1. PUBLISHING INDUSTRY – INFLECTION POINT

- vendors adapting with speed to technology driven industry changes
- partnering publishers transforming into content providers – changing business models
- progressively outsourcing larger part of content transformation work?
- faster author-to-reader turnaround track record/ end-to-end positioning

Must be a good place to be in where MPS finds itself today?

You have mentioned most of the dynamics. Especially on the academic/educational side lots of new services are coming into play. Also volumes have moved up substantially.

Many of the major customers are Million $ plus businesses. Elsevier 2014 revenues topped $5 Bn. Kindly comment.

Yes many of the big publishers have Billion $ Annual Sales. If we see it from their perspective, there is not much industry growth. Many of them are also struggling financially. There have been ownership changes and restructuring. As a CFO in such a business one of your priorities would be to reduce costs/increase outsourcing. Faced with stagnant sales or low growth, the annual outsourcing budgets however do not see much of a change. The attempt is to get more done from the same amounts every year. So there is pricing pressure. MPS attempt is to position ourselves as a Core Vendor of choice, and barter the pricing pressure with higher volumes.

Kindly explain the fast-changing dynamics for a player like MPS aspiring to be a CORE VENDOR of choice.

The way we have grown to see this dynamic landscape is best exemplified by the paradigm shift advocated from “Who moved my Cheese” to “Move your own Cheese”. In other words, to control your cheese, you need to be able to define your future, not just respond to whatever other people impose on you. We keep learning and adapting.
So how does MPS aspire to emerge as a Core Vendor of Choice? What are the key USPs needed?

Apart from the inherent technological and domain expertise needed to be a player in this market, the two key USPs needed to emerge as a Core Vendor of choice are 1) Client Confidence and 2) Client Relationships.

In the context of the very interesting “Move your own Cheese” paradigm that MPS aspires to live by, please elucidate in the context of a Publisher’s business.

So let’s look at a Publishers business. They have to source Content, Edit, Proof, and Design. Then they have to Market. An efficient publishing business today needs to have at its core an end-to-end Content Platform. The whole job is about faster turnarounds for a complete end-to-end Author-to-Reader service.

Customers of scientific and technical journals are also diversifying. If earlier they were university professors, today a large segment are students globally who also need to access and consume such content digitally. To stay relevant and address emerging customer segments and changing consumption patterns, publishers need to make major investments into end-to-end content platforms.

So where do you see yourself placed in walking this paradigm, successfully?

This is still early days for us in this business. We have to look into our business as a Platform – our processes, technology components, and workflows - and see how best to marry with Publisher platforms.

If we take an established publishing platform like Elsevier, is it right to say that MPS business is all about evolving into a complete Back-End pre-processing platform where the finished product (from author manuscript to reader consumable) is seamlessly made available for integration into the Front-End or Elsevier’s Publishing platform.
With many of our large academic publisher customers, we are integrated deeply into their processes – so today much of the work is getting done on our platform from the time author submits his manuscript to the time the finished product is made available.

**Is it also fair to say that your major competitors would have also evolved to similar levels of sophistication in terms of fully integrated processes/back-end platforms?**

Yes. Competitors have also been investing into building Platforms. Each has some advantages/disadvantages.

**Kindly give us a flavour of the excitement in terms of numbers – have things changed drastically in the last 2 years?**

As you are aware 2006-2011 things were not going well. The rich heritage and technical expertise available from providing back-end services for Macmillan platform were all there. Having continued to do business in a certain way for a long time, the nimbleness was perhaps missing. Under the new Management we have been able to quickly adapt and bring in efficiencies.

Having said that, we are extremely fortunate that we can lay claim to the rich heritage of Macmillan in India. In a way this whole industry niche started with Macmillan India doing the Back-end processing for its parent. There is a huge amount of valuable IP (Intellectual property) in the company and its people. Some of the leading players in this niche from India have folks who have had their roots in Macmillan India.

We have been able to address opportunities available before us where Customer was outsourcing this component but not that. Today we have reached a position of strength where we are among the 5-6-7 key players addressing the core segments.

In the last few months we have also started focusing and investing into Marketing for increasing MPS visibility and communicating our strengths better. We are having lots of customer discussions now, though things may take time to materialise.
What are the kind of outsourcing budgets that Large Publishers have started deploying? How have top 4-5 publisher outsourcing budgets grown over the last 2-3 years?

One of the large academic publishers has a $50 Million outsourcing annual budget. MPS revenues from one large academic publisher doubled in the last year, whereas from another it grew by 40%. Last year another large publisher started work with 4 new Core Vendors and total outlay (for outsourced work) would have been about $40 Million. But hardly much has happened since then, and business volume to a Vendor like MPS was still at around $1 Million. So it takes quite a bit of time for things to pan out and scale up in this industry. But vendor rationalization is the key thing that is happening in the industry for sure, and should work in favour of players like MPS who are well-positioned, eventually.

Has the Runway also become longer (in last few years)?

Certainly. Dynamic changes in the Publishing domain have meant more investment requirement in technology platforms. Earlier there were gaps in MPS Technology Portfolio, we were at risk of losing core vendor status with some customers. Now that the portfolio is more complete, we are on a much stronger footing and can tap more customers, offer more breadth of services. MPS successful execution track record in last 3 years has enhanced our profile and positioning with major customers as a dependable and a credible Core Vendor of choice.

2. STRONGER MPS POSITIONING – ACQUISITIONS HAVE ADDED TEETH

- ELEMENT – Jul 2013 – School Education Services market
- EPS – content creation services - Higher Education services market
- TSI EVOLVE – Reading segment of school education market

How have the 3 acquisitions played out for you so far? Negative surprises? Also Apart from making for a more complete technology/services portfolio, how has been the performance on the ground post integration?
All 3 are now fully integrated and started contributing revenues. We have had our fair share of issues (smiles). One never knows how deep the waters run till you get into the water, but nothing that's been a show-stopper.

We have had very pleasant surprises too. We could get selected as a Core Vendor for a customer of one of the acquisitions, where they were only a minor vendor (MPS had no presence). But such cases are one-off, the customer was keen on shortlisting to a few core vendors only, and we could make the grade. In another case, we could emerge as a core vendor on MPS own strengths.

**Kindly explain your Acquisition Strategy – “We seek to acquire only those companies where the skill sets are complementary to ours, where the acquisition enjoys the approval of longstanding customers”?**

Yes, Customer blessing is key. For example Element, our first acquisition, was one of the Top 3 Vendors for a leading publisher, who asked us to look at the opportunity – Element had a full-service editorial, design and production services in pre-K and K-12 markets, but was in financial trouble. Same was the case with EPS (Management was slow in technology adoption curve and high cost-structures) where again the Customer nudged us to take a closer look at the Opportunity.

**Is it correct to say that the Customer will refer a Vendor (MPS) such opportunities, only when customer confidence is high?**

That’s right. Today MPS is seen to be a financially stable and sustainable technology vendor with good track record over last 2-3 years. We have been able to execute and win the confidence of major customers. Most customers are looking to reduce the number of myriad outsourced vendors by focusing on a few Core Vendors.

So when the customer finds prolonged issues with any non-core vendors (technology upgrades, cost structures, and/or financial stability) they naturally want somebody with a stable track record to step in, if possible.

**Does that mean for acquisitions planned in the near to medium term, one can similarly expect customer blessings?**
(Smiles). One can say that’s the only way it works. For sustained business penetration, it’s critical to align with Customer’s Road-Maps.

**Will it be a fair comment that with last 3 acquisitions, gaps in MPS technology portfolio are more or less filled? So the focus for new acquisitions will per se be more on gaining new customer relationships/new markets**

In the Educational area, MPS now has a much richer content and services offering for its customers than earlier. Focus is on both. A more complete end-to-end technology/services portfolio is needed to penetrate deeper into existing customers as well as gain new customers or services market.

**What is the visibility on new acquisitions planned?**

There are several prospects we have been looking at that are up for sale. We are in discussions with a few. While there are good fits, we are not comfortable on the Valuations front (prospects have lofty expectations). But we are not in any hurry. Want to take it up like a project where we have a 3-4 year payback, rather than pay up and spoil things just because we have money. Or get into a game of trading our high PE multiple and buying businesses that deserve lower PE multiples. So we are extremely careful, we want to make sure we do not overpay, do not violate our financial discipline, and acquisitions prove margin accretive over medium to long term.

**You have been on record for a 2-3 year timeframe for doubling of turnover using both organic and inorganic routes. Sooner than later the fund infusion has to be put to use?**

Yes. Good thing is we have the Cash. We are not in a hurry to burn it. We can take time to deliberate on a good fit on all counts as well as valuations. Discussions are on.

**Acquisitions led growth strategies are fraught with risks too. What if the next one proves costly and sets MPS back?**

Yes there’s always a possibility of things going wrong. We have to be extra careful in our diligence.
3. MPS COMPETITIVE POSITIONING/INDUSTRY MAPPING

- SPI Global – 1000 Cr/ 20% Margin; Aptara – 600 Cr/ 20%; Innodata – 400 Cr/ 11%
- Lumina – 200 Cr; SPS – 200 Cr / 52%; Newgen / 40%

**Kindly educate us on the different players in the industry, their service offerings/ differentiators vis-à-vis MPS.**

Yes, as mentioned Innodata, Aptara, SPI they are the bigger players. iEnergizer which acquired Aptara has debts on book of about 800 Cr.

Lot of players in this space came in but haven't scaled up. Not many have invested in technology. MPS Technology is far more evolved and at an exciting point today. But as mentioned before, getting market traction is a long drawn out process.

**Is it right to say MPS is the only player who is singularly focused on the Academic/ Educational Publishing Industry?**

No, SPS is the bigger more focused player here. They do 200 Cr business only from Academic Books & Journals, whereas MPS share in this segment is still only 120 Cr. They started as a captive for one of the large publishers. Volumes are huge. They do 50% of this publishers outsourced business. They also do huge work for other large publishers. SPS was started by ex- Macmillan India head.

**Huge variance in margins amongst peers. What enables MPS to earn superior margins? SPS and Newgen seem to be playing in a different orbit, altogether?**

The answer may probably lie in process and platform efficiency/reusability. We have also been alerted about superior SPS margins. Let’s wait and see at what levels their margins sustain this year.

**What role or value-add can any India-based player acquisition bring to MPS, apart from quickly ramping up trained work-force?**
Ramping up trained workforce is not an additional driver for us at all. We are able to do that ourselves.

4. TECHNOLOGY INTENSIVE PLATFORM OFFERINGS – SMALL PUBLISHERS ONLY?

- Elsevier – ScienceDirect; Cambridge – Cambridge Journal Online system
- Springer – outsourced to MetaPress; Oxford University Press – outsourced to Highwire
- Atypon Premium

Most of the large publishers seem to have their own publishing and workflow management platforms?

There is high level of customer distinction in customer platforms and processes. Varies customer to customer.

And there are fully-featured services such as HighWire press and Atypon Premium?

Yes Atypon Premium is a bigger platform. Bigger platforms usually have product roadmaps frozen from years ahead. Addressing customer requirements dynamically might become difficult at times because of this.

There are smaller suppliers such as Allen Press, AIP Scitation, Bepress and others.
These are all probably candidates for acquisition down the line.

So where exactly is MPS publishing and Workflow Management System positioned? SAAS (software as a service) offerings including workflow management (MPSTrak), editing and automated composition (MPS DigiCore), and business analytics (MPS Insight).

A leading scientific publisher is deploying the MPS Platform currently. There is lot of IP (Intellectual Property) effort going behind the platform. MPSTrak is being deployed at 6-7 customers. Going forward we want to be able to do this much more seriously for smaller publishers.
5. **VALUE ADDITION/PRODUCT MIX**

Journals - 33% - Volume and Value play; Books - 26% - stiff competition? MPS Technology standalone Sales – 8-10%; Fulfilment Services - 10%

**Kindly educate us on the competitive intensity and Margin profiles of major business segments. Which are the most attractive in terms of growth potential and profitability. What is the direction of value-addition being sought?**

All segments are equally attractive and growing well. Fulfilment Services we are doing for only 1 or 2 clients currently, but we can see big growth ahead.

**How exciting is the MPS Technology Platform Segment (DigiCore /MPSTrak/MPS Insight) for you?**

This business has huge potential in itself and we feel that's the way for the future. We have continued to make investments in the Platform. As mentioned before its being currently deployed for Nature.com. They were looking for something like this, but were unhappy with available options in the market. They are pretty happy with our product.

6. **CORE VENDOR RELATIONSHIPS/MULTI-YEAR ENGAGEMENT MODELS**

- Collaborative ethos
- Strengthening the business of the customer/making them more competitive

**Kindly explain this emerging trend – seems to be mirroring the IT landscape where Customers used to set the agenda first, tell what needs to be done; now it’s the other way around, with TCS like biggies educating/consulting clients on how they should be positioned for the digital future?**

For a technology provider this is like being ready with the likely building blocks. It requires discipline to keep investing on building blocks and staying on top of trends.
There are continuous interaction with clients setting and aligning our road-maps with theirs.

7. **CUSTOMER STICKINESS – DIFFICULT/TIME-CONSUMING to REBUILD**

   - project specific custom processes; project specific custom DTDs
   - project specific custom tools – if no re-usable platform?

**Kindly take us through the reasons why it is very very difficult to rebuild the processes/tools/infrastructure/DTDs from scratch – even say when the customer specifications are available**

It takes time for project domain specific operating knowledge to be replicated – and can take years for a new player. New players do not have/have not invested in processes and personnel with deep domain skills.

But more than technology/entrenched processes, this is a Relationship issue. There is a deeply entrenched technology relationship between customer and vendor that goes back many many years. Customer and Vendor processes and workflows are married to each other.

**Why will someone like an Infosys or TCS not be able to replace MPS in a customer project?**

That is practically impossible. Customers will not entertain new players from scratch. Unless you are already an existing technology vendor to the Customer, you are unable to gain entry to the Customer.

**So threat of new players entering and queering this market is practically non-existent?**

That's right.

8. **CUSTOMER SEGMENTATION/ ENGAGEMENT/ MINING/ PENETRATION**
- Total Revenue Rs. 220 Cr. Total Customer 115.
- Top 5/10 customers contribute 50% / 80% revenue. Rest 100+ customers average contribution – few lakhs – to a Crore

**80% of Revenues come from Top 10 Customers. Almost 60% from Top 5. There is huge concentration - why is this not risky?**

We see high customer concentration as our Strategic Asset, rather than a Risk. We enjoy very strong relationships with these customers and they have a lot of confidence in our abilities. Focusing on a few customers and penetrating deeper is the way to achieve success in our business.

**What about the balance 100+Clients? Business of a few lakhs only?**

We have a lot of clients where business volume is very small. These are standard offerings which runs more on auto pilot, focus is on the major customers.

**What % of Customer outsourcing revenue come to MPS as on date? How much further it can go in coming 3 years? What are the organizational challenges to overcome to achieve this?**

All our large customer engagements are growing. But our share as a percentage of their overall expenditure is low.

**Is it of the order of 10%?**

Much lower share

**9. MPS IN A SWEET GLOBAL SPOT/ BASIS OF OPTIMISM? FROM 2015 AR**

- Technology driven changes enhancing outsourcing market; MPS end-to-end positioning
- Operating headroom to enhance people productivity through automation
- single-shift basis - attractive operating leverage to increase head count without needing to rent or buy additional facility; What we have reported in the last few years was attractive; what we could now deliver may be truly exciting
Some of the quotes from your AR 2015 is singing a very different tune from that of 2014. Kindly take us through this palpable excitement that is STANDING OUT from AR 2015

As mentioned before, we certainly are at a point where more and more opportunities are coming our way. Although we are among the Top 5-7 technology players in this space today, we are already being counted in among the Top 2-3 by major customers – if we go by the project discussions/ interest being shown.

But as mentioned before, getting sustained traction in this space is a long drawn out process. The future that we see ahead is exciting, but it is by no means clear. There are Mountains to climb and it is quite foggy. From time to time the mists lift and we get a clear glimpse as we get nearer – there may well be crevices and precipices along the journey. But we are ready for that.

10. SUSTAINABLE PROFITABLE GROWTH/WHAT CAN GO WRONG?

So far we have been hearing the brighter side of the story. Let’s shift focus – kindly take us through the real challenges before MPS as it scales up to address the significant opportunities before it.

We can be our worst enemy. At the stage that we are in today, opportunities will keep coming our way. But we are the ones who can really mess up – we have to guard against over reaching, getting too ambitious, say paying up too high while acquiring a new business. Our ability to execute - stay on top while adapting nimbly to the fast-changing dynamics of content transformation & technology requirements of major customers – will be crucial for the quality of our sustainable & profitable growth trajectory.

But the reality is that project realisations are declining?

While that’s true for the Journals segment, that still remains our most profitable segment

Clients know your cost structures only too well, why wouldn’t margin pressures become more severe as publishers face an uncertain future?
We like to believe that the profitability of any business depends on the way it is conducted. For e.g. - our earlier venture was a plain BPO which is probably viewed as a commodity business, yet if someone were to pull out the numbers, we enjoyed very good margins (perhaps the highest in the industry, though the size was small). It all depends on the key controllables - for e.g. we believe keeping the wage bill successfully between 40-45% range is key to operating business success.

What we as technology vendors deliver for our customers - being integrated completely with their back-end processes to deliver a finished product for their publishing platform - is huge in their eyes! (compared to doing it themselves/options available).

**TCS / Infosys sites reveal either they are already in this space or are fully ready to target this space. They have wide service offerings, massive technical strength, as also huge "capacity to lose" to enter a lucrative market. How big / important emerging competition like that could be?**

We have covered this before in our discussion. Due to the nature of this business/industry and the legacy/technology issues involved, platform continuance/extension is critical for the customers in our core business segments. There is no way that any new vendor will be entertained for a complete re-engineering or setting up things from scratch. Only those with existing technology pieces and a rich experience/expertise base coupled with current track record of transformational execution are in business.