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Q1 2023 Ebix Inc Earnings Call

EVENT DATE/TIME: MAY 10, 2023 / 3:00PM GMT

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PRESENTATION

Operator

Hello, ladies and gentlemen, and welcome to the Ebix First Quarter 2023 Investor Calls. Today's conference is being recorded. (Operator Instructions)

I would now like to turn the conference over to Darren Joseph, Corporate Vice President. You may begin.

Darren S. Joseph *Ebix, Inc. - Corporate VP of Finance & HR*

Thank you. Welcome, everyone, to Ebix Inc.'s 2023 First Quarter Earnings Conference Call. Joining me to discuss the annual results is Ebix Chairman, President and CEO, Robin Raina; President, Insurance Services, North America, Ash Sawhney; and Ebix CFO, Amit Garg. Following our remarks, we will open up the call for your questions.

Now let me quickly cover the safe harbor. Some of the statements that we make today are forward-looking, including, among others, statements regarding Ebix's future investments, our long-term growth and innovation, the expected performance of our businesses and our use of cash. These statements involve a number of risks and uncertainties that may cause actual results to differ materially from those projected in the forward-looking statement. Please note that these forward-looking statements reflect our opinions only as of the date of this presentation, and we undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements in light of new information or future events. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements made today are contained in our SEC filings, which list a more detailed description of the risk factors that may affect our results.

Our press release announcing the Q1 2023 results was issued this morning. The audio of this investor call is also being webcast live on the web at www.ebix.com/webcast. You can look at Ebix's financials beyond what has been provided in this release on our website, www.ebix.com. The audio and the text transcript of this call will be available also on the Investor homepage of the Ebix website after 4:00 p.m. Eastern Time today.

Let me now discuss the key metrics in our Q1 2023 results. Our worldwide revenues, excluding prepaid gift card revenues, increased 17.6% year-over-year in the first quarter of 2023. Our prepaid card revenues declined by \$61 million year-over-year. In spite of that, Q1 2023 worldwide constant currency revenues declined by \$25 million only. Excluding prepaid cards, the company showed year-over-year growth in 9 of the 11 geographies.

GAAP operating income for Q1 2023 was \$30.5 million, a sequential increase of 2.4% over Q4 2022 operating income of \$29.8 million. Our GAAP operating income, excluding the low-margin prepaid card business, was a healthy 28%.

Our most negatively impacted businesses from COVID-19 within EbixCash Ltd. experienced solid year-over-year growth in the first quarter of 2023 in all COVID-19 affected areas. In total, our travel and foreign exchange combined revenues grew by 64% year-over-year during the first quarter of 2023. BPO revenues in India grew by 22% year-over-year, and e-learning revenues grew by 104% year-over-year. Overall, EbixCash GAAP revenues, excluding the prepaid card business, grew 44% year-over-year. We are encouraged by that trend.

Our insurance worldwide revenues on a constant currency basis declined by 1% year-over-year, mainly because of a record quarter for Ebix Australia in Q1 2022. On a GAAP basis, the insurance revenues declined 3% year-over-year in Q1 2023, primarily on account of the U.S. dollar strengthening considerably as compared to a year back.

Our Risk Compliance Solutions, RCS, revenues grew 13.9% year-over-year due mainly to 39% year-over-year growth in Latin America and 22% growth in our BPO business in India. Exchanges, including the EbixCash and our worldwide insurance exchanges, continue to be Ebix's largest channel, accounting for 94% of Q1 2023 revenues.

Our first quarter revenues and operating income are traditionally lower than the fourth quarter of the preceding year, primarily because of our continuing medical education business in the U.S. having a seasonal increase in the fourth quarter. Q1 2023 was no different in terms of the U.S. revenue drop, with CME revenues decreasing by approximately \$3 million as compared to Q4 2022. Despite that headwind, we still managed to grow our overall operating income sequentially by 2.4% to \$30.5 million as compared to \$29.8 million in Q4 2022. We are very pleased with that.

I will now turn the call over to our Chief Financial Officer, Amit Garg.

Amit Kumar Garg Ebix, Inc. - CFO

Thank you, Darren. We continue to operate in unprecedented times with the weakening of worldwide economy, including the United States. Inflationary pressures are up considerably worldwide. The COVID-19 impact is still there to some degree. The Ukraine war, and of course, resulting high increase in interest rates worldwide, and more specifically, the steep increase in the interest rates in the United States. Also, the manpower crisis in terms of monthly wages going up considerably worldwide, and more specifically in India, has not obviously helped. Add to that the impact of the U.S. dollar strengthening against most currencies and the resulting effect of that on the revenues and income of global company headquartered in the United States. Clearly, these are unprecedented times.

Considering all that, we are quite pleased with our operating results in Q1 2023, with a worldwide GAAP operating income growing by 2.4% to \$30.5 million sequentially in Q1 2023, while growing 1.2% year-over-year as compared to Q1 2022. Non-GAAP operating income for Q1 2023 increased by 3% to \$34.8 million as compared to \$33.8 million in Q1 2022.

The operating margin was 12.6% in Q1 2023, an increase of 90 basis points compared to 11.7% in Q4 2022. Excluding the impact of prepaid gift card business, Q1 2023 operating margins would have been 28.7% compared to 26.3% in Q4 2022.

In Q1 2023, EBITDA plus non-cash stock compensation added to \$36.1 million, which translates to approximately 30.8% of our worldwide revenues, excluding the prepaid cards. That speaks to the strength and the fundamental of our business worldwide.

Our company's diversity of revenues, both by geography and solutions and services and our customer stickiness and the recurring and repeated nature of a large percentage of our revenue mainly is a foundation that allows Ebix to endure seasonality or a pandemic crisis like COVID-19.

Our worldwide revenues, excluding prepaid gift card revenues, increased 17.6% year-over-year in the first quarter of 2023. Global inflationary pressures and recessionary conditions have resulted in the strengthening of the U.S. dollar against most currencies in the past 12 months. For the first quarter of 2023, the negative impact from foreign exchange movement reduced reported revenues by \$18.5 million.

Darren already discussed the revenue performance in detail, so let me talk about other financial metrics. Our cost of services associated with customer support, consulting, implementation and training services decreased \$54.4 million, or 26%, to \$156.5 million in the first quarter of 2023 as compared to \$210.8 million in the first quarter of 2022. The decrease in the company's cost of services provided as a percentage of total revenue is primarily due to the revenue mix changes year-over-year. And the cost decrease is associated with a decrease in prepaid gift card revenues that declined by approximately 32% year-on-year in the first quarter ended 31st March 2023, and carried lower gross margin relative to other solutions and services offered by the company. Robin will talk about our ongoing and future strategy with respect to the prepaid card business during his talk.

Our general and administration expenses increased \$10.6 million, or 39%, to \$37.5 million in the first quarter of 2023 as compared to \$26.9 million in the first quarter of 2022. The year-over-year increase is primarily due to the increased legal and professional costs related to the debt refinancing and increased expenses to support the Indian IPO.

Our interest expenses in the first quarter 2023 increased 117% to \$22.3 million as compared to \$10.3 million in the first quarter of 2022. The company's interest rate increased by approximately 6.5% year-on-year. The increased interest rate environment, coupled with the increased amortization of deferred financing costs in the first quarter of 2023 versus the comparable prior year quarter resulted in increased interest expenses year-over-year of over \$12 million.

During Q1 2023, we are deferring major cash uses among other cash. \$17.5 million of cash interest paid, \$3.4 million of income related taxes paid globally, \$17.5 million based for principal payments, \$2.6 million was used for capital expenditures and \$0.9 million was used for software development. We funded these initiatives from our existing cash plus operating cash flow generated during the year. Despite these substantial payments adding \$41.9 million just on these items during the quarter, the company had strong liquidity on hand with cash, cash equivalents, short-term investments and restricted cash of \$108.9 million as of 31st March 2023.

Our total debt on March 23 -- 31, 2023, was \$621.7 million, a reduction of \$22.1 million from the total debt of \$643.8 million as on December 2022 and a reduction of \$80.8 million from total debt of \$702.5 million as of 31st March 2021. Over the last few years, we have continued to pay our debt down using our operating cash flows. We are committed to the aspirational goal of a zero debt company in this year itself. Robin will provide more insights into that aspirational goal during his talk.

Ebix continues to improve its financial results despite the currency headwinds and a rising interest rate environment. Reaching pre-COVID-19 operating level in the negatively impacted business is global -- is a goal we are continuing to move towards. We continue to believe in the incredible value proposition that Ebix can provide to a stakeholder over the long term. Finally, Ebix Form 10-Q will be filed later today.

I would like to now turn the call over to President of our North American Insurance business, Ash Sawhney, for his remarks on our first quarter 2023 operation. Thank you. Over to you, Ash.

Ash Sawhney Ebix, Inc. - President of Insurance Solutions - North America

Thank you, Amit and Darren. I will now talk about the Q1 2023 results in North America.

The first quarter results traditionally are adversely affected sequentially by the cyclical spike in the CME business in the fourth quarter of the preceding year as physicians tend to get their certifications towards the end of the year. This year was no different with the medical certification revenues declining by \$3 million sequentially in Q1 2023 as compared to Q4 of 2022. Despite this decrease of \$3 million in medical certification revenues, our overall sequential revenue decrease was only \$2.5 million in North America, offset by \$0.5 million growth in other North American businesses.

Excluding the medical certification business, North America was up 2% sequentially in Q1 2023 as compared to Q4 2022. Excluding the medical certification business, our insurance exchange business was up 2% sequentially compared to Q4 of 2022. On a year-over-year basis, the North America business was essentially flat, excluding the medical certification business, while the insurance exchange business was up 2% in Q1 2023 as compared to Q1 2022.

All the core North American insurance segments grew sequentially compared to Q4 of 2022. The life and annuities unit, which is the largest of the insurance business segments, was up 2% compared to Q4 of 2022 and 4% compared to Q1 of last year. The annuities business was up 16% compared to the same quarter last year.

Continuing from the prior quarters, we saw strong volumes in Q1 of 2023. Number of transactions were up 33% compared to the same quarter last year, and the premium processed was up 42%. At the current pace, we could easily exceed \$100 billion in premium processed through the platform by the end of the current year. In March, we processed over \$10 billion in monthly premium, the highest

monthly volume ever on the platform.

We have several in-flight implementations, which will start to contribute towards revenue in future quarters. The pipeline is healthy and includes carriers and distributors that will be onboarded under the accelerated go-to-market program, inclusive of several consulting services.

The life insurance business was up 3% sequentially in Q1 2023 compared to Q4 of 2022. All the underlying businesses, including CRM, illustration, order entry and the underwriting division showed sequential growth. Our footprint in the life segment of the market continues to expand. We are presently running more than 30 million illustrations on the platform, supporting over 40 different carriers, the highest we have ever seen. Across all the products, we now support over 100 carrier relationships and several thousand distributor relationships. We have exceeded \$50 billion of processed premium through our various systems. We are excited about the momentum we have in the life segment.

The health exchange business, excluding the medical certification business, was up 3% compared to Q4 of 2022. Compared to the same quarter last year, the health business was down 6%, mainly due to the drop in health content business and the decline in our legacy benefits enrollment platform. The functionalities of this enrollment platform are being embellished into a more modern health e-commerce exchange called Ebix Enterprise. Going forward, we expect the decline in legacy enrollment platform will be offset by growth in Ebix Enterprise. We are working towards getting the world's largest broker, Aon, live on the platform later this quarter. We expect an uptick in subscription revenue once we achieve that milestone.

The medical certification business was down by \$3 million in Q1 2023 compared to the same quarter last year.

In Q1 of last year, we had a sizable inclusion of deferred revenue from 2021 on account of COVID-related delays in shipment of certain products. We expect Q2 to be higher in revenue compared to Q1, and the remainder of the year will follow the cyclical increase that we see in prior years.

The P&C business in aggregate was flat in Q1 of 2023 compared to the same quarter last year and up 5% sequentially compared to [Q4] (corrected by the company after the call) of last year. The growth is coming from the division that manages the workers' comp exchange and the risk management solution. The group, while flat compared to Q1 last year, was up 15% sequentially compared to the last quarter, and we added 4 new clients during the Q4 -- Q1 of 2023.

There are several initiatives that are in various stages of go-to-market, which we believe will contribute towards accelerated growth. Several of these initiatives were announced and showcased at the Ebix Expo in Orlando earlier in March. The most significant initiative on the horizon is the new Ebix life and annuity exchange called Super Highway. The Super Highway is a digital platform that seamlessly connects all the Ebix solutions to provide a uniform and rich user experience to the distributors to research, quote, illustrate and sell life and annuity products. The platform will serve as a gateway to industry data sources and partner solutions to provide a one-stop solution. The Super Highway will be cloud-based and will utilize data-enabled AI tools to provide an unparalleled user experience. Our goal is to launch live products on the Super Highway before the end of the year, followed by annuity products in early 2024.

We are rolling out several analytics tools as add-on modules to our exchanges. Reams of data flows through our various exchanges that is being analyzed to provide our carriers and distributors valuable insights into buyer behavior and product benchmarking. These analytic tools are being developed in collaboration with our customers. We have already secured beta clients. And we expect over the next 18 to 24 months, we will have most of our exchange clients leveraging our analytics tools.

We believe the high demand and volume increase in annuity products will stretch the processing capacity of our carrier clients. We have not witnessed such amazing growth in volume in the recent past. Carriers will need to automate their back-office operations to process this high volume. Ebix announced an annuities case management solution designed for carriers. The solution automates all the internal processing functions, including suitability, compliance management and processing of 1035 exchange policies. The case management platform is being implemented and will be in production in the coming months, at which time we will make it available to the industry at large.

As an add-on to the order entry and case management solutions, which address the front-end selling process, we are also rolling out a post-issue administrative platform for annuities called AMP. AMP automates all post-issue changes to the policy, including both financial and non-financial transactions. The solution is now in production, and we expect this to be a major area of focus for carriers and distributors over the next few years.

We are enhancing our new business and underwriting platform with a more modern architecture that is API and micro services driven. This will allow the platform to coexist in a heterogeneous environment, enabling us to effectively modernize our platform. The new low-code architecture will enable us to address the mid-tier market in a much more cost-effective manner, thereby expanding the universe of firms that we can target with a competitive and differentiated solution. All these initiatives will provide incremental revenue streams. We expect these will enable us to enhance our growth trajectory towards high-single digits in aggregate and in the low-teens for the life and annuity division. This growth can be further augmented with inorganic growth through strategic acquisitions.

I want to thank the teams at Ebix that support some of the largest industry exchanges in life, annuity, health and P&C markets. I will now turn this over to Robin for his comments.

Robin Raina *Ebix, Inc. - Chairman, CEO & President*

Good morning, everyone. I believe that Darren, Amit and Ash have covered the quarter analysis in quite a bit of detail. Thus, I will restrict my talk to some numerical highlights that appeal to me, the IPO, and of course the debt.

For me, the following stood out in the first quarter of 2023. One, worldwide revenues, excluding prepaid cards, grew 17.6% year-over-year. Two, EbixCash revenues, excluding prepaid cards, grew 32% year-over-year. Three, RCS revenues grew 13.9% year-over-year. Four, revenues, excluding prepaid cards, worldwide grew in 9 of the 11 geographies. Five, insurance exchange revenues, excluding the seasonal CME business, grew 2% sequentially. Six, GAAP operating income of \$30.5 million, a sequential increase of 2.4% over Q4 2022 operating income of \$29.8 million and a 1.2% year-over-year increase. Seven, our GAAP operating income, excluding the low-margin prepaid cards business, was a healthy 28%, which is quite close to the company's operating income goal of 30% or above. Eight, EBITDA plus non-cash stock compensation added to \$36.1 million, which translates to approximately 30.8% of our worldwide revenues, excluding prepaid cards. I am pleased with the Q1 2023 operating results and believe that we are underway to get to the stated goal of 30% GAAP operating income.

Our EbixCash business continues to perform well as exemplified by the 32% year-over-year growth in Q1 2023 revenues, excluding prepaid cards. I'm obviously pleased with that. In recent times, we have received a number of undertakings that could help us add substantial new revenue lines to EbixCash. For example, we recently signed a cash management undertaking to collect power bills from consumers in a northern state of India. The monthly payment to be collected aggregates to 12 million power bills a month across 3 circles in the state. We will be handling this cash management project using some of our digital payment solution products, besides utilizing the last mile distribution network that we already have. We get paid on a per transaction or a per bill basis, like on our insurance exchanges. This project will go live over the next few quarters.

We are presently deploying a ticketing ITMS system for thousands of buses in the state of Maharashtra wherein approximately 1 billion tickets are sold to consumers every year in the state. We have retained the branding rights on the back of each of these 1 billion tickets, providing us an avenue to market that to any other company for branding their services or for promoting the EbixCash brand at our discretion. Again, we are getting paid on a per transaction or a per ticket basis, like on our insurance exchanges. This project will go live over the next 1 quarter.

We believe that we have a great asset in terms of EbixCash, and thus, are looking forward to taking it public. As you are aware, EbixCash DRHP recently received approval from Securities and Exchange Board of India. Our investment bankers are focused now on launching the IPO over the next few months, leading to possible listing in third quarter of 2023. Since rules regarding disclosures are tight, I can't talk much about the IPO listing, except to tell you that work is ongoing with a plan to possibly lift in the third quarter of 2023.

We are fully aware of that non-operating costs, like the cost of debt and the advisory costs associated with it, continue to hamper our

overall financial results. We are aware that if we were a debt free company, our operating results would translate into strong net income, and resultantly, our shareholders would possibly discover a substantially better return from their investments. Over my 2-decade journey, or my 2-plus journey with Ebix, we have twice been a debt free company. And we did that while repurchasing 33% of our diluted share count back from the public markets. Let me tell you that Ebix is today again fully committed to the aspirational idea of a debt free company in 2023 itself. We have various alternate ways to possibly get there, including the EbixCash IPO, a product asset carve-out or/and a few other alternatives. We have moved forward on all these alternate paths with the stated goal of not having a debt overhang beyond 2023. We will report back to you on this topic once we have something to report.

Let me assure you that as a guardian of your investment, I am committed to ensuring that Ebix shareholders are not taken for granted in any manner. Your interests are paramount to me and the independent board, even beyond my own personal interest, though I see everyone winning if the shareholders are winning. Over the last 1 year especially, I have been quoted with opportunities that candidly could be exciting for me. However, I have a simple rule that I like to follow, and it is that if Ebix shareholder is not winning strongly, and I am winning, then it can't be an idea worth pursuing.

I, along with the independent Ebix Board, is committed to maximizing value for each one of you, and thus, see the IPO or/and the strategic asset carve-out initiative as possible ways to get to a debt free position, and in the process, securing substantially increased value for our shareholders. Rest assured that nothing will be done without seeking your expressed approval in case we pursue a carve-out for a value that fully repays the debt. We believe that we can succeed on either front, and thus, will choose whatever is expeditious and in the interest of all of you. We are clearly committed to the aspiration of paying 100% of our debt expeditiously this year itself.

Lastly, let me add a quote from Anthon St. Maarten, and "There may come a time when you believe you have reached the end of the road in the darkest nigh. That will be the moment when a dazzling new day dance on your horizon". Over the years, I have been through a lot with Ebix and have been through many dark tunnels and then the dazzling new dawn. I have seen the stock move from \$0.31 to \$30, then to \$9 and then to \$85. I have been through crests and troughs over the years, including a period where shareholder return was 27,600%. Has also some low ebbs. However, what has remained consistent throughout these crests and troughs have been our operating results and my faith in the fact that fundamentals always ultimately prevail. I have also known that the light at the end of this and every other tunnel seems to be the guiding light to the next tunnel. Rest assured that we will do everything possible to protect your interest and maximize value for each one of you. I believe that the best is ahead of us.

With that, I will open the call for you to ask questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Jeff Van Rhee with Craig-Hallum.

Jeffrey Lee Van Rhee Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst

Robin, you touched on the EbixCash business and the aspiration to return to the pre-COVID levels as soon as possible. Can you just flesh that out a little deeper? If you look at that business broken down, travel, FX, remittance and sort of general tech or underlying tech, if you look at each of those groups, like how do you think about the path to pre-COVID? Where are we now? Just I'm trying to get a little better sense of the subsegment expectations around growth for EbixCash.

Robin Raina Ebix, Inc. - Chairman, CEO & President

Well, in summary terms, Jeff, we are primarily around at 65% of pre-COVID levels. So we still have 35% to cover, and then we believe that there should be further growth in the market. And that's where the market is headed right now. For example, if you take areas like travel, travel should be booming now in coming months, especially this is a season time over the next few months for the travel business, especially in the events business. The events business is continuing to increase.

And we also believe that in forex , one of the things that has changed post-COVID for us is that we have emerged as the -- not just the

single largest player, which we already were, but we have emerged as an undisputed leader in the market. And in the process, we kind of have started pioneering new things in forex. And that by itself has opened up a lot of different opportunities for us.

In the technology area, there is still room for improvement for us, meaning in terms of -- look, we've dealt with a lot over the last 12 months in terms of resource crunch. We are getting around that. I think there's a lot of stabilization that has started happening in the Indian market with respect to resource availability. There was a complete, I would say, volatility for almost the last 12 months in terms of resource availability. Wages going up by 70% to 100%, which is absolutely unsustainable, clearly. But a lot has changed. I think things -- or the economic slowdown across the world actually kind of has helped the resource cost at least. So we do expect that those things to normalize.

Also, COVID affected some of the newer deals that were happening in the technology area. So now again, the pipeline is filling up, and so the pipeline should keep coming through. And that's how it really works in the technology field. So there's quite a bit of room for improvement in some of these sectors.

Jeffrey Lee Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Is it -- I mean, is it safe to say you would think travel would be the first of those 4 to get back to pre-COVID and tech would be the last? Is that what I'm hearing in those comments?

Robin Raina *Ebix, Inc. - Chairman, CEO & President*

I think travel and forex would be in tandem, should continue to go up and get to pre-COVID levels. Technology will take a little bit more time. In some areas, we already passed that level, which is, for example, when you look at areas like bus exchange technology, meaning those areas actually post-COVID, the bus market opened up pretty sizably, meaning --. So that part has already opened up. Newer tenders started coming out. And every new large tender that has come out, meaning we stand a pretty good chance of winning it. That's how simple it is, because we're the only game in town with respect to large implementations with respect to bus corporation. So I think that part of our business is continuing to grow.

Where I also see a big opportunity in coming days is our BSE Ebix venture in terms of insurance. Look, we have grown our employee count very sizably in that business area. We are -- we started with 3 and 5 and 10 people, and right now, we are at somewhere around, I believe, 60 people within that business area. So we think that's going to be a pretty hot area as we go -- as we move forward with respect to deploying some of our direct-to-consumer exchanges as also selling insurance through the BSE Ebix platform, through the agent. The technology is live. The integrations are live. We have a very senior gentleman, Sachin, who came in from EY, who's the Managing Director today, running the BSE Ebix venture. My overall goal ultimately is to carve out the BSE Ebix into -- at some point, it can stand on its own feet. We have a lot of different plans for BSE Ebix, and I feel very bullish about that venture.

Jeffrey Lee Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Great. That's helpful. And then understanding you have some limitations, obviously, as with respect to what you can say about the EbixCash IPO. It's clearly a focus here. Can you talk through the process? I mean, I understand you can't predict certain things, maybe timelines and valuations and whatnot. But I think a lot of people particularly in the U.S. are unfamiliar with what that process looks like. Share what you can about what we should think of here.

Robin Raina *Ebix, Inc. - Chairman, CEO & President*

Look, I don't want to go into the specifics of the process, meaning I will talk at a high level with respect to the process, meaning at a high level, look, there's a process of marketing. There is a process of filing RHP, or sometimes a UDRHP, meaning those are -- which is --. And subsequent to that, there is -- when you get into a listing process with a 3- to 5-day listing timeline. I think we are aggressively moving forward in that direction. This also needs an audit to be finished as of 31st March. We are at the fag end of that in terms of getting that done fully.

So all of that, we have -- we are moving forward in virtually every direction. The markets have also improved considerably in India in the last 30 days. There's a little bit of momentum in the markets. Even if you ignore EbixCash for the time being and just look at the overall market, there's a little bit of momentum, so I believe the bankers will want to hurry up as quickly as they can in terms of launching the

issue. So I can't speak more than that. And look, everything that happens, you will -- it will be public and people will be able to see it publicly.

Jeffrey Lee Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

That's helpful.

Robin Raina *Ebix, Inc. - Chairman, CEO & President*

And it will all be expeditious now.

Jeffrey Lee Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Got it. One last then for me, Robin. You talked about wanting to be debt free by the end of 2023 as an aspirational goal. And just to be clear, because you put in some interesting detail here about potential carve-outs as one way to pay down some of that debt. Is the IPO -- is the decision to do carve-outs dependent on the IPO completing or completing at a particular price? Or is the decision to move with carve-outs completely independent of what's going on with the IPO?

Robin Raina *Ebix, Inc. - Chairman, CEO & President*

Look, it's a little bit more complex decision than that, and I'm not at liberty to right now talk through all of that at this minute. But I will tell you that we would be approaching both of these things possibly in parallel. And then we will decide, the independent board will decide what they want to do. The goal is rather simple. We want to pay our lenders back expeditiously, and we want to be debt free. That's how it is. And if that means it's a combination of both, then we will do it. If just one of them will solve that issue, then we will do that. So that's a decision the independent board can -- will make, and I can't speak for them. But I will tell you that we are open to -- we are right now looking at every option to ensure that we are pretty clear on this, that we want to be debt free as soon as possible.

Jeffrey Lee Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner & Senior Research Analyst*

Sounds great.

Robin Raina *Ebix, Inc. - Chairman, CEO & President*

You're absolutely welcome, sir.

Operator

Your next question comes from Chris Sakai with Singular Research.

Joichi Sakai *Singular Research, LLC - Equity Research Analyst*

What were the main drivers of the gross margin increase year-over-year?

Robin Raina *Ebix, Inc. - Chairman, CEO & President*

You want to take that, Amit?

Amit Kumar Garg *Ebix, Inc. - CFO*

Yes. Look, the real growth driver is all the volumes that are flowing to our businesses now post-COVID, and that's helping us to and our ability to sustain our cost. If you look at the cost minus the debt refinancing cost or interest costs, the company has been pretty flat on its cost part and has been very focused in driving revenue. So that's one of the fundamentals.

Joichi Sakai *Singular Research, LLC - Equity Research Analyst*

Okay. And then going into the prepaid gift card revenue, what are the goals and initiatives to help increase this revenue?

Robin Raina *Ebix, Inc. - Chairman, CEO & President*

Look, candidly, we -- I have come to a stage where I don't feel that I'm getting enough -- I'm winning enough brownie points by continuing to grow this prepaid card business. At the end of the day, it's a low-margin business. For the company, also some of the rules are changing with respect to the principal agent relationship in coming days. And there are some new circulars that have come in play from to Bank of India which could convert us into an agent. And as we convert into an agent, a lot of this revenue will anywhere get

recognized on a net basis, a co-branded card. If there's a [unigen] card, which means a card where we serve as the bank, then that revenue would be recognized on a gross basis. So having said that, we right now still see this as a huge way of cross-selling, and we will continue to sell prepaid cards in niche areas. At the same time, we are not really looking -- we are not really seeing this as a way to increase our top line.

What we are right now extremely focused on is our operating margins. And we believe -- I want to get back to the point where I used to say for a decade that I'm at 30% or higher in operating margin. I want to hit back that 30% operating margin level, which means that even if we continue -- we will continue to do a lot of prepaid card business. So it's not like we're giving up on that business. Don't take me wrongly. But a lot of that revenue might be in coming days be expressed on a net basis. And if we do that, you will -- that revenue materially will look very small in terms of if we started -- as we start picking it up on a net basis, it will not have any numerical income impact. But on the margin side, because if you're recognizing it on a net basis, your operating margin's percentage will go up sizably. And so that's candidly where we are headed with respect to that revenue.

And over the last 1 year especially, one thing that I have learned is that we can continue to do that business, and we're extremely happy with that business. At the same time, we are not really winning many brownie points with respect to that. So what we're going to do is we'll continue doing that business as aggressively as we can. At the same time, with the new circulars that have happened, we will probably be recognizing some of that revenue on the co-branded card on a net basis, which will mean the materiality of that revenue will drop with respect to our investor base.

And so I think that's where we are, meaning -- so we will continue to use that. For example, I talked about the cash management project. I will tell you, prepaid card will be a very big part of that solution. When I talk about these bus roadways, like [Westwing Roadways] where we just won a deal where we will be deploying prepaid cards, co-branded prepaid cards with the Westwing Roadways Corporation. That's an amazing opportunity where we make money on a -- but that's actually a very high-margin opportunity for us, that particular one. So we're going to focus on some of these high-margin opportunities. And besides that, continue to do that business, but materiality wise, it may not look like a lot of revenue once we -- if we move the revenue to a net basis post-April because of the new circulars that have come through with respect to agent versus principal relationships.

Joichi Sakai *Singular Research, LLC - Equity Research Analyst*

Okay. Thanks for the answers.

Robin Raina *Ebix, Inc. - Chairman, CEO & President*

Thank you.

Operator

And ladies and gentlemen, that is all the time we have for questions today. This concludes today's conference call. We thank you for your participation. You may now disconnect.

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