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EBIX - Q3 2015 Ebix Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. And welcome to the Ebix third-quarter 2015 investor call. At this time, all participants are in a listen-only mode. Later we will conduct a question an answer session and instructions will follow at that time. (Operator instructions)

And as a reminder, this call is being recorded. I would now like to turn the conference over to Darrin Joseph, Corporate Vice President. Please begin.

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

Thank you. Welcome, everyone, to Ebix Incorporated's 2015 third-quarter earnings conference call. Joining me to discuss the quarter is Ebix Chairman, President, and CEO, Robin Raina, and Ebix' Executive Vice President 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's future investments, our long-term growth and innovations, 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 revision to these forward-looking statements in light of new information or future events.

Additional information concerning factors that could cause actual results to [material differently], differ from those in the forward-looking statements made today can be obtained in our SEC filings (technical difficulty) a more detailed description of the risk factors that may affect our results.

Our press release announcing the Q3 2015 results was issued early 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 the Ebix financials beyond what has been provided on the 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 Ebix's website after 4:00 PM Eastern today.

Let's start by discussing the results announced today. Bob and I will talk about the Company from a financial perspective, and Robin will sum up and provide some added color on the quarter and times ahead of us.

Revenue in Q3 2015 increased 32% from a year ago to $66.8 million. On a constant currency basis, Ebix's Q3 2015 revenue increased 38% year over year to $70.2 million as compared to $50.8 million in Q3 of 2014. Also on a constant currency basis, year-to-date revenue increased 32% to $203.3 million as compared to $153.7 million during the same period in 2014.

Continued strengthening of the US dollar year over year as compared to the Australian dollar and the Brazilian real decreased revenue by $3.4 million in Q3 2015 and $8 million during the nine months ended September 30th, 2015 across the Exchange and Broker System channels.

In Q3, our exchange revenue continued to be the largest channel for Ebix, accounting for 69% of the Company's revenue. The year-over-year revenues increased as a result of revenue growth from life, annuity, underwriting, health content, and RCS service, in addition to revenue growth generated from the Company's 2014 and 2015 acquisitions, partially offset by the drop in revenue from international locations as a result of the strengthening US dollar and a decrease in revenues from the Company's pharmaceutical and P&C backing operation.

Ebix's presence in the life and annuity sector grew by a combined 64% year over year in Q3 of 2015 with an annualized rate of approximately $119 million. Our presence in the life sector grew by 78% year over year, while our annuity sector revenue grew by 18%.

The Company's life underwriting revenues improved 53% year over year, and health content revenues were up 84%, aided by the acquisition of Oakstone's continuing education business. RCS revenues were up 369% because of the acquisitions of a number of consulting companies.

Professional services revenue in Q3 of 2015 continued to be impacted negatively in the life sciences division where revenues were lower by 58% year over year due to the already announced decision of the Company to de-emphasize certain operations which we don't think can give us the same margin profile and market positioning that fits in with our present strategy and growth plans.

We expect that we will be able to improve revenues and margins in this area as our offshore operations set up to take this business ramp up fully in terms of knowledge and number of people.

The P&C business was down 12% year over year primarily due to the strengthening of the US dollar. The strengthening of the US dollar had a big impact on our revenues from Australia with its year-over-year revenues being down by approximately $1.9 million for Q3 2015 and $4.6 million for the first nine months of 2015 since the US dollar has appreciated an average of 17% year over year as compared to the Australian dollar, impacting Australian revenues adversely.

I will now turn the call over to Bob.

Bob Kerris *- Ebix, Inc. - EVP, CFO*

Thank you, Darrin. And thanks to all of you on the call for your interest and support of Ebix. Q3 2015 diluted earnings per share of $0.59 was up $0.12 or 24% from the third quarter of 2014. For purposes of this Q3 EPS calculation, there was an average of 34.5 million diluted shares outstanding during the quarter, as compared to 38.3 million diluted shares outstanding last year in the same period. As of today, the Company expects diluted share count for Q4 2015 to be approximately 34 million.

Operating income for the third quarter was $22 million as compared to $21.7 million of operating income in Q3 of last year. Operating margin for Q3 of 2015 was 32%, aided by the consulting margins growing by 4% sequentially to 24% to 28% and other businesses generating operating margins of 34%. We expect our operating margins to continue to grow over the next 12 months as we continue to implement our various cost efficiency initiatives.

In terms of cash flow during this past quarter, we generated $15.5 million from our operations, an increase of $5.7 million or 59% from the same period a year earlier, and representing a 70% operating income to cash conversion rate.

During the third quarter, Ebix's utilized $33.3 million to repurchase 1.17 million shares of our common stock, $6 million for the investment in the IHC joint venture, $2.6 million for the payment of our scheduled quarterly dividend, $2.4 million for the continued build out of our new headquarters campus here in Johns Creek, Georgia, and the purchase of (technical difficulty) for our continuing expanding operations in India.

With $45 million in current available cash balances as of today and $54 million in unused borrowing capacity from our credit line, recurring operating cash flow generation, which will keep adding to our cash reserves, and continued interest and support from banks to increase our credit line even further, we are well-positioned to continue to fund all organic growth initiatives to make either business acquisitions, repurchase shares of our common stock as market conditions warrant in future.

Furthermore, as to key balance sheet metrics, our balance sheet is healthy with $44.5 million of working capital, a current ratio of 1.91, receivable DSO of 66 days, a net debt position of $153.9 million, and debt-to-equity ratio of only 0.47.

Finally, Ebix's Form 10-Q will be filed this coming Monday, November 9th. And now, I will pass the call on to Robin. Thank you all.

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

Thanks, Bob. Good morning. Let me first apologize for the quality of the call. I'm not sure whether it's our phones or whether it is Nasdaq.com's telephone service. But I apologize for this.

I'll focus my talk on the qualitative aspects of the quarter, and also try to present a perspective of the future ahead of us. Let me start by saying that the insurance marketplace still lags many industries in its effective use of technology and technology-driven services to reduce costs, improve service, eliminate redundant activities, and paper-intensive processes, and to better leverage the value and potential of its data. Ebix is committed to delivering cost-effective solutions that support our customer's success while also helping to improve efficiency and lower costs.

Our Q3 2015 results are a reflection of that effort on our part to continue to establish Ebix as a leader in the insurance, financial, and healthcare services space. With many large customer contracts in implementation, a number key new contracts signed in third quarter of 2015, and a few material commitments in the contract stages, we believe we are on track to deliver solid top- and bottom-line results in 2015 and beyond.

While revenue growth remains a top priority, we remain highly focused on maintaining our operating margin discipline and striving towards our 40% operating margin goal.

Let me first address the diluted EPS growth on a constant currency basis. For the nine-month year-to-date period, our constant currency diluted EPS would have been $0.08 higher at $1.72. Our diluted EPS on a constant currency would have been $0.61 for third quarter of 2015, an increase of 30% over third quarter 2014 diluted EPS of $0.47. I'm pleased with that trend as it is on the lines that we expected it to be.

Darren talked about our revenue growth in various areas already. I am especially pleased with the momentum we have generated in the area of life, annuity, reinsurance, education, health, and e-governance sectors. In the third quarter, we closed a number of key deals in the area of health, life, and annuities while getting ourselves positioned extremely well for many large deals in all these sectors. Today, we are in active negotiations for many such large deals that have the potential of ensuring a very strong 2016 and beyond for us.

We continue to be the largest life and annuity insurance services player in the market with annualized revenues of approximately $129 million. We have seen a lot of momentum on this side of our business. We continue to secure contracts with top insurance carriers in the US.

Also, we are pleased with the fact that a number of top life distributors in the US decided to move their business to Ebix from their existing software vendor. We expect all this to translate into continued growth in 2015 and beyond.

Our momentum in the life sector can be best exemplified by the 53% growth in Company's life underwriting revenues year over year. We are presently in active negotiations for a number of large contracts in the education, reinsurance, life, and health sectors. We are positioned as the only end-to-end services provider in these areas, and that has helped us become the front runner for many of these prestigious deals.

Our recent announcement of our strategic relationship with Ernst & Young for certain emerging markets positions us uniquely to handle both government and private projects that involve lots of program management and interfacing with multiple agencies along with a highly successful record of success.

Recently, we announced a contract with a leading health carrier in the US to provide a complete IT solution and also establish their back-end operations offshore. We are aggressively working at present to service the deal, and expect substantial revenue beginning fourth quarter of 2015 from this contract.

I am pleased to report that we continue to work aggressively towards the date of 1st of January 2016 in terms of getting the PPL solution ready for prime time. Our dedicated team of technology staff both in London and offshore have been working closely with the PPL program management group to ensure that we are ready with all their enhancement requests and additional functionality requests by the intended effective date of 1st of January 2016.

We expect the deal to contribute substantial revenues beginning Q1 of 2016 in a consistent, recurring, and predictable manner. We are very excited with the opportunities in the education, e-health, e-governance areas. These opportunities tend to be large and can have a material impact on our top line. We believe that we have the solution set and financial acumen to service such large deals. We are working on many such opportunities at present and hope to make our presence felt in these areas soon.

We're also pursuing a number of key acquisition opportunities that are expected to be accretive for our shareholders from the outset.

At a net debt at present of around $143 million and annualized EBITDA of $100 million-plus, our leverage ratio is rather low. That gives us the ability to take more debt at low rates of 2% or so to make acquisitions. Our intent is to use cash as the instrument to make any acquisitions in the sub-$150 million range.

However, for a larger strategic acquisition that has high amount of synergies, strategic play, and can bring immediate accretive value for our shareholders, we would be willing to use stock as an instrument of purchase in some proportion provided it results in the right result and accretion for our shareholders.

As Bob detailed out, we bought stock worth $33.3 million from the open markets in the third quarter 2015. We believe that the Company's stable client base, and recurring revenue streams, unrivaled domain expertise, operational discipline, and resulting strong free cash flows provide a very compelling investment opportunity.

Accordingly, we continue to view opportunistic share repurchases as an excellent accretive use of excess cash that should deliver significant long-term benefits to our shareholders. As Bob conveyed during his talk, we have access to approximately $100 million of financial resources in the form of cash and cash equivalent and access to a bank credit facility.

This $100 million number does not include the prospective cash flows generated from operations by the Company over the next 12 months that we believe that we have the financial resources to carry out all the growth initiatives discussed here with a goal of delivering improved diluted EPS and increased shareholder value.

We believe that our operating margins are headed in the right direction at present. We also believe that these margins can substantially improve as we enter 2016, and some of the newer large value, margin-intensive deals are implemented.

Lastly, Ebix will be 40 years old in 2016. I've been involved in this journey with Ebix for 17 years now and have seen the Company deliver 60 quarters of profitability, growth, and consistency. I've seen the Company rise from a loss of $19 million in 1999 to become one of the most high-margin technology companies in the United States.

I have witnessed the Company deliver top-line compounded annual growth rate, CAGR, of approximately 21% in this time. I have also seen the Company deliver a total shareholder return of approximately 9000% in these 17 years. I'm still here with the basic belief that the best is yet to come. I'm hopeful that the 40th year of Ebix birth spells the beginning of a new era of growth and profitability.

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

QUESTION AND ANSWER

Operator

(Operator instructions)

Danny Nguyen, Merrill Lynch.

Danny Nguyen *- Merrill Lynch - Analyst*

Hey, how's it going, guys? So my question is, is there anything in regards to investor relations? Because a lot of times clients will ask me questions to relay to investor relations. I'll leave messages here and there, and it feels like nobody's home when it comes to that.

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

Well, I'm not sure I understand that question. But we have an IR phone that you absolutely can call, also the number of contacts that are listed in every press release on the investor relations side.

If you want to email me personally, I will make sure that you get a response. But in case, we're absolutely there for you.

Danny Nguyen *- Merrill Lynch - Analyst*

Okay.

Operator

(Operator instructions)

And I'm not showing any further questions in the queue at this time, sir.

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

We'll give them another few seconds and if nobody has a question, then we'll close the call.

Operator

(Operator instructions)

Allen Margolius - Palisade Capital.

Hi, thank you. Thanks for taking the question. I guess, in your remarks, Robin, you mention a lot about PPL, substantial revenues from a large deal that's going to hit in the fourth quarter. You think margins are going to substantially improve in 2016, looking at accretive acquisitions.

I mean, can you dimensionalize at all what you expect your growth rate to be, or what your aspirational revenues are? Anything like that so we can kind of get a sense of what direction and how quickly or how slowly things will move?

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

Yes, so, Allen, thank you for your question. I think, let me put it this way. As you know, I don't give guidance so I'll give you an aspirational goal. Basically, I'll be highly disappointed if we do not generate close to 20% growth, revenue growth, top-line growth in the year 2016.That's the first aspiration.

The second aspiration is on the the margin side, I'd like to see the Company inch closer to 40%. I believe anywhere between 37% to 40% would be my aspirational goal. The third in terms of EPS, from an aspirational goal perspective, I'd like to see the Company get to $0.75 sooner rather than later. And again, I'm not going to talk about the aspiration in terms of when I would like to get to $0.75. But let's say that we'd like to get there sooner rather than later.

So having said that, one of the challenges always is when you're building a company -- and this when I had a $100 million revenue company, one of the challenges investors used to tell me was that right now you have between 35% and 40% margins. When you double this Company to $200 million, you probably won't have that margin simply because of scale, it becomes more difficult to have those kind of margins.

Having said that, we've succeeded. We've still succeeded. I'm going to make sure that Ebix continues to succeed and grows on this margin rather than lets this margin go down. We're not in business to pick up just each and every deal. There's a lot of deals out there that we refuse where anything that is below that margin range where we feel -- if there is a nonrecurring deal, a license deal, we're not really interested in that business. If there is business where we feel that the margin profile is going to be somewhere in the 20s, we really aren't interested in that business. So that puts a lot of pressure on the way we operate our business.

But within those constraints, we still have pretty aggressive aspirational goals as I defined for you. And we want to do that while retaining our margin and while we continue to grow our business.

Now, the jury will be out on this once we get into 2016.

Allen Margolius - Palisade Capital.

Sure. Just a follow-off then. When you say 20% topline growth, how do you come up with that number? I mean, because you don't disclose any sort of bookings or backlog or sales channel, sales funnel, your pipeline, things like that. I mean, how do you come up with 20%?

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

We have our internal ways of figuring it out, meaning if I said more than that then I would basically be talking a bit too much right now. So I think at this point, all I would say to you is that -- our aspirational goals are based on some kind of common sense methodology, our internal methodology of what and where, how do we get there, and so on.

So we believe we have a plan. At the same time, like I said, there's no guarantee we're going to get there. This is an aspirational goal. At the same time, we are sitting on lots of good-sized contracts. Some of them are known to the market, some of them are not known to the market simply because we traditionally don't disclose a deal until we have an absolute sign-off from our client.

And sometimes we do not comment on the margin profile of an individual deal even if the margin profile is extremely high simply because that's not smart from our customer's point of view and for competitive reasons.

But having said that, we have already signed a lot of deals which are high revenue intensive, and we have already signed a lot of deals which are high margin intensive, which by itself should drive our margin up.

Now, on top of it, as I indicated during my talk we are in active negotiations for quite a few deals. Some of them are large-size deals, larger than the PPL deal. So we feel if we can get those deals inked, we will do quite well in 2016.

Now, on top of it, we are also sitting on decent amount of cash. We're going to continue generating more cash. We feel we want to utilize that cash both for share repurchases as also for making accretive acquisitions.

Now, acquisitions, as I said in my talk, and we have two different sizes. There's an acquisition which could be less than $150 million mark kind of an acquisition which costs us $150 million or lower. There we would like to utilize cash. We're not leveraged much today. We also feel that we have a very strong backing from our banking syndicate led by Regions.

We also feel on the other side of it is an acquisition which is of a larger size, but it is very synergistic, very strategic, highly accretive for our shareholders. Then we would be willing to use stock. But that's only going to be for something that's extremely large.

Allen Margolius - Palisade Capital.

Okay. And I'm sorry, The 20% top-line growth, is that organic or includes acquisitions?

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

I'm not going to break that up right now for you in terms of what part of that is organic and what part of it is inorganic. But right now, I will say a substantial part of that is intended to be organic.

Allen Margolius - Palisade Capital.

Okay. And then lastly, you said that relative to the PPL deal some of the deals you're working on, I couldn't quite make out, did you say are larger than that?

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

They are. Yes, absolutely. That's what I said.

Allen Margolius - Palisade Capital.

All right. Well, okay, thank you. Thank you very much. Thank you very much. Have a good weekend.

Operator

(Operator instructions)

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

since we don't have any more questions, I think we'll close the call. Thanks everyone for joining into the call.

And again, apologize for the initial quality of the call. And we'll make sure that this doesn't happen the next time. I'm not sure that it's our phone systems or not. But we'll make sure that we have better infrastructure between our conference service, Nasdaq, and between us to ensure that the call quality is good. Thanks a lot, again. I look forward to speaking you again. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. You may now disconnect. Good day.