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EBIX - Q1 2017 Ebix Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Ebix First Quarter 2017 Investor Call. (Operator Instructions)

I'd now like to introduce your host for today's conference, Mr. Darren Joseph, Corporate Vice President. Sir, please go ahead.

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

Thank you. Welcome, everyone, to Ebix, Incorporated's 2017 First Quarter Earnings Conference Call. Joining me to discuss the quarter is Ebix Chairman, President and CEO, Robin Raina; and Ebix CFO, Sean Donaghy. Following our remarks, we will open up the call for your questions.

Now let me quickly cover the safe harbor. Some of the statements that we make today are forward-looking, including among others, statements regarding Ebix's future investments, our long-term growth and innovation, the expected performance of our businesses and our use of cash.

These statements involve a number of risks and uncertainties that might 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 revisions of 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 is 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 2017 results was issued earlier 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 the release on our website, www.ebix.com. The audio and text transcript for 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 the results announced today. We are excited by the results that we announced this morning. Revenue in Q1 2017 increased 11% from a year ago to $79.1 million. On a constant currency basis, Ebix Q1 2017 revenue increased 10% year-over-year to $78.5 million as compared to $71.1 million in Q1 of 2016.

In Q1 2017, our exchange revenue continued to be the largest channel for Ebix, accounting for 67% of the company's revenues. The year-over-year revenues increased as a result of revenue growth from P&C, life, underwriting, CRM, RCS and health e-commerce services, in addition to revenue growth generated from the company's 2016 acquisitions of Wdev and Hope, the net effect of consolidating Ebix Health JV and the new e-governance contracts with a number of large clients in India.

In Q4 of 2016, we got a seasonal revenue increase of around $3 million as compared to Q1 of 2017 in the medical continuing education business and the health administration exchange business. The increase in the continuing education area in Q4 2016 was primarily associated with doctors trying to get beneficial tax treatment by purchasing the continuing education courses while the administration exchange increase was associated with policy renewals that happened at year-end. Considering the seasonality in Q4 of 2016, we believe that Q1 2017 top line performance is strong and in line with our expectations.

Underwriting exchange revenues grew 19%. Health e-commerce exchange revenues grew 18% year-over-year in Q1 of 2017, while P&C exchange revenues grew 18% and life exchange revenues grew 3% in the same year-over-year period. RCS revenues were up 30% because of new contracts in India and the acquisition of Wdev business in Brazil in 2016.

Our reinsurance revenues were down 10% in spite of higher year-over-year revenues in British pounds because of large exchange drop associated with the Brexit vote. The company's A.D.A. M. Health content revenues were down approximately 19% year-over-year, affected by increased price competition in the sector. Ebix's presence in life and annuity sector is presently annualized at approximately $118 million based on the Q1 2017 run rate.

I will now turn the call over to Sean.

Sean T. Donaghy - *Ebix, Inc. - CFO*

Thank you, Darren, and thank you to all on the call for your continued interest and support of Ebix. At the outset, let me say that we are very pleased with the company's first quarter 2017 financial results and operating performance and look forward to the rest of the year.

Q1 2017 diluted earnings per share increased 24% to $0.83 per share as compared to $0.67 in the first quarter of 2016. For purposes of the Q1 2017 EPS calculation, there was an average of 32 million diluted shares outstanding during the quarter compared to 33.3 million in Q1 of '16 and 32.5 million in Q4 of '16. As of today, the company expects the diluted share count for the Q2 2017 to be approximately 31.7 million shares.

Q1 2017 operating margin decreased to 32.5% as compared to 35% in Q1 of '16. Operating income for Q1 of '17 rose 4% to $25.7 million as compared to $24.8 million in Q1 of '16. We are pleased by the fact that the company continues to deliver attractive top line growth, cash flows and operating profit with a 33% operating margin during Q1 of '17 for the entire business and approximately 37% operating margin for the core exchange business.

Cash provided by our operating activities rose to $15.7 million in Q1 of '17 compared to $10.5 million in Q1 of '16. Q1 2017 cash flows reflected cumulative cash payment of $8.95 million for bank interest and income tax, principally on account of certain nonrecurring advance minimum alternative tax payments in India for $4.9 million.

In Q1 of '17, we spent a total of $52.3 million on share buybacks, dividends, tax payments and on building constructions. Specifically during the quarter, we used $40.5 million to repurchase 704,000 shares of Ebix common stock, paid $6.7 million of taxes, spent $2.7 million on building out our facilities in India and Johns Creek, Georgia and paid dividends of $2.4 million while drawing just $40 million from our bank credit facilities.

After these significant uses of cash, the company still ended the quarter with cash flow from operating activities of $15.7 million and $123.5 million in cash, cash equivalents and short-term investments, up by $52.1 million as compared to March of '16.

We are very pleased with the company's continued ability to generate cash and fund its growth and investor-friendly initiatives. With these additional share repurchases, the company has now repurchased approximately 7.26 million shares of its common stock for an aggregate amount $215.2 million at an average price of $29.65 since August 1, 2014, when the Ebix board announced its decision to repurchase our own stock consistently over the next few years. We expect to continue the share buyback utilizing our operating cash flows from the business.

After spending a cumulative $52.3 million on share buybacks, dividends, tax payments and CapEx in Q1 of '17, as of March 31, Ebix still had access to approximately $304.5 million of readily available cash resources from its financing arrangement with its syndicated bank credit facility, combined with cash on hand to adequately support continued organic and acquisitive growth and to expand the existing operations of the company as needed to meet the demand for our products and services.

Furthermore, our balance sheet is healthy and our company's financial position remains solid with a current ratio of 3.14, a working capital short-term liquidity position of $148 million, a debt leverage ratio of 2.6 and a debt-to-equity ratio of only 0.74 as of March 31, 2017.

We will soon be announcing the record date for the Q2 2017 dividend payable to our shareholders. In Q1 of 2017, we paid a quarterly cash dividend of $0.075 per common share to our shareholders. Finally, Ebix's Form 10-Q will be filed tomorrow afternoon, Wednesday, May 10, 2017.

I will now pass the call back to Robin.

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

Thanks, Sean. Good morning. I last spoke to all of you 2 months back on February 28 while announcing our 2016 annual results. Our business is reasonably consistent and thus, I had a fair idea of the first quarter results on that date and thus my talk in the investor call that reflected my views about the direction of the first quarter and analysis of the year 2017 and '16. I'll thus try not to be repetitive in my talk and focus my talk on a brief analysis of the quarter and primarily on anything new that might be on the horizon for Ebix.

With respect to the results announced today, they are in line with our expectations and where we expected to be in terms of the top line. From my perspective, the top line performance is solid. Sequentially, we had to deal with the seasonal increase of $3 million in Q4 of 2016, which incidentally were not predictable for us in Q4 the way when we get into Q1, we get to see how much of the business that we got from continuing education was seasonal versus continual. So there's a little bit of a hindsight, thought process that goes into it.

For the most part, we came up with our increases in revenue from a number of segments, as discussed during Darren's talk. We agreed on material deals with a few key accounts that should continue to give us consistent revenues for the next few years. We also made good strides in the area of straight-through processing by agreeing on new exchange deals with key clients like HSBC Bank, Ameritas, DFS, Merrill Lynch, amongst others. We also agreed on a deal with one of the super brokers, Arthur J. Gallagher, in Australia to implement our SaaS-based, end-to-end broker system, Ebix Evolution, in Australia.

I'm especially excited about the A.J. Gallagher implementation as it will serve as a catalyst for the implementation of Ebix Evolution to our other super broker clients spread across more than 50 countries, a key source -- which could be a key source of future revenue for us, both in terms of new license fees and consulting dollars. Also, it further increases our dominance in the Australian market.

I was recently in London to oversee the progress of the PPL London marketplace exchange for reinsurance. I'm pleased to tell you that the exchange is working wonderfully with Ebix design, functionality, responsiveness, attention to detail and technology expertise, winning us positive reviews from all the key constituents of the London insurance market. I'm very excited about this as each of the pillars of the PPL exchange are a who's who of the London market, with each one being a potential direct client of Ebix for a variety of services other than reinsurance exchanges.

Ebix continues to review each of our business lines in terms of margin performance. From this disciplined review, we are able to focus our resources on our best performing opportunities as well as possibly reduce our focus on areas where margins are under pressure. Ebix continues to deploy increased manpower on strategic opportunities, such as our implementation of the PPL reinsurance exchange in London and underwriting exchanges in the U.S. These steps have not only contributed new consistent long-term revenue streams, but have also created tremendous goodwill for Ebix and a customer sales force that helps us sell purely on the strength of our reference base. The growing customer awareness of Ebix's domain expertise and performance has opened up many new business opportunities, deals that we would not have known about had our customers not made the strong positive recommendations.

I talked about an area of the momentum and focus in the annual investor call. Today, Darren spoke about the Q1 quarterly performance already. So I will not talk more about it now until the Q2 investor call. We're focused on growing our revenues while keeping our operating margins intact. The margins from our core exchange business were strong at 37% while our overall margins were at 33%. I'm pleased with that trend.

We've been bearing the brunt of the U.S. dollar strengthening against other international currencies for many years now. For example, the U.S. dollar strengthening with respect to the British pound has taken our annual revenue from the PPL deal in London down by approximately $5 million from the time the deal was inked. As and when exchange rates move our way, we're going to see handsome increases in revenue just on account of exchange rate changes.

During the annual investor call, I talked at length about acquisition opportunities and our approach to them. So I will not say much for now except say that hopefully soon, we will announce an acquisition that we believe can be a growth -- can be a great growth driver for Ebix in coming quarters and years. More on that very soon, hopefully.

In recent times, some of our decisions to walk away from prospective acquisitions that did not pass our due diligence or valuation test have proven to be right in the public eye. We are fully aware that our acquisition history that looks fantastic today could look absolutely terrible if we are proven to be wrong on one material acquisition. For every one acquisition that you get to know about once we announce it, we might have walked away from a few that you may have never heard about.

Sean talked about our access to cash and our desire to use that cash for both growth and investor-friendly activities. In the first quarter of 2017, we decided to take advantage of the low stock price and accordingly bought 704,000 shares for $40.5 million. We like to be opportunistic in repurchasing our stock. And this decision is amply reflected in our purchase of approximately 7.26 million shares of our common stock at an average price of $29.65 for an aggregate amount of $215.2 million since 1st August 2014, when we announced the Ebix board decision to repurchase our own stock consistently over the next few years. We intend to continue to be opportunistic in repurchasing our stock over the coming quarters and years.

We are presently focused on trying to achieve our aspirational goals defined earlier in previous investor calls. Let's see where we end up in the first quarter of 2018 in terms of conformance to those aspirational goals.

Thank you. With that, I'll hand over the call back to the operator.

QUESTIONS AND ANSWERS

Operator

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

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

Robin, just a couple for me, actually, several for me. The -- as I look at the release last quarter, you talked about that you had, "Agreed on a number of large value contracts that will contribute in 2017." And I think you touched a little bit on the call today. In the release for today's earnings, you said you've agreed to undertake a few substantial deals that involve implementations that should contribute to results over '17. Can you expand on that? When -- have those deals that you've agreed to undertake impacted the P&L at all here in Q1? And if not, when do they start to impact? Can you give us a little sense of scope of the impact?

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

So Jeff, they have started to give revenue in Q1. Again, as you know, we can't recognize revenue until we have -- until we are at the right stage of implementation. So we have to follow the GAAP rules on recognition. So we have -- had taken a small impact of those deals. At the same time, we believe that most of the size of these deals are large enough and we should see a continued impact going into the next few quarters. As our implementation gains pace, we will see increased revenue coming from these deals.

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

And can you give us some semblance of the scope of the opportunities? Sounds big enough that you mentioned it in the release. So certainly, seems like it's what you're believing is either out of the gate or over time going to materially. Can you help us scope the revenue opportunity?

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

I'll give you -- you see, we are under NDA specifically with these -- specifically with one of the larger, one client. So I couldn't give you specifics of the name of the client and detail. But at the same time, I'll tell you that in our book, any deal that has the potential of giving us revenue between $10 million to $30 million a year is a large deal. And so I'll leave it at that.

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

And I guess, just conceptually, is this something that comes in big lumps? Or should we see this gradually grow over the course of this year?

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

Well, it will be -- you see, part of our effort there, frankly, that we would like to be very consistent. So we're not looking for lump. That's the first thing. Meaning, from an aspirational side also, we're not looking for lump. But sometimes, we -- obviously, we are governed by the GAAP rules and we have to follow the GAAP rules, whatever the technical accounting rules are. We're going to see, as we implement some of this, we're going to see fair consistency. You will see, there will be some lumps, which are unavoidable by GAAP rules. But you're going to see, as we implement the larger part of these deals, you're going to see bigger lumps in specific quarters in terms of sudden pop in revenue.

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

Okay. And then, I guess, just secondly for me. With respect to the numbers for the quarter, you commented to the seasonality and sort of paraphrasing. It was evident in hindsight having not had history with the kind of push that you've got from some of the physician purchased products. I guess my question is, on a sequential basis with down revenues, cost of goods was up. And I'm wondering if that might have had to do with these new deals signed or if there's another explanation there.

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

Yes, that's the new deals signed. That's basically what it is in terms of cost of goods. But coming back to the seasonality. Look, it's difficult. We know it's seasonal. We know the area which are seasonal. And I actually talked about it in previous quarters also. I talked about continuing education specifically because that's the main area where we had the biggest drop from Q4 to Q1. And it's very hard to predict because what happened in that area is that you're dealing with doctors who are trying to claim tax deductibility. Now we don't know from a perspective of, is that -- how much of what you delivered in Q4 is a part versus how much of it is a consistent? The problem we have is, obviously, this is a relatively new business for us, continuing education. And we're continuing to learn as we are implementing, as we are getting into this business. And we are -- obviously, we have -- I think we've done well in this business. And we're continuing to -- as we have a little history behind us, we will be able to predict this a little bit better than we were able to predict because it's just -- remember that our entire business model in continuing education is a direct marketing model. We are selling purely through direct marketing in the area of continuing education. So it's impossible to predict what part of it is seasonal until you have enough history behind you, which we unfortunately haven't had. Overall, Jeff, I am quite pleased with the overall -- the trend of revenue because remember, I think I've been here 18 years and I know that every quarter, you're as good as what you produce in a quarter and history doesn't count. And having said that, when I look at -- there are 2 aspects to it. One, I think as a company, we want to be fundamentally strong. We don't run a company on a day-to-day basis. We try to make sure that what we are delivering can have continual value, can continue with it and so on. Having said that, the key part of our thinking has always been that when you look at revenue stream, we try to point revenue

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streams that are consistent, that can stay, that can be prolonged. For every one revenue deal that you -- that we -- when we present our revenue stream, what you don't hear about is stuff that we just ignore completely. Meaning, this is something -- Ebix is such a disciplined company, and I feel very proud of being the CEO of such a disciplined country. Where when you look at our margins, most companies will be very happy that they have 33% operating margins. Here I am sitting here as a CEO conducting an exercise, and I'm saying this openly in all transparency, conducting an exercise, looking at each and every division and trying to see, maybe we need to give up on revenue sources in some division. Even now, simply because we are -- we feel the single-biggest strength that Ebix had is the benchmark we have set up in operating margin, what we are able to do. So we're going to be continually at it, trying to look at business areas where we're not -- where we might be generating revenue, but we might not be generating -- we might be diluting our margins. And it imposes a lot of pressure on this company in terms of how we operate. But having said that, I'm actually very pleased that a lot of the revenue that we started getting into -- if you look at where we were last year and how we have kept ramping up the revenue, a lot of the revenue that we got into are brand-new opportunities. We have made them fairly consistent. All those new opportunities have started becoming very consistent. It's a -- and I feel very good about it that we are able to deal with most of the seasonality, if there is any, in our business. But more than that, that we are not just signing deal with parts associated with them, we're trying to make those deals recurring enough or trying to focus on deals that are recurring enough. So from that perspective, I actually feel very good about where Ebix is today in terms of its momentum, in terms of its thought process, in terms of its discipline and so on. Sorry, please go ahead.

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

Sure, no worries. So one last for me and I'll let somebody else jump on. And it kind of ties to what you were just talking about. So you've got some aspirational goals out there. But with respect to margin profile, talk to me about how you feel about operating margins from this level, sustainable, likely to rise, likely to fall? And I know the obvious tie into that, that you could maybe touch on is your overall pipe and conviction on these e-governance deals in India? They have very different margin profiles in and of themselves as well as compared to your historical margins. So based on what you see now, how do you see your overall operating margin profile and then where is your conviction and outlook on the opportunity around the e-governance deals?

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

Yes. So I feel actually very good about the margin profile of the e-governance deals. We have continued to ramp up that margin profile. Where our margins are not as good as where it should be today is the business of consulting, strategic consulting. What has happened in the recent time also is that with Mr. Trump taking over, it has obviously created a bit of a flurry of activity in the consulting arena. That's going to hopefully -- meaning, we'll have to be prepared for it. And we have to accordingly deal with it and see how we can improve our margins. So we are taking various steps internally to make sure that our margins are not as low as where they were. Those consulting margins have hurt us as of today. So we feel that there is ways to improve that. The second aspect of it is acquisition. Now one request that I'm going to make to each one of you is that as Ebix gets into acquisitions, we are now -- Ebix has a goal of -- we're trying to become a much larger company and we know what our goals are. We definitely want our operating margins to be 30% or above. But when you're trying to do that, you're going to make some decisions in terms of, we might get into an acquisition in a particular phase where we might decide, listen, we're going to take big expenses or expenses in one quarter or onetime and try to clean the balance sheet, clean the ongoing P&L and so on. So basically, our goal is rather simple. Our simpler goal is we absolutely want to be 30% or above. That's the basic goal. Now can we be at 33% or can we be at 35%? I will not comment right now. All I will tell you is that we just produced a 33% quarter and we are absolutely in the midst of an exercise trying to improve our efficiency, trying to look at each and every part of our business as to what we can do better and how we can improve our margin and so on. Our margins also frankly were hurt by some of the A.D.A. M. drop. Because remember, what that drop has basically been, all come out of our margins. And that we had to make up for that. So if you look at it, our remaining margin profile kept growing up because if you -- if I take the, for example, the A.D.A. M. revenue out, the drop that we had, which translated into a big -- which basically went into our -- went to take our income down. If, let's say, that was taken out, our margin profile is actually going to be a lot higher than it had been in the past. So we're also dealing with some of these -- more -- things that we weren't predicting basically, frankly, for want of a better word, and we're -- I'm being transparent about it. That's a learning process. We're trying to improve in those areas. So good news is, it's typically happened in one area, most of the impact. And then we were obviously hit by simple things like margin business. To give you a simple example, the London deal. The majority of what you see in the London deal, that the exchange rate drop. Meaning, that's a $5 million drop. When we signed the deal, we had a guaranteed revenue of $17 million plus. Today, it's translating into $12.3 million or something like that, which means we had a $5 million drop and it clearly will impact our margins to a pretty good level. So we have to deal with those kind of things. Good news is Ebix made up for it. And I think we're going to continue to be focused. At the same time, we are trying to blend our desire to be a high-growth company with our desire to be a high-margin company. Now as you know, that's not easy. At the same time, we are committed. We are confident we can do it. And we're trying to -- we're not trying to follow another company that we can just follow and copy what they did because nobody else has really done that in our industry. So we're having to create our own path and charter our own path. So we are continuing to do it. I feel good about with respect to the aspirational goal or the margin level or the revenue number that we want to get to, I feel good about it. I think to -- I would rather have investors in their own mechanism, in their own math take the worst-case scenario and say, look, maybe the margin profile I should count on is 30% or 31% or something like that. And I'm comfortable with that as a CEO because my job in here is not to hype the company. My job is to let the investor themselves draw the range of what they think the company is worth and also draw -- take some scenarios in it. And from my perspective, if we do a lot better than that, we'll make all the investors a lot more happier. So having said that, I think the company is today very focused on, we believe we have the ability to be the largest insurance software player in the world. We're already the largest insurance software exchange in the world. We believe we can be the largest. And we can be a lot larger than where we are. So we don't want to just operate in the manner we have operated in the past. There is a -- and there's nothing bad about what we did in the past. It's not that I'm -- meaning, we might have made a series of mistakes or positive things in the past, and we're going to learn from them. At the same time, I think our thinking is we need to be a company that can blend this high growth with high-margin structure and that will take a little bit of innovativeness, a little bit of chartering our own path. When I was trying to build this company and I remember early days when we were doing $40 million of revenue and I started talking about 35% margins, and people said, well, that's good for you to say that because you're running a $40 million company. You're not running a $100 million company. Here we are running at a run rate of $320 million and we're still at those margin levels. So -- but one thing which I learned over these 18 years is, you don't run a company for -- from a quarter-to-quarter. An investor who's short term and is looking for, great, I'm going to -- they did amazingly well this quarter or they didn't do amazingly well that quarter. To me, that's not the best investor for Ebix. The best investor for Ebix is somebody who looks at the 18-year history, the consistency of it, where is this company headed? Is this company really -- are they giving growth to their stock or does this company really have the ability to get there? Do they have the product? Do they have the strength to get there? And I think I would rather have investors create a SWOT analysis of their own, the negative and the positive and take analysis of, hey, the operating margin can be 30% possibly or it can be 35%. Let me draw a range of it if it's still worth an investment. And from my perspective, that's a good investor for Ebix, and that's what I'm here to do. My job is to deliver and my team's job here is to deliver continued value, but we want to do it by not thinking on a daily basis or trying to be -- trying to just be sensitive to making people happy on a daily basis. What we want to do is we want to deliver really solid long-term value and hopefully, in the process, create one of the best stocks in the insurance marketplace or in the financial marketplace. So I think that's what, Jeff, we our focused on. And I feel good about where we are. I feel fantastic about our product. I have been here 18 years. And after 18 years, I would tell you, one statement that I can stand on a rooftop and make is, every part of Ebix is cutting edge, leading, works, loved by our clients. That's not easy for people to say who are running 270 different kind of products. And that's what we do. And so I feel today, we as a company, we have set up the basics right. Our margin structure is right. We're headed in the right direction. We have a fantastic management team in place who I give them absolute credit for sticking to the company. And we have the new bunch of energy now coming in the company. We have all these technical guys who are now -- who have stayed here for a decade, who in my view can be -- are well ready in terms of a technical management, the people that we have. I feel there are a number of folks who could be the future CEO of Ebix. And to me, that's the basic value of Ebix today that we have creating people who have been here with the energy, who understand the basic ethos of Ebix, who understand the basic adherence to customer value, the basic adherence to investor value, consistent delivery of value and have that technology excellence associated with them. To me, when you have those kind of basics right, you are setting up the foundation of a very strong company in the future. And that's what until the day I'm here, I'm going to be absolutely focused on making this company a leader in where we -- where it is and where it is headed. So Jeff, I know I gave you a very long answer, but I wanted to do this simply because I wanted to make sure you understand that the passion behind what we have built now at Ebix and where Ebix is headed and what it's trying to think of.

Operator

(Operator Instructions) Our next question comes from the line of Allen Klee with Sidoti.

Allen Klee - *Sidoti & Company, LLC - Research Analyst*

You talked about a deal that you won with Arthur Gallagher in Australia. And you made some comments that, that could be a catalyst to other super brokers and also the attractiveness of the Australian market. Could you maybe expand on that a little bit if I can understand what you're doing for them and how this could be an additional opportunity with other people?

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

Thank you, Allen. So good morning, first of all. So that's a great question. So let me answer that. When you look at the Australian P&C market, there are close to 900 brokers in that market. Today, if you look at around 864 and somewhere around 864 are using Ebix for their back-end systems, which means we already have majority of the market. But -- and I'll talk through that. We did not have Arthur J. Gallagher who, as you know, is a very large broker and has a very large presence in Australia itself, but is a very large broker across the world. What we were trying to do, a lot of these brokers in Australia and across 50 countries, that means 50-plus countries that we are in 6 continents, actually, in 19 different languages, a lot of these brokers are using what we call a system called eGlobal. eGlobal is basically our system that's considered a Cadillac by the super brokers. It's a system which is multilingual. It is multicurrency. It's a complete back-end system for a broker. It does everything from underwriting, to general ledger, to policy admin, to claims administration, to CRM, to sales, it does virtually everything. It's got its own word processor built in. It's got report writers. It interfaces with all kinds of stuff, interfaces with exchanges and stuff like that. So we sold eGlobal to them over the years. And good or bad news is, the good news is that they all love it. The bad news is they all of it. And I'd say that's the bad news because we would like to move them to the next generation of product. And the next generation of product is, we, over the last many years, spent a lot of effort and built a product called Ebix Evolution. Ebix Evolution is basically, we don't call it a broker back-end system. It's an e-commerce framework for a broker. It does everything, exchanges, back-end system, but more importantly, it's the latest. It's a thin technology. It's a thin client technology. You can, for example, a large super broker could host it in Eastern Europe in one country and then have 12 of their other subsidiary run off that system. They save on all the licenses because one of their big cost is all these Oracle licenses and Microsoft licenses and so on. So we've been building this up, and we have worked with a lot of the larger brokers to build this system up. And what has started to happen is that as we deploy this, now the difficult task we obviously have is they're all our clients. We want to move them into Evolution. Now the good news for us is, if we move them, we can actually multiply our revenue threefold on the broker system business. And I mean it's threefold simply because that's how the Ebix Evolution model is. The Ebix Evolution model, we take care of everything from hosting, to back-end systems, to virtually being the server prompt kind of a provider. So we -- so what we've done is we've been in front of all the super brokers. Our first step was to try and show them Evolution and continue to work with them to see what they want. What will basically happen is as we start working with these larger brokers, all these larger brokers will need customization. So we think we can do a substantial amount of consulting dollars and then we can generate a lot of license. Now when I say license, it's subscription revenue. It's continual monthly revenue. And it's pretty substantial and it basically has very high operating margins for us with those products. The good news is, we've created the entire Ebix Evolution technology out of India. So the entire design knowledge, the entire intellectual property knowledge, all the coding, the testing, the support will come out of India, which means our margins are going to be phenomenal out of this. So what we were doing -- when you drop, when you deploy a product like that, you're always looking for, you need one large super broker. But everybody is wanting. They don't just say, listen, I'm going to just take -- everybody will take it on Day 1. That's not how unfortunately the insurance market work. There always have to be a guinea pig kind of a player. And this is true incidentally of every product that we have done. So what happens is you have to deploy it across this one -- especially if there is a broker who has size. Because when you have size, people understand the complication of a large broker. And if they -- if that -- if they deploy it, that becomes a catalyst to other brokers saying, great, I'm now ready. And it's also a competitive aspect that you want to be ready for. So Gallagher deal was a very important deal for us because they decided to go with Ebix Evolution. Now they were a brand-new client. They were not our client in the past. What that does for us is now we're going to start organizing all these user group conferences and start pushing people and creating end-of-life on some of our products. We obviously know that there is a -- we can operate -- as a company, we could have also used the pressure tactic, which is we can just declare end-of-life on our previous products. And it so happens that most of our clients are completely dependent on this. We have tried not to misuse our strength in any area. We're seen as a very sincere company so we're going to try and be very collaborative with our clients in working through that. So we feel this to us we're excited because Evolution, Ebix Evolution is basically going to replace eGlobal across the world in 50-plus countries, which means when you look at all the large brokers, whether it is an Aon, whether it is a Marsh, whether it's a Willis or whether it is a Lockton, all of them are using our products in multiple countries. Meaning, somebody is using it in 45 countries, somebody in 18 countries and so on. And we feel that by itself is a big opportunity for us. And this -- what it has done is, it has proven that the product is real and now our job is to make sure that we implement it properly and we can create a strong reference out of Gallagher. So that's going to be our next step as we go into it from that perspective.

Allen Klee - *Sidoti & Company, LLC - Research Analyst*

Okay. And then somewhat similar on PPL and the reinsurance market. You mentioned you were in London and felt quite good about that. Can you give us some kind of updates on -- if there's been any expansion of insurance lines that are being used and other opportunities to expand it?

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

Thank you, Allen. So Allen, PPL exchange is ultimately, we got to look at, what is PPL, first of all. PPL is a body formed by all the market players. Virtually everybody in the market, all the brokers, all the underwriters, all the reinsurers, Lloyd's, all the associations, the underwriter association or the broker association, everybody teamed up and is in this body called PPL. And this body basically, they fund it, all of them. And ultimately, majority of the funding right now is coming from Lloyd's, but ultimately, all of them have to fund it. And this is part of what is called project T-O-M, project TOM. Project TOM is an initiative in London by -- led by Lloyd's. It's a GBP 250 million initiative to modernize the London market. It so happens that this exchange is at the center of that TOM, project TOM initiative. If this works, what it does is that it, first of all, meaning, if you look at -- I don't want to say anything positive or negative on project TOM. It's a great initiative, which will basically, which is -- it is having a series of hiccups as normal. And -- but it is also -- Lloyd's is very strongly backing it. There's a lot of effort and hardware behind it. Having said that, when you put an exchange at the middle of it and if that exchange works the way it was supposed to and if that exchange can deliver cutting edge technology, can drive paper out of the process, it's a big win for Lloyd's. It's a big win for the London marketplace for project TOM. To that extent, this exchange is a very watched and a very difficult kind of an exchange. What we have been able to do is not only have we kept delivering business lines. So there is a -- we have kept delivering -- we are on schedule with all the business lines that we were to deliver. There is another large business line coming, I think, in June that's going to be delivered. And after that, there's one more. And we would have basically improvements they want it to be, it would basically take care of most of the brokers in the market once we have deployed the additional 2 lines. Having said that, the -- when you consider the overall impact of it from a London market perspective, they want to make sure that this exchange cannot only interface with all the other entities, but it is technologically far ahead in terms of what it delivers, how it disintermediates paper and so on. From our perspective, the goals that they had set up in terms of where we needed to be in 2018 June. I'll give you a very simple statistic why are people so appreciative of what Ebix has done. On what we were supposed to do as a -- on the technology side in June of or July of 2018, we fast forwarded it and decided that we're going to deliver it in June or July of 2017, 1 year ahead. That doesn't happen normally in the insurance market that a vendor goes in and says, no, no, no, I'm going to fast forward this and I'll fast forward this. And so what has happened is, it's won us a lot of happy faces. And when you say happy faces, who is running PPL? Who is on the board of PPL? Who are the people we're going to work with? We're going to work with the largest of the brokers, the who's who of the market, the largest insurance companies, Lloyd's, of course, the largest associations. So if we can do a good job on this and show that Ebix is way ahead of the curve, what we have done is we've then shown that Ebix is ready for the next big challenge. What could be the next big challenge? There is a lot that has to happen as part of project TOM. And we would like to be a key player in project TOM, right? We would also like to be a key player to all these large players, whether it is ABC broker because I don't want to just spell out names there. If there's a large ABC super broker and there are many of them there, when they have their requirements and each one of them are -- have big IT budget, we would like to be a player there. Because of what we have done, it has probably won us a lot of -- it's won us a lot of respect and transparency and people believe in us. So I'd like to say that, that was what I was trying to reference. So we're doing extremely well. I just came out, spent a week in London, looking at what we did. And I'm extremely pleased with where we are with respect to the London marketplace. I'm actually headed back in the 2nd week of June again to London. Because we feel it's not a question of this $12 million or $18 million or whatever. There's a much larger play involved here. Because you're talking about modernizing the London market, and there's a lot that has to happen. But Ebix is a sincere player. We don't just go in and say, listen, we want everything right now because we are so good at it. We just like to pace our step. We like people to believe in us. We like people to understand how Ebix delivers. That Ebix is not going to -- is not just another aggressive sales machine. Ebix delivers. And so I think that's our basic. Right now, we're in absolutely systematically, we have put in the best of talent across the world. To tell you the value of how much we value this reinsurance exchange, I have folks from the U.S. involved. I have folks from Australia involved. Of course, there's a large team of people from India that is involved because we truly value what can happen out of this, not only in terms of project TOM, which is by itself very large. But then, it is -- the entire world of reinsurance market is watching it, right? Meaning, if London succeeds at this and London can show what it does, it's going to give London almost on unfair edge with respect to all the remaining reinsurance hubs. And that by itself is a huge opportunity for us because we negotiate in a good agreement with PPL. To their credit, they were fair with us. They allowed us to -- we basically have the ability to make reinsurance exchanges and deploy them in various other places as long as we don't just replicate what we just did in PPL exactly.

Allen Klee - *Sidoti & Company, LLC - Research Analyst*

And lastly, can you kind of go through the major opportunities that you see over the next couple of years in India?

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

I think in India, we -- I see opportunities in 3 areas. So Allen, one is clearly e-governance. I think there's a reason the Indian currency is doing so well. There's stability in the government. And there's a lot of effort that is happening in the digitization of the country. So I feel that there's going to be opportunities. When we say e-governance, e-governance can be across insurance, can be across finance, can be across other industries. But basically, you're building infrastructure to digitize the country, to convert people into -- if I'm a medical patient, let's say, you're converting me into a digital patient. That's basically the vision of the Prime Minister of India. That you're digitizing. You're creating a digital human being in a way that every human being is being connected digitally across from a government perspective, from an e-commerce perspective. You can do transactions and so on. Because India doesn't have the system of what, in terms of -- there was until now, until recently, until a few years back, they didn't have any system of Social Security number and now they have something called Aadhaar card and stuff like that. So they've taken a huge step ahead. So that's one. E-governance is a very large opportunity and a continued opportunity because India is very diverse country. It's not going to reach a stage in the next decade or 2 decades where they will suddenly say, our infrastructure is very good. As you know, India needs a lot of infrastructure. And so we think we want to be a player there and take a strong position there. The second area is the area I feel of exchanges. India doesn't really have an insurance exchange. India doesn't have a reinsurance exchange. But it's a country where there's a lot of youth, 65% of the people are approaching the age of 35. They're creating a -- this is going to be the largest middle-class in the world. You're going to have a middle-class of 400 million people, which incidentally will be larger than the population of U.S. All of these guys, that 400 million people are creating wealth. When you create wealth, you preserve that wealth. That's where insurance comes in. There's a need to standardize. When the government talks about all the standardization and providing better health care, providing some conformance, they are not able to do any of that today simply because they haven't really created insurance exchanges. Until you do that, you're not going to have any control over or predictability on anything. You want to predict -- government say they want to launch crop insurance, but how do you do that without having some infrastructure do that. So then you go into financial exchanges. I am a huge proponent in the area of financial exchanges. I believe that's where Ebix needs to head. I don't know whether you in recent time read the Wall Street. There was a story in Wall Street almost 1.5 weeks back about a company who, I'll let you do your research. But this company basically, for want of better numbers, I'll tell you, their revenue is around $120 million. Their losses this year were approximately $260 million. They were valued at $9 billion, it was $8 billion or $9 billion, somewhere in between. And recently, some -- a large institution out of Japan decided to invest $1.8 billion in it. Now why did they value it at $9 billion? What is so great about it if they have only $120 million of revenue and $260 million in losses with 14,000 employees? Because their opportunity. They're looking at the opportunity of 1.3 billion people and they're saying, this is a business of financial exchanges where, if you can be a player in moving money, in providing people the ability to do what Apple Pay does or what Paypal does, making payments. Like taking the Uber car, you're in a Uber car, you want to make a payment or buying prepaid cards or providing ATM machines because the length and breadth of the country, the country doesn't have ATM machine. You need to get to a world where people can walk in into brick-and-mortar shops and basically have the mobile wireless machine where they can walk in and say, great, I have the security code. I need to draw some money and the shopkeeper pays them the money while they run their security code through that small wireless device. The whole concept of bill payment. In India, it's not like the U.S. In India, you don't just go in and make a bill payment. You have -- you want to make 30 different bill payments, you either walk up to the shop, to the power house or to the gas company or whatever and make your bill payment. It's a very complicated country. And so there's a need to digitize. There is a need to create exchanges, which can be -- which can link the consumer with the banks and with the retailers and with the large providers. So what I mean by that is the power companies, the DISH Network, the DIRECTVs of the world, you name it, all the big players out there, connecting them with -- and connecting them with the banks and launching -- and providing all kind of range of financial services that are available to people on their phone, are available ideally in brick-and-mortar setups, not only on the phones. Because India, you have villages, people want to be able to -- you want people to be able to walk in. Some time, when they even want to make a digital payment. They have cash. They don't have digital money to send their money. So in a country, in a third world country like that, what really happens is they will take cash into a place and then make a payment. And if they could take that cash and convert that into digital money and then do a transaction over the net at a brick-and-mortar setup, in a shop, for example, digitally, that's another way of doing things. So there is a lot of possibilities in that market. So the particular company that I talked about incidentally does not do all of this. All they do is they're basically a Paypal kind of a player who basically goes in and makes a lot of transactions happen. But they've spent a lot of money in branding and trying to be in the midst of it. And from my perspective, I love that play. I feel it's a perfect fit into insurance exchanges because it's the same consumer who's running a financial transaction is going to be buying insurance, is going to be buying telemedicine that we provide and so on. So -- and needs the health content, needs the knowledge of health reporting, for example. And -- or could be a doctor who wants continuing education and stuff like that. So having said that, to me that's the -- that's the third opportunity in India. That's out there. And that's a really large opportunity. And you can sense from this $8 billion or $9 billion valuation that was reported in Wall Street. I think it was a pretty decent story 1.5 weeks on this back on this company. So I think those are the 3 areas that we feel are going to be important in India. And then there's a fourth area, which we are -- we would like to explore and I will stop at that for now. But there's a whole area of e-learning. I've kept talking about it in previous calls. That's an area that comes naturally to us. We understand the whole concept of e-learning. We -- I like the e-learning area simply because in countries like India, they are trying to educate the entire population. They have 1.3 billion people. Majority of them young, all of them need to be educated and you want to provide -- government wants to provide standardized education. Majority of the schools are government schools. And then you have private schools. And how do you provide standardized education? You can only provide standardized education digitally if you -- and to provide digital education, if you can do that, it's the same asset that you keep -- when you deliver an asset, that asset keeps generating you more and more on every month basis. And the scope of that asset doesn't change that much. It's not that in schools, you walk in and you basically say, every 3 years, I'm going to change the syllabus or I'll change the entire courseware. It doesn't happen. Government doesn't change that up easily thing. So it means that's a huge opportunity in that area. And again, how do we get there? Clearly, we will choose -- if we had to go into opportunities like e-learning or financial exchanges, we will mainly clearly have to do things like acquisitions, partnering and stuff like that. And to have to be -- because I feel that big play, that play is almost equal into creating another Ebix, what Ebix does today. Meaning, I'm very bullish about those kind of opportunities. So we -- I basically will -- once we get to something that is -- we can talk about, we'll obviously discuss it in a little bit more detail at that time.

Operator

I'm showing no further questions in queue at this time. I'd like to turn the call back to Mr. Raina for any closing remarks.

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

Thanks, Les. I think we've had a decent call. And we'll -- I'd like to thank everyone for participating in the call and look forward to speaking to you again at the end of the second quarter. Thanks, everyone. And with that, I'll close the call.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a good day.
