

# Ebix Inc. Q2 2010 Earnings Call Transcript

Ebix Inc. ([EBIX](#)) Q2 2010 Earnings Call August 09, 2010 11:00 am ET

**Speaker:** Robin Raina, Ebix Chairman of the Board, President & CEO

**Introduction:** Neil van Helden, Corporate Manager Marketing – Communications and Media

**Q & A Session:** Ebix CFO Robert Kerris, Ebix president & CEO Robin Raina

## Operator

Good day ladies and gentlemen, and welcome to the Ebix Inc. second quarter 2010 investor call. I'd now like to hand the conference over to Mr. Neil van Helden, corporate manager, marketing. Sir, you may begin.

## Neil van Helden

Good morning everyone, and welcome to Ebix's second quarter 2010 earnings conference call. Joining me to discuss the quarter is Ebix's chairman, president and CEO, Robin Raina. Robin is participating in this call from one of our offices in Delhi, India.

Following Robin's remarks today, we will open up the call for your questions to be addressed by Robin and the Ebix CFO, Robert Kerris. I want to take this time to remind you that the primary purpose of today's call is to provide you with information regarding our second quarter fiscal year 2010 performance.

However, some of our discussion or responses to your questions may contain forward-looking statements. These statements are subject to risks, uncertainties and assumptions. Should any of the risks or uncertainties materialize, or should our assumptions prove incorrect, actual company results could differ materially from these forward-looking statements.

All these risks, uncertainties, and assumptions, as well as other information on potential factors that could affect our financial results, are included in our report filed with the SEC including our most recently reported Form 10-K for the year ended 31st of December 2009, particularly under the heading "risk factors".

At times in our prepared remarks or in response to your questions today, we may offer certain additional metrics to provide a greater understanding of our business or quarterly results. Please be advised that we may or may not update these additional metrics in future calls.

Our press release announcing the record second quarter results was issued a few hours back. The audio of this investor call is also being web cast live on the web at [www.ebix.com/webcast](http://www.ebix.com/webcast). You can look at Ebix's financials beyond what has been provided in the release on our web site [www.ebix.com](http://www.ebix.com). The audio and the text transcript of this call will be available on the investor homepage of the Ebix website after 2:00 p.m. EDT. With that, let me turn you over to Ebix CEO and President, Robin Raina.

## Robin Raina

Thank you, Neil. Good morning. I'm joining into this call from one of our buildings in Noida. We have five offices spread across three cities in India and I'm presently dialing in from our new 50,000 square foot campus building in Noida.

Our second quarter 2010 results were record results again for Ebix in terms of revenues, net income, earnings, and cash flows. I feel that it is befitting these record results that I'm doing this call from India, which has been at the center of our research and development efforts to get to this point in our journey. India is a fascinating power today that in another few years will have one of the youngest populations in the world.

Imagine a country where in a few years from now approximately 840 million people will be below the age of 35 years. Incidentally, that is approximately three times the population of the United States. Add to this mix India's strong focus on education and technology excellence, the restless desire of the youth to succeed, and the result is a highly diligent work force willing to learn, adapt, and then lead.

At Ebix's own facilities here in India, the average age of an employee is 25 years old, and 83% of our staff has an engineering degree. It is presently 8:40 pm here in India, and the majority of our staff from the day shift is here in the office, still working. That exemplifies to me the spirit of the new youthful India in general, and our offices here in particular.

Before I get into a discussion of our quarterly results, I want to take this opportunity to salute the efforts of this fantastic workforce in Ebix India that has contributed strongly to Ebix becoming a state of the art world class player that has a close to zero customer attrition rate worldwide.

We reported today the strongest quarter in Ebix's history on many fronts. I'm going to take this opportunity to discuss these results on the financial and qualitative fronts, while giving you an insight into where Ebix would like to go from a future vision perspective.

On the financial front, we're extremely pleased with these results. Our press release today morning deepens these results, so I'll concentrate on talking about just a few financial metrics. Revenue this quarter increased 44% from a year ago to \$32.2 million. Six month cumulative revenues at the end of June 30, 2010 increased by 48% to \$63.8 million as compared to the same period a year ago. Our exchange business grew 73% year over year to become 71% of our total revenue this quarter.

Nothing speaks more to the operating strength of a company than its continued strong cash generation abilities. Cash from operations totaled \$16 million in the quarter, an increase of more than 107% from a year ago. This translates into more than \$0.40 per share of operating cash flow in a single quarter, which is incidentally reasonably close to our diluted EPS in the entire first half of our last fiscal year. At the end of June 2010 we had already recovered 90% of our six month net income in positive operating cash flows, That, to me, sums up the financial strength of Ebix today.

EBDA grew 55% this quarter to \$16.1 million as compared to a year ago. EBDA margins grew to become 50% of our quarterly revenues in the second quarter of 2010 as compared to 47% of the second quarter of 2009.

Let's now talk about Ebix at a qualitative level. Ebix has delivered these results at a time when the insurance industry is still reeling from the aftereffects of economic crisis in the United States and in spite of the headwind on many fronts. A few specific headwind examples for you: With consumer confidence being rather low, annuity production industry wide is down 20% year over year. The property and casualty sector has had one of the worst years in a decade. The health insurance industry is still dealing with the uncertainties created by the Health reform bill passage. The construction industry that accounts for approximately 40% of insurance certificate in the U.S. continues to struggle. In addition, we continue to believe that the economic recovery is still tenuous.

A number of legislative initiatives in the U.S. and worldwide continue to create uncertainty and a mindset of risk aversion in the insurance industry for all our clients. And despite of all of that, Ebix has continued to move forward with record revenues, earnings, cash flows and net income. We have continued to substitute production drops in the industry to organic growth means by bringing new clients to our exchanges.

How does a company handle headwind at any time? In today's world any company that wants continued success needs to adopt change as a mantra. By that I imply that in a fast changing world today any company needs to adapt continuously to the times to face the headwinds and keep on discovering ways to still grow.

We continue to be bullish about our business prospects, both in the short and long term. How do we manage to be bullish in a time that is considered the worst time in a decade for the U.S. Insurance industry? I'll give you a few specific examples of how we counter the headwind.

As annuity production drops year over year, from the same insurer, industry analysts have called it a shotgun phenomenon coming out of a lack of consumer confidence. While we remain confident that annuity production will start falling again, we've kept bringing new clients to our annuity exchange, compensating for the drop. We are launching newer exchanges to service important annuity policies. All these are new revenue streams for us. Also, as some of the new, larger clients keep joining our exchange, our annuity exchange is likely to keep showing good growth.

The macroeconomic indicators show that Asian economies are still growing fast. Latin American insurance markets today have been among the fastest growing markets in the world. We've decided to expand our presence and push into these regions. That is likely to show results also.

While U.S. health insurance industry is still trying to understand the ramifications of the health reform act, health insurance markets in the Middle East, Africa, and the Pacific continue to show very good growth. We are today in the midst of a lot of deals in those markets. The recently announced Hygeia HMO deal came out of those kind of efforts.

As construction in the industry in the U.S. continued to struggle, our certificate tracking volumes could have fallen quite a bit since the construction industry accounted for 40% or more of our BPO certificate tracking volume. Instead, our BPO revenues continue to grow. Since we signed up clients encompassing 34 new industries, ranging from power, waste management, courier services, rental cars, manufacturing, food retail, to general purpose retailers, etc. Net result, in spite of the headwind Ebix has continued to grow revenues. It's because of our ability to organically keep adding new clients continuously and retaining our existing clients.

On the organic growth front, in the second quarter of 2010 the company signed new contracts with named accounts like Hygeia HMO, Marsh, Guardian Life, Liberty Life, SunLife Assurance, Pacific Life, Great West Casualty Co., Penn Mutual, Fidelity Investments, National Financial Services, American Life, M&T Bank, American Equity, Ed Jones, TransWestern, Chartis Brazil, Ace Life Brazil, MetLife Brazil, MetLife Mexico, MetLife U.S., Western General, Symmetra, Forethought, Fishrock, New Jersey Insurance Underwriting Association, North Florida Agents Network, AON Switzerland, AON Malaysia, AON Australia, Lockton Asia, Willis India, Willis Netherlands, HSBC-Marsh, Brokerweb New Zealand, Kaiser Permanente, Primex, Bartech Group, Singer Nelson, National Farmers, Willis of Maryland, Willis of Seattle, Kroger, and Target, etc.

In the first quarter of 2010 the company had announced similar contracts with named accounts like Sun Life, Universal Life, U.S. Bank, Ameriprise, American General Life, National Western Life, INFO Financial Group, MetLife, Bechtel, Sea World, Lockton, [unintelligible], [unintelligible] of New York New Jersey and Avis, amongst others. This list of names is just a sample representation of contracts signed by the company in those periods, with the largest accounts easily recognizable to the investor community and by no means represents a comprehensive list of contracts signed by Ebix in these two periods of 2010.

We have always believed that a company's true strength is tested when times are bad for the industry. A company that can produce record results in an economy like this has a much better chance of producing spectacular results as the tailwind gets behind us and times become better for the industry as a whole.

On the customer retention front, we continue to have an almost perfect customer retention rate with no customer of any financial consequence to Ebix deciding to move off our platform. Our [unintelligible] play leadership to on demand software and service insurance exchanges focused on customer support and technology leadership has helped us retain clients in all our channels across the world.

One of our key strategies is cross selling different services to our groups and clients. We already have a relationship with some of the largest brokers, bankers, and insurers in the world since they are using one or more of our services at any time. Our goal is to cross sell them a broad spectrum of services and penetrate deeper into each of these organizations. Over the coming quarter we intend to focus sharply on insuring that our retention is unwaveringly focused specifically on these clients that represent [shorter] to long term client opportunities for the company.

On the technology front, we continue to be focused on the simple philosophy of being a few years ahead of our competition at all times. Today, Ebix does not sell any legacy platform or service in any part of the world. All the products and services sold by the company are offered on an on demand [unintelligible] basis. All our services are being delivered on [unintelligible] platforms and the latest architecture.

So how do we pursue our future? At a financial level, the answer to this question to some extent relies on the press release issued today and my comments on the possible issuance of dividends for the company. While we would not completely rule out the possibility of issuing dividends in the future, we convey our intention to use our cash to generate growth and further improvements in future earnings.

Basically, we see Ebix as a growth stock rather than a value stock. By value stock I mean a low-growth company that might generate good earnings. We see Ebix as a growth story rather than a value story. Dividends make more sense for a value stock rather than a growth stock like Ebix.

We are confident about our ability to keep growing the company on all fronts, revenues, net income, and earnings. Consequently, we prefer to invest our cash in both new [accretive] acquisitions and organic growth initiatives. Our operating margins could have been even more were we not investing as much in future growth initiatives on the research and development, infrastructure, and sales fronts. As an example, we are presently in the process of hiring 15 additional new sales people, just in the area of U.S. exchanges and CRM.

We are investing in building a focused industry [vertical based] sales growth while expanding our CRM solution from life annuity to other areas like property, casualty, and health insurance. We're also hiring additional new sales people in all other channels of our business worldwide.

We are continuing to expand our sales reach to drive increased growth. We are [unintelligible] working on taking all our life and employee benefit services to Asia Pacific, Middle East, Africa and Latin America. The recent Hygeia HMO deal in Nigeria was a great thing for us and will hopefully allow us to spread our health service solutions in Africa.

We are presently negotiating a number of deals with large Latin American life and annuity carriers for our Ebix CRM and LifeSpeed exchange services. We are presently pitching our services in the Middle East for some rather large prospective deals to private insurers and government both. In certain geographies that we have decided not to target ourselves like Libya, Sudan, and Kenya, etc., we have appointed a number of experienced exclusive distributors to market our services.

We have continued to invest in infrastructure in terms of buildings, hardware, software, connectivity, and disaster recovery. An example of that investment is our recent investment in building a world-class campus-style facility in our export unit in India. Our facilities are being built out with state of the art infrastructure, security systems, campus style environment with theater, cafeteria serving free meals; health club; sports facilities like billiards, ping pong, and cricket; multiple buses and cars to bring our employees, etc.

Despite hiring experienced professionals, we continue to invest in fresh, young talent, and by that I mean talent with masters in computer applications or bachelors in engineering, to groom them in insurance and technology with a view to multiplying knowledge in our offshore facilities and to have a work force ready as we continue to grow.

The company continues to invest strongly in research and development initiatives. We are currently developing the next generation exchange for annuities. The project code name, Brave New World, BMW, is targeting to replace our existing annuities exchange with this new, highly scalable and flexible BMW exchange.

We are also building an end to end enterprise platform, codenamed GR8, to replace our existing employee benefit services in [the first step and then in a phased manner] emerge as a central enterprise platform for the company across all functional areas. We are developing new cutting edge broker systems to replace our existing broker solutions.

As detailed in the first quarter 2010 investor call, some of the other initiatives being pursued at present are servicing of an annuity policy, portability of an annuity policy across multiple carriers, life insurance e-policy delivery with [unintelligible], e-signatures; e-forms; and on-demand cloud computing infrastructure in markets like Latin America to provide property and casualty insurance company systems on a utility services basis across multiple insurance companies. Again, this list of research and development initiatives is just a partial list of initiatives that the company is pursuing and by no means represents a comprehensive list of our R&D initiatives.

We continue to believe that we have an opportunity to be the largest insurance software services player worldwide. Our belief has been further strengthened by continually being able to add new clients and also take our functionality to new geographies. Our ability to deploy bundled end-to-end solutions places us in a unique position with respect to our competition. For example, in the United States life insurance markets, we compete against some large CRM companies like Salesforce, Oracle, and Microsoft.

None of them is able to offer a solution that would allow the end user to seamlessly use the CRM solution in conjunction with a sales illustration exchange, validate the policy for correctness, send it to an order entry exchange, bind the policy, get a [unintelligible] exam done, possibly issue a e-signature policy, service the policy, clear the transaction in terms of money transfers etc., all while being logged into the CRM solution. Only Ebix can offer a solution like that and that by itself opens up a lot of doors for us. To maximize our opportunity and reach, we have decided to hire aggressively to build a larger sales organization targeting this very opportunity.

On June 1, 2010, Ebix's board of directors unanimously approved an increase in the size of the company's authorized share repurchase plan. Under the approved resolution, the aggregate amount of common stock the company is authorized to repurchase will increase from \$5 million to \$15 million. We repurchased \$4 million of common stock from the open markets in the second quarter of 2010. Having secured all the required approvals from our bankers also, we are today in a good position to repurchase more common stock with an aggregate limit of \$15 million, which can further be increased by the board if required.

In summary, we are pleased with the record results announced today. We continue to believe in our ability to grow revenues organically and inorganically. We intend to remain focused on creating new benchmarks in operating margins and insurance technology leadership. We will need to be perseverant in the marathon to be the leading insurance software services player in the world.

U.S. tennis prodigy John Isner, who recently played a record 11-hour-plus tennis match at Wimbledon, is likely to be ringing the opening bell at the NASDAQ with me on August 31st, 2010 for the Robin Raina Foundation. The goal is to bring the world's attention to the cause of underprivileged slum dwellers across the world in general and the 50,000 slum families dislodged from Delhi to cleanse the city for the Commonwealth Games in October 2010.

I intend to use this NASDAQ ceremony in New York on August 31st to hopefully borrow a bit of perseverance, focus, and grit from the 25-year-old tennis prodigy. We at Ebix know that we will need it if we have to realize our dream of being the largest insurance software services player worldwide.

Finally, I look forward to describing our future progress when we release our Q3 2010 results in the early part of November. With that, let me turn the call back to the operator so that we can take your questions. Thank you.

#### **Operator**

We have a question from Mike Latimore of Northland Capital.

#### **Mike Latimore - Northland Capital**

Good morning. Great job on the cash flow on the quarter there. Robin, you note the number of contract signings in the quarter. Can you help us understand the incremental revenue benefit, maybe on a quarterly basis, from those, and then also looks like you acquired a company called Trade Monitor, if you can provide a little bit of additional detail on that it would be great.

#### **Robin Raina**

Okay, let's start from the first question that you asked regarding how much revenue. I don't have that answer for you to be able to share [unintelligible]. I'm not ready for that answer. Part of it is these are deals that are just coming in [unintelligible] revenue recognition. We don't really recognize revenue mid-year to date usually on deals. We still kind of have to do our math and come up with those answers. I'm not hopeful about end of third quarter when we come and discuss third quarter results. We'll be in a better position to give you some numbers around some of these deals.

On the second part of your question regarding Trade Monitor, Trade Monitor is a [unintelligible] deal that are relatively very very small company and basically it's a futuristic insurance for a client to establish BPO business in Australia.

#### **Operator**

Our next question comes from Harry Long from Contrarian Industries.

### **Harry Long – Contrarian Industries**

Absolutely outstanding numbers and I wish you could be a little more ambitious. You want to be the biggest software services provider in the world, so it's nice to see that you're – But basically my question is in terms of your sales force, can you please give us a little bit more color? Are these people who are veterans in industry, or are you growing that capability organically? And also in terms of deals you've already done, at what point do you need to come in for CEO to CEO contact with some of the bigger institutions to close the deal, or is that all done with the sales force? If you could just give some more color on the sales staff.

### **Robin Raina**

I think this is a great question, Harry. Basically, we are selling, when we sell an exchange for example, we're selling at the highest level and when you sell at the highest level the sales person needs to be extremely qualified and needs to be able to hold his or her own in front of all this – whether it's the CEO or an executive vice president or the CIO. So I think what that - we hire highly intelligent people who are – who understand the industrial world. [Unintelligible] who understand for example what benefit does the exchange offer and so on. And so that's our focus now.

Beyond that, we – however at times couple them up with the retail team. We couple them up with people who are more retail oriented, people – we divide industry by – in vertically. You know, we'll divide industry whether it's by wealth management, or it is by any other field, we're basically – when it's health, [unintelligible] and so on. Our sales cycle tends to be at an extremely significant senior level, and that kind of can be – there is a multinational account program at times you need to follow.

I'll give you a simple example. Take a large insurance company. I don't want to be giving names. [Unintelligible] large multinational insurance company. When you see us do one deal with them, what we are trying to do immediately – so we're trying to deal with the company A in the U.S. in the life industry. What we are going to immediately do, we're going to approach them in different other countries, in Asia, in Australia, and you know, we'll reach out to Mexico counterparts, the Brazilian counterpart, and so on.

So how do we handle all of this. It gets very critical for us to have a multinational account manager approach. What I mean by that is for that multinational carrier, insurer, we need to have one account manager. That account manager can then [unintelligible] that information across the world and becomes the leader on that account and makes sure that this customer first of all is handled with kid gloves, and handled in the proper manner.

So if Mexico is trying to do a deal, we're trying to approach Mexico, we also create pressure from the U.S. because corporate might reside in the U.S. and so on. So it is tag team effort ultimately in sales. But there will be one lead manager who will lead that account and that person has to be extremely good.

Did I answer the question?

### **Operator**

Our next question comes from Gregory Wilbur from Bay Area Micro Cap.

### **Gregory Wilbur – Bay Area Micro Cap**

Robin you briefly mentioned in your comments about your HMO business in Nigeria. Could you give us some perspective on what's the – that's a large country, lot of people, lot of potential. Could you give us a perspective on that please?

### **Robin Raina**

Basically, Nigeria has 60 HMOs that exist. We've done a deal with one of the leading HMOs, so our goal is - you see this is a – for us this is a very important deal and we feel extremely good about it and the deal is pretty simple. First thing what we have done is we have proven that our solutions, that the health solutions can be used in Africa.

That by itself is a big deal, because for that we had to make sure that we ultimately have a system that every HMO – now when we go to the next HMO that HMO would know that hey there's already a client, a user, and so on. And also what happened is once you have one client they are interested in making sure that there are other clients because that way they get better quality of support, which can hopefully set up local operations in Nigeria and so on.

So we feel very good about it. In all these African countries, there is a very strong focus today on improving the health insurance aspects of their economy. To that extent we feel we're well positioned today to try and target that market and we'll have to do many more things. We actually feel that we need to have a real presence in terms of sales, support, and so on in the African sub-continent – in the African continent, and I think we will pursue that in coming days.

**Operator**

I'm showing no further questions at this time.

**Robin Raina**

Thank you. Since there are no further questions, I'm going to close the call today. Thank you for participating in the call. I look forward to speaking to all of you in November when we announce the third quarter results. Thank you very much.