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EBIX - Q1 2016 Ebix Inc Earnings Call

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## CORPORATE PARTICIPANTS

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**Robert Kerris** *Ebix, Inc. - EVP, CFO & Secretary*

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

## CONFERENCE CALL PARTICIPANTS

**Jeff Van Rhee** *Craig-Hallum Capital Group - Analyst*

## PRESENTATION

**Operator**

Good day ladies and gentlemen and welcome to the Ebix, Inc. first-quarter 2016 investor conference call.

(Operator Instructions)

As a reminder, this conference call may be recorded. I would now like to turn your conference over to Darren Joseph, Corporate Vice President of Ebix. You may begin.

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**Darren Joseph** *- Ebix, Inc. - Corporate VP, IR*

Thank you. Welcome everyone to Ebix, Inc.'s 2016 first-quarter earnings conference call.

Joining me to discuss the quarter is Ebix's Chairman, President and CEO Robin Raina and Ebix's EVP and CFO Robert Kerris. 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 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 might cause actual results to differ materially from those projected in the forward-looking statements.

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 revisions 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 as 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 2016 results was issued earlier this morning. The audio of this investor call is also being webcast live on the web on 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 p.m. Eastern Time today.

Let's start by discussing results announced today. We are clearly excited by the momentum we have generated in our business both in terms of top line and operating margins. Revenue in Q1 2016 increased 11% from a year ago to $71.1 million.

On a constant currency basis, Ebix's Q1 2016 revenue increased 14% year over year to $72.8 million as compared to $63.8 million in Q1 of 2015. Also on a constant currency basis, sequentially the revenue increased 2% to $71.4 million as compared to $70.2 million in Q4 2015.

In Q1 2016 our exchange revenue continued to be the largest channel for Ebix, accounting for 70% of the Company's revenues. The year-over-year revenues increased as a result of revenue growth from life, annuity, underwriting, CRM, reinsurance, RCS and health e-commerce services in addition to revenue growth generated from the Company's 2015 acquisition of PB Systems partially offset by the drop in revenue from Australia, Brazil, New Zealand and Singapore, a result of the strengthening US dollar and decrease in revenues from the Company's pharmaceutical, health content and PMC carrier backend operations.

Reinsurance exchange revenue grew 166%, underwriting exchange revenues grew 33%, annuity exchange revenues grew 11% year over year in Q1 of 2016 while life exchange revenues grew 10% in the same year-over-year period. RCS revenues were up 38% because of the acquisitions of PB Systems business in 2015.

Ebix's presence in the life and annuity sector is presently annualized at approximately $117 million based on the Q1 2016 run rate. The year-over-year international revenues in Q1 of 2016 were impacted negatively by the $1.7 million because of the strengthening of the US dollar.

In spite of Australia reporting one of its strongest top-line revenue performances ever in local currency its revenues year over year were down by approximately $0.9 million since the US dollar has appreciated 8% year over year as compared to the Australian dollar impacting Australian revenues adversely. The Company's health content revenues were down 13% year over year, affected by increased price competition in the sector and a decision of the Company to scale down its life sciences division as part of its focus on increased margins resulting in the life sciences group revenues being 40% lower year over year.

I will now turn the call over to Bob.

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**Robert Kerris** - *Ebix, Inc. - EVP, CFO & Secretary*

Thank you, Darren. Thanks to all on the call for your continued interest in and support of Ebix. At the outlet, let me say that we are very pleased with the Company's first-quarter 2016 financial results, operating performance and look forward to the rest of the year.

Q1 2016 diluted earnings per share increased 30% to $0.67 as compared to $0.51 in the first quarter of 2015. For purposes of the Q1 2016 EPS calculation, there was an average of 33.3 million diluted shares outstanding during the quarter compared to 36 million shares in Q1 2015 and 33.9 million at the end of the year Q4 2015. As of today, the Company expects the diluted share count for Q2 2016 to be approximately 33 million shares.

Q1 2016 operating margins rose to 35% as compared to 32% in Q1 2015. Operating income for the first quarter of 2016 rose 21% to $24.8 million as compared to $20.1 million in Q1 2015. We are pleased with the fact that the Company continues to deliver attractive top-line growth, cash flows and operating profits, resulting in robust revenue growth from the combined effect of our expanding operations and the businesses we've acquired, the consistent generation of cash flows from our ongoing operating activities and sustainable operating margins at 35% to 40% range.

The Ebix consulting group had operating margins of approximately 24% which is consistent with this type of business while Ebix' other businesses generated strong margins of 37% which cumulatively in the aggregate resulted in a 35% operating margin for the Company for our first quarter of 2016. Cash provided by our operating activities rose $10.5 million in Q1 2016 compared to the use of cash from operations in the amount of $7.3 million a year ago in Q1 2015, wherein in Q1 2015 operating cash flows were negatively impacted by the one-time cash payment of $20.5 million as previously announced for the resolution of the IRS audit for the Company's income tax returns 2008 through 2013 and Q1 2016.

Operating cash flows were negatively impacted by tax payments of around $7 million which included $6 million of advanced MAT minimum to alternative tax payments in connection with our operation in India. Cash, cash equivalents and short-term cash deposit balances were in the aggregate $71.3 million at the end of the quarter at March 31, 2016, up by some $13 million as compared to year-end 2015 just three months ago.

In regards to initiatives targeted at enhancing shareholder value, Ebix utilized $17.2 million of cash in the first quarter while repurchasing 466,000 shares of our common stock for $14.8 million and paying $2.4 million for our quarterly dividend. The Company also used an additional $1 million for the continued buildout of our headquarters office campus facility in John's Creek, Georgia and the buildout of our new facilities in India in support of our expanding product development operations in that country.

Subsequent to the quarter March 31 and through the current through May 6, 2016 currently the Company has repurchased an additional 217,487 shares of stock for cash consideration in the aggregate of $9.1 million. With these additional share repurchases to date the Company has now repurchased approximately [0.5 million] shares of its common stock for an aggregate amount of $138.8 million at an average price of $23.60 since August 1, 2014 when the Company had announced that the Board of Directors' decision to repurchase the stock consistently over the next few years. We expect to continue the share buyback utilizing our operating cash flow from the business as market and business conditions warrant.

After spending a cumulative $18.2 million on share buybacks, dividends and CapEx during the quarter, as of March 31, 2016 the Company still had access to approximately $85 million of readily available cash from our financing facility with a syndicated bank group combined with our cash on hand to actively support continued organic and accretive growth of the Company, to expand our existing operations as needed to meet the demand for our products and services.

Furthermore, our balance sheet is healthy and our Company's financial position remains strong and solid with a current ratio of 3.23 our working capital, short-term liquidity position of $96.2 million, a debt leverage ratio of 2.14, net debt to equity ratio of only 0.54 as of the end of the quarter at March 31. We currently anticipate that the Company will pay its next quarterly cash dividend of $0.075 per common share to be payable on or about June 15 to shareholders of record on or about May 31, 2016. Finally, the Company's Form 10-Q will be filed this coming afternoon on Tuesday, May 10.

I will now pass the call on to Rob.

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

Thanks, Bob. Good morning.

Now that Bob and Darren have already discussed the quarter in numerical terms I will focus my talk on the qualitative aspects of the business and the aspirational goals that we have today for Ebix. I'm pleased with the Q1 2016 results and the fact that these results are close to the aspirational goal that I set for Ebix one year back. While announcing the revenues of $63.8 million during Q1 of 2015 investor call I talked about and aspirational run rate of $75 million revenues in the first quarter of 2016.

I'm pleased that we got pretty close to that goal with the Ebix Q1 2016 revenues being $72.8 million on a constant currency basis. We did that while announcing large deals and having a large deal pipeline like never before.

Q1 2016 EBITDA plus stock-based compensation added up to $28.5 million approximately that if annualized translates to approximately $114 million. I'm pleased with that trend of reporting EBITDA consistently higher than $25 million in order.

Our Q1 2016 diluted EPS of $0.67 is a record number for the Company. Between our accretive acquisitions, new deal pipeline and our stock buybacks we are hopeful that we can keep it moving in the right direction.

Darren talked about the fact of foreign exchange on our Q1 2016 results. Over the last three years the US dollar has kept strengthening and that has obviously not helped Ebix. It's reassuring that in spite of that our results have continued to improve.

In recent times, we announced a number of large deals in India and London that along with the strong momentum in a number of areas has helped Q1 results. During his talk Darren talked about the drivers behind this top-line growth in the first-quarter 2016. The area of life exchanges had been a consistent growth driver of top line through the year 2015.

That trend has continued in the first quarter of 2016 with many large players like Nationwide Insurance, Desjardins, and Merrill Lynch deciding to deploy our enterprise life exchange platform. We expect to continue on the momentum that we have built in this area as we are in the midst of many such deals at present. We signed new contracts with clients in the first quarter of 2016 in every facet of our business including RCS, broker systems, health, e-commerce and health content exchanges, underwriting exchanges and new day exchanges backend systems consulting contracts, etc.

Our Q4 2015 results included a $2.5 million revenue bounce in the area of continuing education for health. That increase in the fourth quarter is traditional every year as the doctors tend to claim tax deductibility on continuing education. And accordingly the fourth quarter tends to be strong in terms of revenues.

In the first quarter of 2016, we had to make up for that $2.5 million revenue drop from Q4 2015 in continuing education. I'm pleased that not only did we make up for that drop but sequentially the revenue increased 2% to $71.4 million as compared to $70.2 million in Q4 of 2015 on a constant currency basis. It means that in the first-quarter 2016 we reported new revenues adding up to $3.7 million as compared to fourth quarter of 2015.

Our deal pipeline is strong with Ebix being a contender for many transformational deals. I'd prefer not to provide any details about these prospective deals at this time for competitive reasons.

While there are no guarantees that any of these deals will come through, yet if secured these deals with make our previously announced large deals look rather small in comparison. We are putting in our best efforts to secure these contracts and will announce them formally if and when any of these deals are closed.

We have a number of strategic opportunities ahead of us. Let me talk about a few here.

The London exchange deal will create a competitive dynamic across the world in countries like Dubai, Bermuda, United States and Singapore. With this exchange London has set their efficiency, contract certainty, errors and omissions, audit trails and collaboration benchmarks for the insurance industry that none of these countries can compete with.

As the only player worldwide who has the expertise, functionality and technology expertise in terms of building such enterprise subscription exchanges Ebix is uniquely positioned for quite a few possibilities in these world markets. Our intent is to be a key player, helping London's Marketing Association and Lloyd's, LME and Lloyd's, in project POM, the London modernization program, and work closely with them to make the initiative a huge success.

We expect many new opportunities to emerge out of that close coordination driven by Ebix PBL exchange being at the center of project POM. As Lloyd's and the London insurance markets drive paper out of the process Ebix intends to be a key player helping them make that transformation.

We are looking at the area of health PPA as a strategic area to target. This niche BPO industry traditionally has low margins and is labor intensive. With our recent JV with IHC we have now established world-class backend health processing operations in India that allows us to potentially buy our partner with US-based TPAs and take their backend processing operations to India and in the process create a recurring revenue line and bottom line for Ebix.

We are looking to enter two new areas of business through acquisitions. The area of hospital management systems has intrigued us for long as we believe that it is a missing spoke in the health wheel for us.

A SaaS-based on-demand hospital system service could provide us an even stronger end-to-end solution for the health market. We intend to make the right acquisition in this area to inherit a strong system.

Another area that we are looking at deeply is the area of on-demand e-learning as it is a natural progression from the A.D.A.M. line of content education based products and services that we have today. The area has rich possibilities in terms of recurring revenues and operating margins. There are some very interesting and large possibilities in this area and we intend to pursue acquisitions as a means of getting there.

Our acquisition pipeline is strong and we have many prospective targets at various stages of discussions. We'll keep you updated as and when and if we acquire any of these target companies. For now we will not discuss their associated geographies for competitive reasons.

We like to pay for companies in cash rather than using the Ebix stock as an instrument. We're a committed buyer of our own stock as evidenced by the approximately 5.9 million shares repurchased by the Company for $138.8 million since August 1, 2014 when we announced the Ebix Board's decision to repurchase its own stock consistently over the next few years.

Since January 1, 2016, the Company has repurchased 683,487 shares of Ebix stock for $23.9 million. Thus given a choice we don't intend to be using our stock to make acquisitions unless it is very strategic and important for us to do so.

If we do not have all the cash acquired to fund the acquisition then we will look to the banks to fund the acquisition. However, the key requirement for us is to find that low interest rate as we are not willing to risk our fiscal successes by taking a high risk debt instrument.

We are very encouraged by the support provided by our lead bankers in expanding the banking syndicate to address larger bank lines for Ebix. Again we'll keep you informed in this direction.

That brings me to the two topics that investors have kept quizzing me about: one, a new aspirational goals for Ebix and two, the possibility of a stock split. As regards the aspirational goal for Ebix I would like the Company to aspire to be at an annualized revenue run rate of $350 million by the first quarter of 2017. I would like to get there while keeping our operating margin percentages intact.

Let me emphasize that this by no means is guidance for the future but an aspiration that we will strive for. This goal will be aided by all the growth initiative that I discussed as also by our acquisition strategy.

Now let me talk about the topic of stock split. We're a firm believer in increasing our stock liquidity and also a believer in the fundamentals of our Company. We have done two 3 for 1 stock splits in the past with successful result both qualitatively and quantitatively.

Thus, the possibility of a stock split cannot be ruled out. More on that later.

That brings me to the end of my talk. I will now hand it over to the operator to open it up for questions. Thank you.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Jeff Van Rhee, Craig-Hallum.

**Jeff Van Rhee** - *Craig-Hallum Capital Group - Analyst*

Great, thank you. Congrats on a great quarter there, guys. The numbers look really good here.

A couple for me. First, Robin obviously the LNG details are now out there after a long bake-off process. We've gotten to the point where you can take some revenue and talk about some numbers.

It was a very lengthy process getting to that point. What about the other geographies that you referenced?

Any sense of timeline in terms of barriers or other things that need to happen? Are these all things we should think about over two, three, four, five years? Just any color there would be great.

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

Jeff, that's a great question incidentally. The competitive dynamic is huge. So basically what it means is that London now has a huge edge over countries like Dubai and Singapore and US and so on.

Let's put it this way, that we are at advanced discussion stage with a few of these countries. Again we would like to see a few of these deals happen this year. Again the size of the deals will vary upon the size of the country.

So I think that's just hold onto that discussion for now and see where we end up there. So I would be disappointed if we haven't gotten success in this year on that front.

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**Jeff Van Rhee** - *Craig-Hallum Capital Group - Analyst*

Okay. And then to your goals, you outlined interest in hospital management systems as well as the on-demand e-learning, there's a couple of opportunities. Can you just take a minute and talk about each of those and in particular just flesh out a bit of what the competitive landscape is, who the players are there and what Ebix can bring to the table that's not already in those markets?

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

Well, first of all, the hospital management system and e-learning are very specific areas. We are going to enter specific geographies first rather than target the whole world with these two systems. So our intent is to attack certain geographies where the competition is going is different.

So I can't really go into details right now simply because then I would have to talk about that particular geography and I don't think that it would be fair at this time for me to be able to talk about it. But to give you a simpler answer is that we're not looking at the whole landscape initially when we target these two areas.

We're going to be looking at specific geographies because we think in those geographies there is a huge opportunity and that's what we are first going to focus on and then slowly as we normally do we will roll it out across the world. But initially our competition is going to be limited to that particular geography, that particular country.

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**Jeff Van Rhee** - *Craig-Hallum Capital Group - Analyst*

Okay. And then you had touched on a number of detailed sort of recaps of the subsectors and the ones that we're seeing tailwinds. And in particular I just wanted to spend a second on one that sees the headwinds.

You talked about the pharma side and health content and that you had taken some steps to bring that to lower-cost delivery geographies where the margins made sense. Can you expand just a little bit in terms of where we are with respect to the revenue headwinds from those moves?

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

Well mainly we went through the normal process of when you move something offshore we are going to take a bit of time to get it set up in the right fashion. I think we've done quite well with moving that knowledge base over with trying to -- we've actually created backend sales operations out of India to support our US operations and so on. So we have moved various levels out there.

So we feel our deal pipeline is quite strong. I think when you bring the price element down in terms of your cost of building those products you get a little bit more price competitive. And that's what we wanted to do to ensure that we are competitive and in the process we don't give up on our margins. So that we could do it with respect to India.

So we are in the midst of large deals, quite a big chunk of deals. We've also been creating end-to-end straight-through processing products in the content arena.

So our goal now is we're targeting at times addressing providing an end-to-end kind of a solution from a perspective of health and wellness, a perspective of providing a solution whereby you can integrate health e-commerce with health content and provide everything ranging from consumer knowledge, consumer education, patient education, doctor education, monitoring of hospitals by a government, governments providing that education and so on. And telemedicine inserted all that in between.

So when you look at that end-to-end solutions that gives us a little bit of an edge. So there has been a process for us to do all of that, creating that integration, creating that product set. So we feel good about it.

We made some key hires in this area, in the area of health content which has really helped us. So we feel good about it now.

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**Jeff Van Rhee** - *Craig-Hallum Capital Group - Analyst*

Okay and a couple of other brief ones for me. With respect to the margin and margin profile you commented on the operating margin performance this quarter.

As you look at the pipeline of potential acquisitions as well as the deal flow and you think out over the next 12, 24 months can you comment specifically with respect to gross margin, operating margin, the things that may push those higher, may push those lower? Just a little more color in terms of how you're thinking about margin as I said in context of both the pipeline as well as what you see as the probable acquisition?

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

So Jeff, I really don't focus on gross margins. That's a simple honest answer to you simply because gross margins are a factor of what industry we're targeting. It depends on if you're in a consulting industry it's going to be very different from anything related to an exchange.

So coming back to it, our focus always is the operating margins. So in terms of operating margins, what I would like to do -- I've already defined an aspirational goal -- I'd like to get there with 35% kind of operating margins intact. If we are keeping that kind of margin number and we have grown our revenue that substantially that I talked about I would be happy and that's going to be our aspirational goal.

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**Jeff Van Rhee** - *Craig-Hallum Capital Group - Analyst*

Got it. Okay, and last one then for me, just maybe take a minute, I mean obviously I would love to share some detail about these transformational deals.

I did hear your commentary that you don't want to go there for competitive reasons. But beyond that or right up to the edge of what you are willing to share can you just expand a bit more about what you're seeing in the pipelines for the respective businesses?

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

Jeff, our deal pipeline is extremely strong right now in terms of especially the large and the so-called transformational deals. What has really happened over the last one and a half years is that we have really opened up the large deals. We're really a player in that market.

So there are two kinds of deals one is deals that are in the range of -- you sign a three- or five-year contract which virtually is in the $50 million, $60 million range. There is another range of contracts where you could do $100 million deal a year. That in my definition is clearly a transformational deal and if it's more than $100 million then even better.

But having said that, we have quite a good pipeline of such deals. So in such deals what are you trying to do? You are trying to provide end-to-end solutions and we're trying to make sure that as we provide this we won't know the recurring revenue line.

That's our key. We are looking for recurring revenue line. We are looking for a decent operating margins and that's been our key.

So when I'm not at liberty to talk more than that right now simply because I would be revealing what those deals are and where they are and which geography and so on. And that will hurt us at this point because we are at various stages of discussions on each of these deals and I feel if and when we are able to get these deals done we're absolutely going to announce them.

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**Jeff Van Rhee** - *Craig-Hallum Capital Group - Analyst*

Got it. And I guess just a last one then, with respect to the balance sheet and the DSOs/AR increase, was there anything in particular that was invoiced late in the quarter that reverses? How do you think about DSOs next quarter?

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**Robert Kerris** - *Ebix, Inc. - EVP, CFO & Secretary*

Yes, this is Bob, we expect our DSOs to improve significantly in the second quarter. We're already seeing in the early part of second quarter significant improvement in cash collections. So we think that this is just a temporary phenomenon and we will get back into mid to low 60s very quickly.

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

So Jeff, to answer your question on the -- was it related to, so to give you a simple example, in the quarter, in the first quarter we also signed some deals where basically the way our payment terms were linked we haven't collected the money yet, some of the larger deals. So that's partly what has pushed the DSO a bit.

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**Jeff Van Rhee** - *Craig-Hallum Capital Group - Analyst*

Yes, got it. Fair enough.

Okay, great quarter, thanks guys. I appreciate it.

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**Operator**

(Operator Instructions)

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

Great, since we don't have any more questions I'm going to close the call. And thanks everyone and we look forward to speaking to you on the second-quarter investor call.

Thank you. And with that we will end the call.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference. That does conclude today's program.

You may all disconnect. Have a great day, everyone.