Ebix Inc(Q4 2022 Call)

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Corporate Speakers:

- Darren Joseph; Ebix, Inc.; Corporate VP of Finance & HR
- Steven Hamil; Ebix, Inc.; Corporate Executive VP & Global CFO
- Ash Sawhney; Ebix, Inc.; President of Insurance Solutions - North America
- Robin Raina; Ebix, Inc.; Chairman, CEO & President

Participants:

- Jeffrey Van Rhee; Craig-Hallum Capital Group LLC; Research Division, Partner & Senior Research Analyst
- Unidentified Participant; Singular Research; Analyst

PRESENTATION

Operator^ Ladies and gentlemen, good morning. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to the Ebix Inc. Annual Results Investor Conference Call. Today's conference is being recorded. (Operator Instructions) Thank you. And I will now turn the conference over to Darren Joseph, Corporate Vice President. You may begin.

Darren Joseph^ Thank you. Welcome, everyone, to Ebix Inc.'s 2022 Annual Results 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 EVP and CFO, Steve Hamil. Following our remarks, we will open 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 2022 full year and Q4 2022 results was issued today 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.

Now let me discuss the quarter and the full year. This has been a record year in terms of revenue performance for the company, with the company reporting more than $1 billion in annual revenue for the first time. Fiscal year 2022 GAAP revenues increased 6% to $1.05 billion as compared to $994.9 million in fiscal year 2021.

On a constant currency basis, fiscal year 2022 revenues grew to $1.1 billion, an increase of approximately $113 million or 11.3% over 2021 revenues. The increase is primarily due to growth in the EbixCash business as well as our year-over-year growth in the company's core life and annuity exchange platforms, BPO and IT outsourced services originating in India, foreign exchange business, travel business, e-learning and financial technology businesses and growth in revenues in 9 of the company's 11 major geographies.

These increases were offset primarily by a decline in the EbixCash prepaid card business besides declines in revenue within our U.S.-based consulting, employee health and wellness and health exchange businesses, and the negative effect of substantial strengthening of the U.S. dollar on our revenues in the year 2022.

Q4 2022 revenue decreased 4% to $255.2 million compared to $266.8 million in Q4 of 2021. The decrease is primarily due to the negative effect of the substantial strengthening of the U.S. dollar on our revenues in Q4 and 2022 as compared to the previous year.

On a constant currency basis, Q4 2022 revenues increased 5% year-over-year and would have been $23.8 million higher in the quarter, but for foreign exchange rate changes during the quarter. On a constant currency basis, 8 of the 11 major geographies worldwide had year-over-year revenue growth in Q4 2022.

In Q4 2022, insurance exchange revenues worldwide decreased year-over-year by 2%, but grew around 1% on a constant currency basis. While risk compliant solutions revenue increased 14% year-over-year in the fourth quarter of 2022 and EbixCash revenue increased 7% year-over-year in the fourth quarter of 2022.

Including the prepaid gift card revenues, EbixCash revenues increased year-over-year by 30%. Exchanges, including EbixCash and the insurance exchanges worldwide, continue to be Ebix's largest channel, accounting for 92% of our fiscal year 2022 revenues. For the 2022 fiscal year, on a constant currency basis, 9 of the 11 major geographies experienced year-over-year growth in revenues. For the full year 2022 EbixCash GAAP revenues grew 6%, RCS revenues grew 10%, while the insurance exchange revenues were essentially flat on a year-over-year basis.

On a constant currency basis, insurance exchange revenues increased by 2% in 2022 as compared to 2021. On a constant currency basis, RCS revenues for fiscal year 2022 increased by 11% as compared to 2021, while EbixCash's revenues increased 14% year-over-year. On a constant currency basis, fiscal year 2022 worldwide revenues grew 11.3% over 2021 revenues. I will now turn the call over to Steve.

Steven Hamil^ Thanks, Darren. The U.S. dollar strengthened against most currencies during 2022, is pretty much everyone on this call knows. After experiencing the largest quarterly negative impact from foreign exchange movements in the third quarter of 2022, the fourth quarter of '22 actually eclipsed Q3 2022.

For the fourth quarter and fiscal year 2022, the negative impact from foreign exchange movement reduced our reported revenues by $23.8 million and $57.6 million, respectively. Q4 and full year 2022 have been the largest quarterly and year-to-date negative impacts from foreign exchange movements in at least the past 8 fiscal years for Ebix. Darren has already discussed the Q4 and fiscal year revenue figures.

So let me focus a little bit on the numerical drivers of those results. In 2022, the 5.5% revenue growth year-over-year was driven by growth in EbixCash's travel, foreign exchange and outward remittance businesses, which on a combined basis grew 118% year-over-year. The BPO and IT services revenues in India grew 47% in 2022 versus 2021. Our EbixCash e-learning revenue growth was 160% in 2022. And in Latin America, our year-over-year revenue growth was 42%.

These strong growth results were offset in part by the prepaid gift card business in India, which declined 3.5% year-over-year, and I will note, generates little profit for Ebix. And Australia had a revenue decline of 15% in 2022. About half of that was FX related based on changes in currency rates. U.S. revenues for the year decreased less than 1%, while our core life and annuity exchange revenues increased 5% year-over-year. Our consulting health exchange and EHAE revenue declines offset the solid growth in those core life and annuity exchanges.

Our operating income in Q4 2022 was $29.8 million. That's an 8% decrease from Q4 '21 operating income of $32.4 million and 2% lower than Q3 2022 operating income of $30.4 million. Our operating margin of 11.7% in Q4 compares to 11.8% in Q3 2022 and

12.2% in Q4 2021. The decrease year-over-year in our operating income relates primarily to increased personnel costs and rent expense, both primarily in India as well as incremental sales and marketing expenses to continue to build EbixCash brand in India.

Employee-related expenses for salary and benefits increased $4.1 million in Q4 2022 versus Q4 2021, while rent expense increased $3.5 million year-over-year in Q4 2022 as the company continues to reopen international airports and ports of entry locations as the negative impacts from COVID-19 subside.

In India, our sales and marketing expenses increased by over $2.5 million in Q4 2022 as compared to Q4 2021. Excluding the impact of the prepaid gift card business, Q4 2022 operating margin was 26.4%, which compares to 26.3% in the sequential Q3 2022 quarter and 30.9% in Q4 of 2021. For fiscal year 2022, in total, our operating income was $120.3 million versus $119 million in 2021, an increase of 1.1%. But on a constant currency basis, our operating income grew by approximately 5% year-over-year for the full year 2022.

During the year-to-date period 2022, we had the following major cash uses: $33.2 million of cash interest paid, $24 million for income-related taxes paid globally, a combined $21.5 million expended on capital expenditures and software development costs, $23.5 million used to reduce the principal outstanding on our corporate credit facility and $9.3 million for dividend payments. The company had liquidity on hand, which I -- which includes cash, cash equivalents, short-term investments and restricted cash of $136.3 million as of December 31, 2022 versus $125.2 million at 12/30/21.

However, I want to note that at December 31, 2022, on that date, the company had interest and principal repayments under our credit facility due of $22.9 million, (technical difficulty) of which was principal repayment under the term loan. Because of an oversight in our agent bank, this payment was not taken from our account until the first business day of January 2023. Thus, our liquidity on hand at 12/31/22 would have been $113.4 million at the payment that affected as of 12/31 22, and that would compare to the $125.2 million at 12/31/2021.

Our total debt on December 31, 2022 was $647.3 million, a reduction of $13 million from total debt of $660.2 million as of 12/31/21. And as I just mentioned, the debt would have been $7.5 million lower at 12/31/22, had that principal payment been processed timely. The company also paid down $5 million of principal on our debt in February of 2023 as part of the recent extension of our credit facility to mature in May 2023, and we will repay an additional $5 million under that facility on March 31, 2023.

Our current corporate credit facility contains 2 financial covenants: a consolidated net leverage covenant, and a fixed charge coverage covenant. Our consolidated net leverage ratio was approximately 3.6x at 12/31/22 versus 4.2x at 12/31/21. So during

2022, we delevered approximately 0.6 [turns]. Our consolidated net leverage covenant at 12/31/22 was 4.5x. So we were comfortably under that covenant level. Our fixed charge coverage ratio was approximately 1.5x at 12/31/22 versus our covenant level of 1.25x. We were in compliance with our credit facility financial covenants at 12/31/22.

Robin will provide a further update on the efforts that are ongoing to address the impending maturity of the credit facility in May 2023, during his remarks. We are appreciative of the syndicate of banks that are working with us as we continue to pursue the refinancing of our credit facility into a capital structure that is both longer in tenure and with more globally oriented investors. Ebix continues to generate significant adjusted EBITDA despite global economic stress, including inflation in a rising rate environment and lingering impacts from the COVID-19 pandemic.

In 2022, the company generated $142.8 million of EBITDA plus noncash stock comp expense. That's an increase of $3.2 million or 2% over 2021 levels. Reaching pre COVID-19 operating levels in the negatively impacted businesses is a goal we are continuing to move towards. While we saw a rebound in activity in most of these businesses beginning late in 2021, Q4 2022 revenues remain depressed from pre COVID-19 levels.

Q4 2022 revenues from travel, foreign exchange, remittance, financial technologies and e-learning businesses at EbixCash were 27% lower than Q4 2019 revenues, which is the last quarter prior to the beginning of the negative impact from COVID-19 on our company. However, just 1 year ago, these business lines were approximately 53% lower than Q4 2019 revenues.

In 2022, we made significant progress in returning to pre COVID-19 operating levels, and our goal is to return quarterly revenues for these businesses to those pre '19 -- pre COVID-19 levels in late 2023 or early 2024. While we have some important hurdles to clear in the coming months, most notably changing our capital structure to address the corporate credit facility maturity.

We continue to believe that the market positions we have obtained through years of service to our customers will, over the long term, lead to a strong and successful company that will provide value to all of our stakeholders. Our employees work hard every day to deliver for our customers, and I want to thank the over 10,000 folks that really define Ebix to the marketplaces that we serve.

Finally, Ebix's Form 10-K will be filed later today. And I would like to now turn the call over to the President of our North American insurance businesses, Ash Sawhney, for his remarks on our fourth quarter and fiscal year 2022 operations.

Ash Sawhney^ Thank you, Darren and Steve. I will now talk about the Q4 2022 and full year 2022 analysis of the North American business. The Q4 2022 revenue was up 6% compared to Q3 of 2022 for North America. This was enabled by a cyclical increase in our medical certification business and the strong performance of our life and annuity exchanges.

On a full year basis, the 2022 revenue for North America was relatively flat compared to 2021, while our worldwide insurance exchange business grew by around 2% in 2022 as compared to 2021. In 2022, our core insurance exchange, which constitute roughly 70% of our revenue, continued to grow to show steady growth. The life, annuity, property & casualty and health exchanges were up 3.5% in aggregate.

The Q4 revenue in aggregate was down 3% compared to Q4 of 2021, largely on account of softening in the medical certification division. This group was up 50% sequentially in Q4, but down 11% over the same quarter in 2021.

I will now provide a more granular analysis of our various business units. The life and annuity exchanges, including life and annuity order entry, illustration, CRM and underwriting exchanges, were up 4% in Q4 compared to Q3, up 7% in Q4 compared to the same quarter in '21, and up 5% on a full year basis comparing 2022 to 2021. The annuity exchange, which is the largest of all our exchanges, continued its strong run.

Revenues were up 8% in Q4 '22 sequentially, up 23% compared to Q4 of '21, and on a full year basis, the revenue was up 20%. Q4 '22 was the highest revenue quarter on record. '22 -- 2022 was the highest year on record and November 2022 was the highest month on record. Total number of carriers now exceeds 57. Total transactions processed exceeded 580,000 and the total premiums processed to the platform now exceeds 98 billion in 2022. These were all record numbers.

Approximately half of the annuity growth in '22 came from increased business from our existing customers and the other half came from new clients added to the platform over the past 18 months. We added CNO and Ohio National to our client list in Q4. Our life exchanges comprised of life order entry, illustration and CRM, were collectively up 2% in Q4 compared to Q3 and also up 2% for the year.

The platforms collectively processed over $50 billion in premiums. The number of carriers on our various life platforms now exceeds 100, and the number of distributors exceeds 100,000. We ran over 30 million illustrations on the live platform in 2022 and processed over 1.3 million applications. These were all record numbers.

The underwriting division was flat in Q3 compared to -- sorry, in Q4 compared to Q3. On a full year basis, the business was down 5%. We are seeing signs of the division starting to recover from the resource constraints discussed previously. We have added several new capabilities to the platform, which will provide incremental revenue streams in the future. These include a reinsurance module, processing for annuities and processing capabilities for Bermuda and Singapore businesses.

Last year we embarked on an effort to restructure and reposition the Ebix CRM division. More specifically, we increased our focus on the retail market segment, particularly in the mid-tier BGA segment.

We repositioned the platform as a one-stop gateway for advisers to conduct all their business such as managing customer data and communication, submitting new business, getting case status updates, managing commissions and conducting other day-to-day functions. The platform is now tightly integrated with all Ebix tools, including [coating], illustration and order entry.

In addition, the platform provides integration with over 74 third-party systems, enabling a vast ecosystem accessible through a single gateway. We are starting to see a turnaround in this business. Retail sales were up 21% in '22 compared to 2021. Revenue was up 3% and attrition rates were reduced by 50% during the same period.

Our health benefit administration business was down 8% sequentially in Q4 of '22, largely because Q3 left a high watermark in terms of quarterly revenue. The business was flat in Q4 compared to the same quarter the year before, and on a full year basis was up 3.5%, delivering the highest yearly revenue this group has ever recorded.

This business continues to generate steady revenue with over 77 large payer customers servicing over 43,000 employer groups and covering over 9 million lives. We are on track to rebound -- to onboard Aon in Q2 of this year, which will provide an uptick in our subscription revenue.

Our medical certification business, Oakstone, was up 50% sequentially in Q4 compared to Q3 of 2022. This cyclical spike is expected as the division derives approximately 1/3 of its business in Q4. Compared to Q4 '21, the revenue was down 11%.

This decline was partly due to the changing dynamics in the gift card incentives that are bundled with the subscription offers, and partly due to the life cycle decline of the audio content product, which typically gets 60% of the revenue in the first half of a 4-year life cycle. That product happens to be in the second half of its life cycle.

We are working on several initiatives to increase revenue, including targeting products towards younger physicians and also adding new mobile-enabled capabilities. Oakstone remains a strong brand in the continuing Medical Education space with over 50 years of history.

We service two out of every 10 physicians in 30-plus medical and dental specialties. Our content is created in partnership with leading medical institutions such as Harvard Medical, Cleveland Clinic, Brigham and Women's, Dana-Farber, John Hopkins and 20 other such institutions. The consulting business was up 3% in Q4 compared to Q3 and down 2% for the full year.

As was outlined in Q3 of '22, we are now packaging our consulting services for our new and existing exchange customers, packaged under a program called accelerated go-to-market AGM. We now offer strategy, product design, onboarding support, testing and training services to our exchange customers. Most new clients will be availing of this service, including CNO and Ohio National who was signed on in Q4, and we'll be receiving several of these services in the coming quarters.

We also signed new contracts with Equitable, Symetra and RW Baird in Q4. Our P&C business, the smallest of our vertical business units was down roughly 6% in '22 compared to '21. In Q4, we rolled out a new release of the RiskEnvision product, one of the main product lines in this group. We are seeing a healthy pipeline and expect '23 to show growth over 2022.

The Risk Compliance business was down 8% in Q3 -- sorry, in Q4 compared to Q3, which was a strong quarter for us. On a full year basis, the business was up 3%. This business continues to be a steady performer for us, with a 28-year history serving over 600 customers, including 70 of the largest Fortune 500 companies.

Looking forward, we feel optimistic about the path we are on. Several factors contribute to our optimism, which are outlined as follows. The current macroeconomic environment is favorable to several of our core units, such as annuities. The high interest rates are providing a strong tailwind for the industry. This is increasing the number of annuity transactions and also bringing new entrants to the market. Both these are favorable trends for our business. We are seeing an uptick in transactions continuing into the early months of 2023.

More on this when we report our Q1 '23 earnings. The jobs market is continuing to cool off in our industry. Over the past few months, we have seen a marked progress in filling our backlog and have also seen a drop off in attrition rates. We also reorganized our delivery organization and exchange division in 2022.

We were previously organized by product line, which had limitations and redundancies. We have now aligned ourselves with a centralized customer-focused operating organization, including client services, product strategy and development and production support. This structure will be important as we see ourselves selling and servicing comprehensive digital solutions that encompass several of our products.

We are excited about our new sales organization. We fully rebuilt our sales organization in 2022 with the majority of the sales organization having been hired within the last 12 months. These newly hired experts serve as client partners and are viewed by our clients as solutionists for helping them find the right fit for their technology needs.

This setup allows us to better serve our customers and optimizes the penetration of our products within our existing client base. We are already seeing positive results. The number of customers using [3] or more of our products and services has improved by 20% in the past year. The pipeline going into 2023 is healthy.

Ebix has always been at the forefront of product innovation. In line with this legacy, Ebix is launching the Super Highway, its most advanced exchange to support life and annuities processing. This Super Highway is designed to significantly unify and enhance the advisor experience in selling life and annuity products. It is a well-known fact that the selling process across the industry is fairly disjointed, wherein the advisor has to navigate through multiple subsystems across the life cycle of selling a policy.

Super Highway will solve that problem from customer needs analysis, product research, coating, illustration, order submission, policy issuance and post-issue policy maintenance, the advisor will be able to navigate through a unified and streamlined user experience, an experience that will be aided by data-driven artificial intelligence, guided user activity, machine learning and natural language processing. The Super Highway was unveiled at the recent Ebix exposition in Orlando.

We believe the expansion of the annuity sales will also increase the need for post-issue policy servicing. This includes both financial and nonfinancial transactions such as policy changes, withdrawals, fund transfers, dollar cost averaging and asset rebalancing. Ebix has already developed a solution called annuity maintenance platform called AMP. We believe the adoption of AMP will increase considerably as the market for annuities in general continues to expand. Overall, we are excited about the outlook for our North American business.

As some companies brace for an uncertain economic environment, our business in North America will continue to be resilient. This stems from a wide area of products that collectively provide a natural hedge in any economic climate. Our strength is also founded on a very diverse set of customers, which includes hundreds of insurance companies and banks, tens of thousands of advisers, dozens of top medical institutions and several of the top Fortune 500 companies, our pricing model, which is largely recurring in nature, adds to the solidity of our business model.

We are mindful of the important part we play in running some of the largest exchanges in the industry. This is a responsibility we take very seriously. I'm grateful to all the Ebix employees who work hard to make it all happen. I will now pass it along to Robin for his comments.

Robin Raina^ Good morning. This has been a record year for Ebix in terms of revenue, with the company clocking approximately $1.05 billion in GAAP revenues. For me, a few things stand out as regards to annual performance. Constant currency revenues of $1.1 billion with 11.3% year-over-year growth. On a constant currency basis, all three channels of the company showed year-over-year growth. Constant currency insurance exchange revenues increased by 2% in '22 versus '21.

On a constant currency basis, RCS revenues increased by 11% as compared to 2021. On a constant currency basis, EbixCash revenues increased 14% year-over-year. On a constant currency basis, 9 of the 11 major geographies experienced year-over-year growth in revenues.

In 2022, the company generated $142.8 million of EBITDA plus noncash stock compensation expense, an increase of 3.2 million or 2% over '21 levels. I compared the 2022 numbers to 2020 fiscal year numbers to get a perspective on the overall business growth. Between 2020 and 2022, worldwide GAAP revenues have grown up -- have grown by 68%. Between 2020 and 2022, EbixCash GAAP revenues have grown by 112%.

While comparing 2022 fiscal year numbers with '21 fiscal year numbers, the performance of a few international operations, in addition to U.S. and India, was especially noteworthy. Latin America year-over-year grew by 42%. Singapore year-over-year grew by 10%. Indonesia year-over-year grew by 261%. Philippines year-over-year grew by 91%. Middle East year-over-year grew by 30%.

As regards to quarterly Q4 '22 year-over-year performance, a few things to note. On a constant currency basis, Q4 '22 revenues increased 5% year-over-year and would have been $23.8 million higher in the quarter, but for foreign exchange rate changes during the quarter. On a constant currency basis, 8 of the 11 major geographies worldwide had year-over-year revenue growth in Q4 '22. In Q4 '22, insurance exchanges worldwide increased 1% on a constant currency basis.

Risk Compliance Solutions constant currency revenue increased 14% year-over-year in the fourth quarter of '22. EbixCash constant currency revenue increased 7% year-over-year in the fourth quarter of '22. Excluding the prepaid gift card revenues, EbixCash revenues increased year-over-year by 30%.

I'm also pleased with our operating cash flow performance in the quarter with the company reporting $32.5 million of operating cash flow in the fourth quarter of $22 million. We started the year with cash, cash equivalents, short-term investments and restricted cash of $125.2 million as of 31December '21. And as of 31 December '22, we still had net cash of $113.4 million after accounting for the $22.9 million late withdrawal by the bank.

This was after the company cumulatively spent $111.5 million in '22, just on a few key areas, $33.2 million of cash interest paid, $23.5 million used to reduce the principal outstanding on our corporate credit facility, $24 million for income-related taxes paid globally, a combined $21.5 million expended on capital expenditures and software development costs and an additional $9.3 million for dividend payments.

We had $98.7 million of cash, cash equivalents, short-term investments and restricted cash as of 30 September '22, and as of 31 December '22, we still had net cash of $113.4 million. All of that speaks to the cash generation abilities of the company.

At the present minute, I have limited ability to speak on the debt refinancing front as we are governed by tight confidentiality agreements with any and all entities involved. Management continues to work with the company's Board of Directors and outside financial and legal advisors to address the refinancing of its credit facility, which the company in cooperation with syndicate of banks extended to May 2023, in order to give the company time to continue to pursue alternatives that refinance the credit facility.

The company has multiple options that it is exploring to ensure that the credit facility is largely or wholly refinanced as quickly as possible.

Rest assured that we are fully aware that, while our operating income continues to be strong, our net income is getting negatively impacted by the high cost of bank interest and associated legal and advisory fees associated with the refinancing and extension exercise. We also believe that once the EbixCash IPO is carried out successfully, it is expected to reduce our interest costs substantially.

In the meanwhile, we are working with our financial advisors Jefferies on a number of possible options. Our goal remains to seek a structure that is in the best interest of all of our stakeholders. Our business is thriving and healthy worldwide. Our operating metrics are strong and our senior management convinced about the opportunity ahead of us.

In the long term, we are focused on resolving the nonoperating metrics like interest costs and some of the nonrecurring costs that we are presently incurring on advisors, et cetera, associated with the refinancing. We have a plan in place to grow our operating income further and try and reduce extraneous costs, but our first priority is to handle the debt refinancing in the short term and then have a cost structure that ultimately is set for income maximization.

We would like to get to that ultimate plan in 2023 itself and are working towards it. Success isn't always about greatness. It's about consistency. At Ebix, we are firm believers in this quote from [Louis Carl], and we will continue to strive to deliver consistent revenue growth and results that we can be proud of.

After 23 years of consistency, in terms of growth and other operating metrics, Ebix has proven that it is completely committed to achieving greatness on the foundations of consistency. We are thus committed to creating a capital structure that maximizes value for our stockholders.

In closing, as always, I want to thank our customers, our partners and our employees for their continued trust in us and for contributing to an outstanding fiscal 2022. With that, I will now pass the call over to the operator and open it up for questions. Thank you.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We will take our first question from Jeffrey Van Rhee with Craig-Hallum.

Jeffrey Van Rhee^ Robin, with respect to the credit agreement, the -- there's a few lines in there talking about Ebix is to provide a strategic plan on or before March 15. Was that done? And with respect to communication with shareholders, what can shareholders expect to hear as this process evolves?

Robin Raina^ Jeff, first of all, yes, meaning we absolutely will be in time with respect to the 15th deadline, rest shared about it. I didn't get your second question. Can you please repeat that?

Jeffrey Van Rhee^ The first was just whether or not you provided that strategic plan on or before today. And then the other one was, in terms of shareholder communication, what is it that they can expect? I mean, presumably in that communication to the Board creditors, et cetera, you evaluated options from -- all the way from selling parts or all of the business to various credit options to, I would imagine, a very wide range.

But seemingly, you presented that. What does it look like for the next 3, 6, 12 months for shareholders in terms of what they're going to hear and what they're going to know about what's going on?

Robin Raina^ Well, our job is to -- our goal is to be as transparent as possible with our shareholders within the rules. Having said that, we have a next deadline, as you know, of May 23rd that we -- our extension is still May 23rd. So our shareholders are definitely going to hear from us on the path we undertake at that point of time.

I think between now and then, it's extremely difficult for me to give -- to lay out all the possible options, all the different things that we're working on, simply because we -- like I said in my talk, we are governed by confidentiality provisions and it wouldn't be prudent or right for me to be able to speak about it.

Jeffrey Van Rhee^ On the?

Steven Hamil^ Just to be totally clear, that strategic plan was finalized a few days ago and will be delivered to our bank group today. Whether it has been delivered as of 11:41 a.m., I'm not 100% sure. That will be delivered through our advisors to the bank group. So yes, it will be delivered today.

Jeffrey Van Rhee^ The -- And then, with respect to the IPO, I mean, understanding your hands are tied in many ways to comment on this. It's about a year since the filing SEBI appears to be a mess. They've struggled to move things forward at anywhere near the pace they used to kind of across the board.

But clearly, Ebix is an outlier. I realize you're not going to give me exact timing. But any observations about the overall market without talking to your specific instance, that would be relevant for investors watching this process and wondering why SEBI is not moving?

Robin Raina^ I couldn't really comment on why SEBI isn't moving. Look, it's very hard for us to comment. At the same time, we would hope and believe that we should get -- at some point, we're going to get that approval sooner rather than later. Having said that, some of it -- as you know, Indian market -- stock markets have gone through a lot of turmoil in the last 1.5 months, especially. And I would -- it could be that, that has something to do with the delay in terms of -- there's a lot of stuff happening in India, and a lot of IPOs have gotten delayed from an approval perspective from SEBI, right?

Because having said that, we would -- we'd like to believe that we are going to get our approval sooner rather than later. Our bankers, as I said earlier, are fully geared up. All 5 bankers are ready to pounce on it, ready to launch their marketing attempts and so on. So we -- it could happen any time, Jeff, and it's impossible for me to give you -- tell you something until we hear back -- until we hear something from SEBI.

Jeffrey Van Rhee^ Two other questions then. Market share-wise, if I break it up between EbixCash and then the North American business, obviously, COVID has depressed a lot of the EbixCash businesses. But would you say you've gained held or lost share since pre-COVID? And I'd ask the same question separately about the North American business, gain lost or held share?

Robin Raina^ Well, with respect to EbixCash, I can absolutely tell you, we have absolutely gained in market share in almost every market segment that we operate in. The COVID was -- came with all its negativities. It ultimately became an opportunity for us because some of the smaller players just tied by the waist side.

Meaning if you just look at, I could go one by one and walk you through ForEx, remittance, meaning travel. You're going to see that we've actually done quite well in terms of our percentage share in the market, whether you take them -- whether you count the number of airports we had -- we have before -- when we started with -- COVID started going away, if you look at the number of airports we had for ForEx and what we have now, the number keeps increasing virtually by the day.

I mean, we -- almost a few days back, we actually had one of the largest airport approval. One of the airports that we didn't have just came to us in the last 3, 4 days. Having said that, I could go on in ForEx in terms of our corporate market share or our airport market share or port market share and so on. And similar provisions go on, whether we talk about educational remittances. Our market share has substantially increased. It's a function of what is the overall market size, if you look at the overall market side and that gets depressed by COVID.

Now the question is, are we gaining in market share with respect to what is the present market size? And the answer is an absolute resounding, yes. I could go in into bus exchange area where we have kept announcing deals, and hopefully, we'll announce more deals in the coming days and so on. So there's a lot of positive momentum that -- and it gets reflected in the growth in revenues that we have shown with respect to EbixCash. Ash, you want to comment on the U.S. side of the business?

Ash Sawhney^ Certainly. So Jeff, looking at North America, you would have to look at the different subsegments of the market. So as an example, our life and annuity exchanges, I would say, over the last 12 months would have certainly increased market share. And the way we look at that is based on the number of transactions that are going through our platforms. We have added more carriers and more distributors on the platform in the last 12 to 18 months than we have done probably in the last 5 years before that.

On the life side, specifically, we've added -- we've increased the number of carriers on our platform quite significantly. And ultimately, that's a key driver in terms of increasing the market share in some of the other divisions. Like our Health division, I would say it's probably relatively flat, but we are adding a big international broker to the platform, which is a fairly significant deal for us. So we believe that itself will also increase our subscription revenue.

In certain other areas such as wellness, other areas such as our P&C business, it's more or less flat to a slight decline. These businesses now represent a much smaller part of our overall business, Jeff. So our focus really is the core, which I defined as our life annuities, the health business. These are all businesses that are fairly solid.

Robin Raina^ Sorry. Ash, probably I would add the RCS certificate business or the core business?

Ash Sawhney^ Yes, exactly. And the RCS business, it stays steady. We do business with, like I said, over 70 of the largest Fortune 500 companies. So we have continued to keep a pretty significant place for ourselves in the industry. We are a very well-recognized brand. Same with Oakstone. We are probably one of the larger players in the CME business. Market share is probably up or down a little bit, but the key point is it's a very solid business for us and we expect to continue to grow some of these business units.

Jeffrey Van Rhee^ And Robin and/or Ash, you might want to add a little color around the EA joint venture and how that's been a bit of a drag on revenues for the last couple of years?

Robin Raina^ Yes. I think -- I mean, basically, when you look at the overall revenue, so we think sometimes we -- EA revenue has -- it's mainly -- it's fallen, as I've talked about in the previous call. It's our TPA business. And in a TPA business, so when you look at the cumulative revenue, the fall in that EA revenue gets reflected and it offset some of the increases that we show in some of the other businesses that Ash kept talking about.

And the TPA business, one of our main reasons was, our joint venture partner basically decided to get out of health business completely. And they were one of the largest clients for us, and that just went away from one day to another in a way, and that has obviously caused a bit of pain in terms of revenues. It has also -- it is one business where -- there are no many businesses where Ebix would be saying that we lose any money.

And this is a business where we actually have a bit of a negative profitability, a bit of losses out there, which we are trying to -- as we figure that one out, we are basically actively working on trying to figure that one out. We're trying to figure out can we get our JV partner completely out of things candidly. And if we can do that, it actually -- there are ways and means to make that business a lot a lot better.

We're a bit hindered by the fact that we have a JV partner who is actually out of business and is not able to contribute. And in turn, we have some obligation attached to that client, which actually cost us a bit of money. So there's a bit of room there for us to gain in terms of profitability, is how I see it. But it's a fairly small business right now, fairly miniscule for us right now.

Jeffrey Van Rhee^ Last for me, a couple of model specific questions. The -- as I look at the GAAP net income, it's about a $6 million miss versus my estimate and about $5 million of that comes below the operating line. So I think I can model out the interest expense going forward that leaves then the other big variance this quarter. The two were interest expense and primarily taxes. So two specific questions. How should we think about taxes in '23 and then specifically in Q1, but the year as well?

And then also G&A, you touched on it. I mean, obviously, it's running fat here up considerably over really any trailing periods. You called out rent and a few things that seem like they will persist, but I'm wondering at this $36 million non-GAAP run rate or actual print $36 million of G&A in Q4, if that's the right level to assume going forward? So really two questions here, taxes and G&A?

Robin Raina^ Yes. Steve, you want to talk about G&A first? Yes, please do, and I'll add to it. Yes. Go ahead.

Steven Hamil^ So Jeff, at the beginning of 2021, our borrowing rate was 4% through rising interest rate environment, increased spreads, as we had to do an amendment for COVID. Our borrowing rate has increased pretty materially. So if you look at the end of 2021, our borrowing rate was 5.5%.

At the end of 2022, our borrowing rate was 9.6%. So in 2 years, we've gone from 4% to 9.6%, largely as a result of increase in the LIBOR rate. And today, our borrowing rate is just under 12% as rates have continued to persist, and we had a little bit of an increase in our borrowing spread.

Additionally, in 2022, we had a couple of different payments to the bank group that were fees associated with having not refinanced the deal by certain measurement dates. In 2022, we spent probably $2.65 million out the door to these banks, and those were capitalized as deferred financing costs.

But if you think about probably $2.1 million of that was amortized into expense during 2022. And in the fourth quarter, that number was probably about $900-plus of interest expense related to those onetime fees. So we've been hit by a rising rate environment, an increase in our spreads and increased fees and out-of-pockets related to the bank group.

Robin Raina^ So Jeff?

Steven Hamil^ From a tax...

Robin Raina^ Go ahead. I am sorry.

Steven Hamil^ From a tax standpoint, Jeff, our starting point for pretax book income wasn't materially different '21 to '22. But there's a couple of big things that have caused the effective tax rate to go from 9% to 13% during 2022.

Really, the first one is just the amount of foreign-related comp and higher tax jurisdictions that has been generated and included related to GILTI tax calculation. And then really the second one is temporary differences around the Trump Tax Act. There's a Section 163(j) provision which limits your business interest expense deduction.

And I'm not going to quote absolute numbers, but it's about 30% of your adjusted taxable income. And given the increased amount of interest expense we've had, that differential year-over-year from 2021 to 2022, increased our tax income by close to $8 million, just that 1 item. So those 2 items are the 2 biggest ones that contributed to the effective tax rate increasing from kind of 9% to 13%.

Jeffrey Van Rhee^ So would that suggest then we would normalize at that rate? I mean, it doesn't seem like the tax act is going to change. So is that how to think about the rate going forward?

Robin Raina^ Steve, do you want me to answer that?

Steven Hamil^ Yes. Go ahead, Robin.

Robin Raina^ Yes. So let me answer both. I'll add to what Steve just talked about, interest, and I'll talk about the tax sale. I expect the tax rate to be in single-digits for this year. There are a number of reasons for it, but we can go through it. But basically, I would expect that to be somewhere in the 6% to 8% kind of a bracket in terms of the tax rate. The second question of yours was when you talked about the interest rates, how -- and how do you model all of this forward, I think the way to look at it is there is short term and then there's long term.

In the short term, obviously, we have costs in terms of -- you already -- Steve already talked to you through the interest costs that we have. Clearly, that is something we have to live with until we have paid our banks back.

Now even if we refinance -- now the question becomes -- it all depends on the capital structure that we have chosen. There are capital structures. To give you a simple example, let's say we had a successful IPO or we had -- we launched our IPO.

Now our net interest costs are going to be relatively low simply because we would have raised money through equity, which doesn't have any costs associated with it and whether you keep that money in a bank earning interest or whether you use that to pay back -- pay -- reduce your debt in any way, meaning, it ultimately results in a net reduction in terms of -- a pretty substantial net reduction in terms of interest costs.

So on a long-term basis, it all comes down to how soon can we get our IPO done. If we can get our IPO done, meaning a lot of these costs will reduced dramatically. Now having said that, in the meanwhile, we have to live with what we have. And we have to make sure we strive for every option out there to obviously pay our banks and refinance in the meanwhile. And that's exactly what we are doing. And for that, you -- Steve already talked you through the cost of interest that are presently being incurred.

Operator^ We'll take our next question from [Chris Sakai] with Singular Research.

Unidentified Participant^ Yes. I just had a question on the annuity exchange. What were the main drivers as far as the increase in carriers and distributors in 2022? And what can we expect in 2023?

Robin Raina^ Ash, please go ahead.

Ash Sawhney^ Sure. Yes, I can take that. So the economic climate right now, especially with the high interest rates, that is a big factor, obviously, because annuities are paying higher interest rates. There's more annuity sales happening in the industry. So more carriers that were not previously in the annuity space are jumping in.

Another big factor for us over the last, I would say, 12 to 18 months was the onboarding of JPMorgan, who is one of the largest annuity players in the industry. And when you bring somebody like that onto the platform, all their carrier partners have to start participating on the exchange.

So we're seeing higher volumes across the board because of the economic climate. We're also seeing new entrants come in. And like I outlined, about half of the growth actually came from more volume from existing customers and the other half from these new entrants.

In terms of 2023, I would say we expect -- as long as the interest rates stay where they are, we're going to continue to see fairly healthy growth. In fact, for the first 2 months of this year we have continued to see the same pattern that we saw in Q3 and Q4. So the volumes are way up there.

Robin Raina^ So Chris, I want to add to what Ash said. I think we're also at a pivoting point. What has happened is that dominance -- if I'm allowed to use the word dominance -- has continued to grow in this field. We've continued to grow our market share in this area.

And what that has done is when you have that kind of dominance of market share, it leads to a networking effect. And it leads to some of the larger distributors who may not -- let's say there is a distributor ABC who might be on your competitor's platform. There is every reason for now for that large distributor to come to you for many reasons.

One, you have all the network sitting out there, which is the network they want to address. On the second side, we have the volume. Since we have the volumes, we can afford to do all this cutting-edge development, design the latest and the greatest of products, which a smaller player who has a smaller market share, cannot afford to do, simply because they don't have that appetite because they don't have that revenue stream. So it's impossible for them to put those kind of costs in.

So net result of that is that you get to a point in exchanges, where the people will approach you rather than you approaching them. And we are seeing some of that phenomenon happening. I would be very disappointed if in the next 1 year, we don't candidly see some of the major clients that our competition has, to come to us. We would like to see that, and we believe there is every reason to see that. And I have a reason to say it.

Unidentified Participant^ And then the prepaid card side of things, what was the reasoning for the decline there?

Robin Raina^ Look, we -- it's -- look, you have to see the market size. And what happened was during COVID, there was a pretty big growth in the prepaid card business, mainly because people didn't want to touch things and there was -- digitization dramatically increased. So this was a normal process that has set in, in terms of the size of the market.

First of all, the -- there was an absolute rush for prepaid cards during COVID. So once COVID became a thing of the past, that rush reduced a little bit. Secondly, candidly, it has to do with the commissions associated with that business. So when we do that business, part of our commissions are shared with subagents that we have.

And now, if we -- it all depends on our business model. If we are prepared to share a larger part of our commission, this business revenue can be a lot higher than what we are reporting. It's just that we're not prepared to do that. We like to run profitable businesses. And a lot of our competition in this business segment is willing to pass on most of their commission to their subagents and agents, simply because it gives them top line growth.

And we chose not to do that. And we decided that we're going to live with the business model that we have of profitability. And within that business model, we will continue to see how well we can do, and that's the reason for what you see out there in the prepaid card business.

Steven Hamil^ Let me just also add some [free cash flow] perspective from a CFO standpoint. Honestly, this business doesn't generate material cash flow income for us, okay? I don't really care whether we do $600 million of sales in the gift card business, $400 million, $800 million.

All I -- my biggest concern as the CFO, and Robin's to the same degree, is how much money are we making, right? How much EBITDA return, how much net income are we generating? I never want the analyst community or investors to get caught up in the prepaid card business because the way the competitive dynamics of it in India, it's just not a material generator of profit.

Robin Raina^ So Chris, what we are now also trying to do to -- now that we have the reach and [expands] as one of the largest nonbanking players in the prepaid card business, we're using that. I'll give you an example of a recent example of how we are deploying these prepaid card products. One area -- and in a very profitable manner.

One is, we signed an agreement with the West Bengal government, wherein in West Bengal, every roadways bus, we are providing the bus exchange system to basically -- wherein every ticket that gets sold basically is happening using smart technology, using our technology.

What we also did, we worked with the government in there to introduce all these prepaid cards for consumers, and with the EbixCash prepaid card basically, the consumer -- the West Bengal transport department, for example, decided to offer a discount -- a slight discount on their prices.

And net result is now you have a reason for people, who are traveling in those buses, to start using that prepaid card simply because it gets them a discount, plus it gives them the digital ability to use it on the bus and so on. And so we were able to position ourselves in -- West Bengal is just one opportunity. We are presently deploying it across. We are trying to basically convince all the 16 states where we do business, to deploy this.

Another good example is take the largest state of India, which is Uttar Pradesh. Now Uttar Pradesh is the largest state in population and metrics that some of our -- the neighboring countries to India, whether it's Pakistan or anybody out there. And if you look at the -- what we are trying to do out there, UP government distributes a lot of -- they dole out a lot of money to widows, to the underprivileged, through the government program every month actually. We are trying to do that through working with another bank.

We're trying to deploy all these cards that would be issued with the consumer's picture on top of that card so that when any money is doled out, it is done on the basis of that -- comparing that picture, comparing their biometrics, their thumb imprints, and from there, having EbixCash card whereby the government can now track the money that they doled out, how was it really used, is it coming back into the economy or not.

So those are the kind of examples of clients that we are now adding with respect to the prepaid card business. So it's a business that ultimately, look, we have a pretty substantial market share. And we kind of feel now we are trying to make this into a good income opportunity also. But we want to do it at our terms.

We're focused on income. So we're not going to just go in into the markets and increase market share just by reducing our commissions or passing on more commissions to agents. We want to actually maximize our income while selling more cards. Does it make sense? I just -- what I talked to you about, Chris?

Unidentified Participant^ Yes, it does. Along with the bus systems, how is that coming as far as the ITMS as it is -- as you bring it out into new state bus system?

Robin Raina^ We are continuing to deploy all the ITMS systems and all the deals that you -- that we've been announcing, whether we announce Andhra, whether we announce West Bengal. Recently, we announced a large -- one of the largest deals we have done, MSRTC, Maharashtra State Roadways Transport Corporation, wherein we have two phases.

We first will deploy ITMS across, I think, 19,000 buses, then it is across approximately 38,000 buses overall. So it's a very large state with 38,000 buses flying where everybody would be able to use the smart card, and we get paid on a per ticket basis. It's a very simple business model.

Virtually every ticket, we don't really care whether it's -- of course, they will be able to use -- they can use our prepaid cards, but whether they're using any UPI, whether they're using Paytm or whether they're using virtually Google Pay or anybody, we're going to make money on every ticket.

That's our business model, and that's how we are deploying. We are in the midst of a few very large interesting deals right now with some of the states that we don't have. And hopefully, I have something positive to report in coming weeks and months on that front.

Operator^ And ladies and gentlemen, that is all the time we have for questions today, and this will conclude today's conference call. We thank you for your participation, and you may now disconnect.