food & Drinks	1
Testing Outsourcing	1
Facility Management Services	1

Source: ChinaSourcing

Table 4 Core Business and Financing or Listing Status of China's Top 30 Service Outsourcing Firms

Ranking	Company Name	Core Business	Financing and IPO
1	Neusoft Group Co., Ltd.	Software outsourcing, data processing, call center and R&D outsourcing	Listed
2	Insigma Technology Co., Ltd.	Software outsourcing, data processing and call center	Listed
3	VanceInfo Technologies Inc.	Software outsourcing, data processing, and business process outsourcing	Listed
4	WuXi AppTec Co., Ltd.	Pharmaceuticals R&D outsourcing	Confirmation of intent of M&A
5	hiSoft Technology International Ltd.	Software outsourcing, IT Services and R&D outsourcing	Pre-IPO Completion of Round-two financing
6	Longtop Inc.	Software outsourcing, IT Services and R&D outsourcing	Listed
7	Dalian Hi-Think Computer Technology, Corp.	Software outsourcing, data processing and call center	Pre-IPO
8	iSoftStone Information Technology (Group) Co., Ltd.	Software outsourcing, call center and IT services	Pre-IPO Completion of Round-three financing
9	China Data Group	Data processing and call center	Pre-IPO Completion of Round-three financing
10	Inspur Worldwide Services Ltd.	Software outsourcing, data processing and IT Services	Listed
11	Sodexo S.A.	Food & Drinks and facility management services	Listed
12	Chinasoft International Ltd.	Software outsourcing, data processing, HR outsourcing and call center	Listed
13	Achievo Corporation	Software outsourcing, IT Services, HR outsourcing and R&D outsourcing	Pre-IPO
14	Dextrys, Inc.	Software outsourcing, data processing, IT Services and call center	Pre-IPO Completion of Round-one financing
15	SinoCom Software Group Limited	Software outsourcing and IT Services	Listed
16	Sunyard System Engineering Co., Ltd.	Software outsourcing, BPO and IT Services	Listed
17	Beijing Lanxum Technology Co.	IT Services（Document outsourcing service）	Listed
18	M&Y Data Solutions	Data processing and call center	Pre-IPO
19	Synnex Information Technologies, Inc.	Software outsourcing, financial outsourcing, IT Services and supply chain outsourcing	Listed
20	CompuPacific International	Data processing financial outsourcing, HR outsourcing and call center	Pre-IPO
21	Beijing Teamsun Technology Co., Ltd.	Software outsourcing and IT Services	Listed
22	Shanghai Hyron Software Co., Ltd.	Software outsourcing and IT Services	Listed
23	BroadenGate Software Service Co., Ltd.	HR outsourcing, ITO testing outsourcing and BPO	IPO of parent company
24	Sykes Enterprises, Incorporated	Call center	Listed
25	Seiosoft Co., Ltd.	Software outsourcing, data processing, IT Services and call center	Pre-IPO
26	ATMU	Software outsourcing, IT Services and data processing	Pre-IPO
27	Global Data Solutions Ltd.	IT Services, disaster recovery and data center outsourcing	Pre-IPO Completion of Round-three financing
28	Beijing Online Communication Technology Limited	Call center and IT Services	Pre-IPO
29	Oceansoft Information System Co., Ltd.	Software outsourcing, data processing, Call center, HR outsourcing and IT Services	Pre-IPO Completion of Round-two financing
30	Liandi (Nanjing) Information Systems Co.,	Software outsourcing, IT Services and R&D outsourcing	Pre-IPO

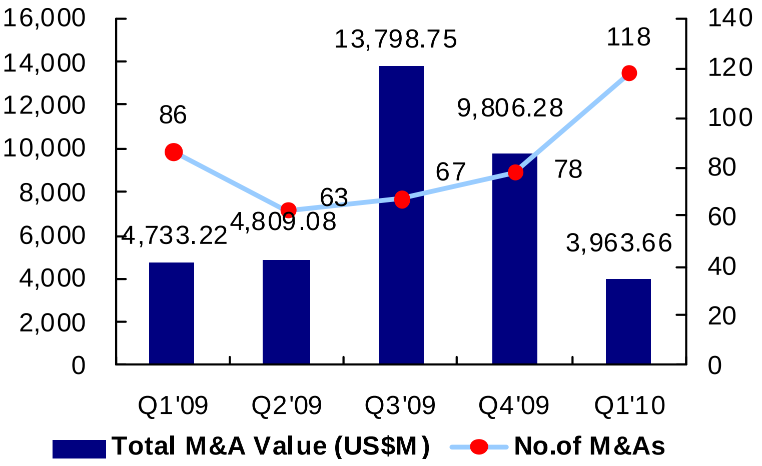
Source: www.chnsourcing.com and Zero2IPO Database

Q1'10 Witnesses Outbound M&As Persistently Surging and Cross-border M&A Value Soaring 271.6% Year-on-year; Bio/Healthcare and Energy and Mineral Sector Become M&A Hotspots

Released by Zero2IPO Research Center

According to the statistics from the recently released China Merger & Acquisition Report Q1 2010 conducted by Zero2IPO Group, a famous research, advisory and investment institution focusing on VC and PE industries in Greater China Region, along with the gradual recovery of global economy and rapid growth of Chinese economy, there has been an increasingly rising intent among Chinese enterprises to entrench their position in overseas markets and more M&A deals taking place in Chinese Market. Q1'10 saw 118 M&As in Chinese market, up 51.3% quarter-on-quarter or 37.2% year-on-year, among which 97 ones disclosed a collective value of US $3.96B.

Chart 1 Quarter-on-quarter Comparison of M&As in Chinese Market between Q1'09 - Q1'10



Source: ZeroIPO Research Center

Table 1 Type of Chinese Enterprises' M&As in Q1'10

Type	No. of M&As	% of Total	No. of M&As with Disclosed Value	Total M&A Value (US$M)	% of Total
Domestic M&A	93	78.8%	77	2,198.82	55.5%
Outbound M&A	16	13.6%	15	1,371.04	34.6%
Inbound M&A	9	7.6%	5	393.80	9.9%
Total	**118**	**100.0%**	**97**	**3,963.66**	**100.0%**

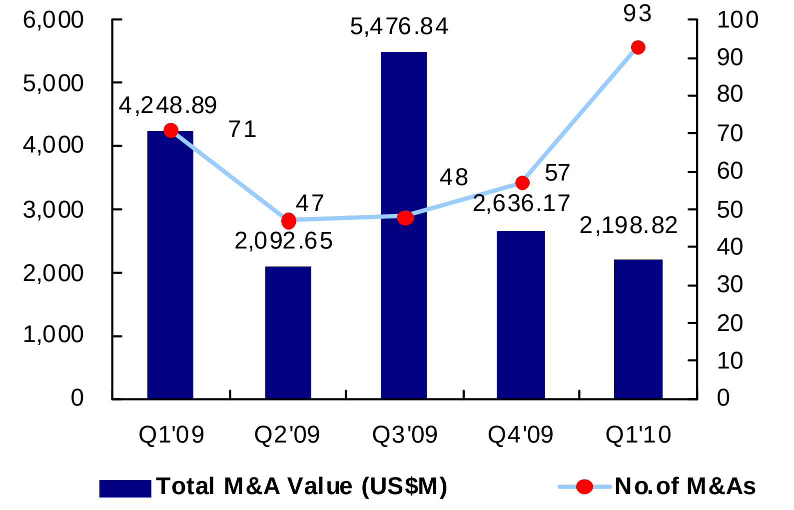
Source: ZeroIPO Research Center

The several characteristics of Chinese M&A market in Q1'10 the report highlights are as follows:

Outbound M&As Continue Surging; Cross-border M&As with A 271.6% Upsurge in Aggregate Value

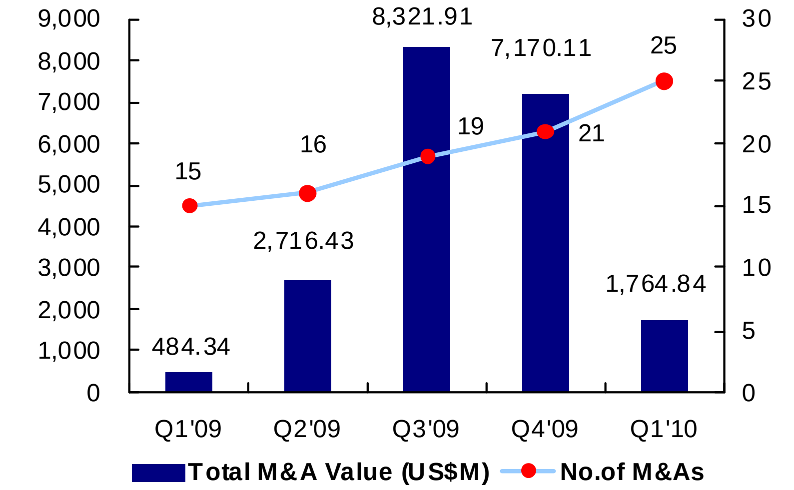
Among the 188 deals occurring in Q1'10 in Chinese market, 93 were domestic ones, comprising 78.8% of the total, among which 77 disclosed a combined value up to US $2.20B, 55.5% of the total value in the quarter. Compared with those in same period of last year, the number of M&As rose by 31.0%, while the value involved declined a bit for the small sizes of inbound M&As. In Q1'10, the number of cross-border M&As persisted in climbing to 25, up 66.6% year-on-year, among which 20 ones were with a total disclosed value of US $1.77B, soared by 271.6% from US $475.00M in a year earlier. In addition, outbound M&As continued its boom with

Chart 2 Quarter-on-quarter Comparison of Chinese Enterprises' Domestic M&As between Q1'09 - Q1'10



Source: ZeroIPO Research Center

Chart 3 Quarter-on-quarter Comparison of Chinese Enterprises' Cross-border M&As between Q1'09 - Q1'10



Source: ZeroIPO Research Center

Table 2 Industry Breakdown of M&As in Chinese Market in Q1'10 (By Target)

Industry	No. of M&As	% of Total	No. of M&As with Disclosed Value	Total M&A Value (US$M)	% of Total
Bio/Healthcare	13	11.0%	12	86.15	2.2%
Energy and Mineral	11	9.3%	10	1,186.06	29.9%
Real Estate	10	8.5%	10	386.77	9.8%
Internet	9	7.6%	3	50.15	1.3%
Others	9	7.6%	8	398.61	10.1%
IT	8	6.8%	5	40.59	1.0%
Financial Services	7	5.9%	6	504.78	12.7%
Electronic & Opto-electronics Equipment	7	5.9%	7	106.83	2.7%
Telecommunication & Value-added Services	6	5.1%	4	230.83	5.8%
Construction/Engineering	6	5.1%	6	122.65	3.1%
Chemicals Materials & Processing	6	5.1%	5	20.53	0.5%
Clean-tech	5	4.2%	5	305.87	7.7%
Machinery Manufacturing	5	4.2%	5	215.7	5.4%
Chain Retail	4	3.4%	3	81.71	2.1%
Food & Drinks	4	3.4%	2	38.77	1.0%
Amusement Media	3	2.5%	3	167.46	4.2%
Textile & Clothing	2	1.7%	2	7.02	0.2%
Automobiles	2	1.7%	0	0	0.0%
Broadcasting (DTV)	1	0.8%	1	13.18	0.3%
Total	**118**	**100.0%**	**97**	**3,963.66**	**100.0%**

Source: ZeroIPO Research Center

16 deals out of the 25 cross-border M&As in Q1'10, accounting for 64.0% of the total. Among which, 15 deals disclosed their M&A value, namely US $1.37B, representing 77.7% of the total. In terms of the industry breakdown of outbound M&As, energy and mineral sector was still in favor, reporting five deals, all of which disclosed their M&A value, i.e. US $798.00M in total, and combined to top other sectors in the number and value of M&As in Q1'10.

Bio/Healthcare M&As More Active; Energy and Mineral Sector Remains as Investors' Favorites

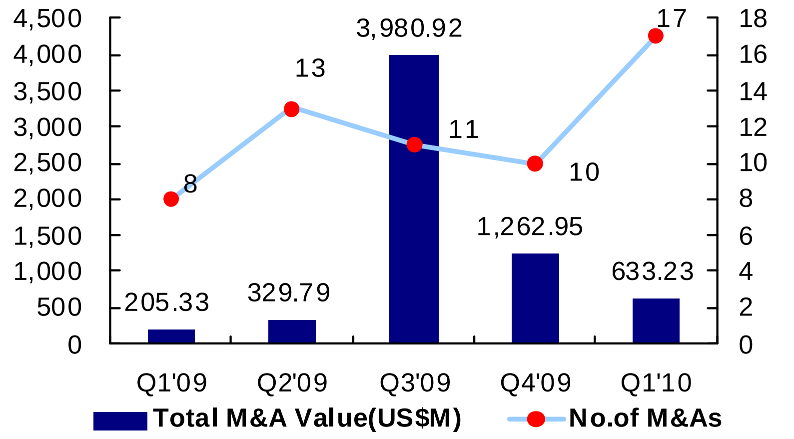
Under the study of Zero2IPO Research Center, there were 118 M&As occurring in Chinese market in Q1'10, 97 of which reported a disclosed value up to US $3.96B in total. Among the M&As in the quarter, 13 ones took place in Bio/Healthcare sector, among which 12 disclosed a combined value of US

mong them, Wuhan Iron & Steel's acquisition of a 21.5% equity from Brazil-based MMX for US $400.00M was the biggest deal in Q1'10, lifting up the size of M&As in energy and mineral sector as a whole. On the contrary, M&As were inactive in such sectors as broadcasting (DTV), textile and clothing and automobiles, merely reporting one or two deals each.

VC/PE-related M&As upsurge; Internet and Bio/Healthcare Claim More M&As

There were 17 M&As relating to VC/PE-backed enterprises in Q1'10, up 112.5% over Q1'09 or 70.0% over Q4'09. Among them, 14 disclosed their M&A value totaling US $633.00M, a year-on-year increase of 208.4%. In terms of industry breakdown, Internet and Bio/Healthcare sounded more attractive to

Chart 4 Quarter-on-quarter Comparison of VC/PE-relate M&As in Chinese Market between Q1'09 - Q1'10



Source: ZeroIPO Research Center

Table 3 Industry Breakdown of VC/PE-related Enterprises' M&As in Q1'10 (By Target)

Industry	No. of M&As	No. of M&As with Disclosed Value	Total M&A Value (US$M)	Average M&A Value (US$M)
Internet	4	2	41	20.50
Bio/Healthcare	4	4	11.3	2.83
Telecommunication & Value-added Services	2	1	200	200.00
Amusement Media	2	2	166.96	83.48
Clean-tech	1	1	125.04	125.04
Financial Services	1	1	73.07	73.07
Electronic & Opto-electronics				