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EBIX - Q4 2017 Ebix Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Ebix Fourth Quarter 2017 Investor Call. (Operator Instructions) And as a reminder, today's conference call is being recorded.

I'd now like to turn the conference over to you, Darren Joseph, Corporate Vice President. Please go ahead.

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

Thank you. Welcome, everyone, to Ebix, Inc.'s 2017 Fourth 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 to your questions.

Now let me firstly 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.

Additionally, 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 Q4 2017 results was issued yesterday 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 of this call will be available also on the Investor homepage of the Ebix website after 4 p.m. Eastern Time today.

Let me now discuss the quarter from a numerical perspective. Revenue in Q4 2017 increased 31% from a year ago to $104.7 million. On a constant-currency basis, Ebix's Q4 2017 revenue increased 29% year-over-year to $102.9 million as compared to $80 million in Q4 of 2016. The revenue improvements reflected growth in the company's exchange channel as well as higher revenue from the risk compliance channel, with the revenues from the EbixCash Financial Exchange service reflected in the exchange channel. Also on a constant-currency basis, year-to-date revenue increased 21% to $360 million as compared to $298.3 million during the same period in 2016.

In Q4, our exchange revenue continued to be the largest channel for Ebix, accounting for 79% of the company's revenues. The year-over-year revenues primarily increased as a result of revenue growth from P&C, life exchange, underwriting exchange, CRM, through traditional RCS business and financial exchanges, aided by revenue growth generated from the company's acquisition of Via, Paul Merchant, YouFirst and ItzCash, offset by declines in the areas of health e-commerce, annuities, health content and the e-governance business in India.

Q4 and Q3 2017 both included a full quarter of revenues from EbixCash Financial Exchange, with Q4 2017 revenues of $25.9 million as compared to $11.1 million in Q3 of 2017. Q4 reported results included 3 months of revenue from Wall Street, 2 months of Via and 2 months of revenue from Paul Merchant's asset acquisition, along with an additional 2 months of YouFirst compared to just 1 month in Q3.

Our explosive growth over the last 12 months has been in 2 key markets, India and Latin America. The Indian venture showed a 353% year-over-year growth in the 12-month period ending December 31, 2017, by growing to $64.3 million from $14.2 million in the same period in 2016. The Latin American venture showed 157% year-over-year growth in the 12-month period ended December 31, 2017, by growing to $21.1 million from $8.2 million in the same period in 2016. Both India and Brazil are 2 of the emerging economies today that we intend to continue to invest in over the next few years, as these are economies with one of the largest middle classes in the world that have continued to grow even in adverse economic periods.

In Q4 2017, besides Financial Exchange growth rate of 133%, our P&C revenues grew 6% sequentially, health e-commerce grew 9%, reinsurance revenues grew 7% and underwriting exchange revenues grew 1%.

Our Australia revenues grew 8% sequentially, India revenues grew 53%, while our Brazil revenues grew 6% sequentially.

We are pleased with sequential growth in top line in our overall business and the various business segments. Q4 2017 revenues grew 13% by $11.9 million over Q3 2017 revenues of $92.8 million. Our Financial Exchange operations grew 133% sequentially from $11.1 million to $25.9 million.

Year-over-year, our 2017 full year revenues were up 10% in P&C, 3% in life exchanges, 9% in health e-commerce, 15% in life underwriting, 16% in RCS, 45% in e-governance and 6% in CRM. Also, year-over-year, our health content revenues were down 6%, reinsurance revenues were down 1% primarily because of exchange rate issues associated with Brexit, annuity revenues were down 11% primarily due to the DOL promulgation that has effectively shrunk the annuity industry.

I will now turn the call over to Sean.

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

Thank you, Darren, and thanks to all on the call for your interest in and support of Ebix.

Q4 2017 diluted earnings per share increased 11% to $0.84 as compared to $0.76 in fourth quarter of 2016. Ebix's weighted average diluted shares outstanding decreased to 31.7 million in Q4 of '17 compared to 32.5 million in Q4 of '16. As of today, the company expects the diluted share count for Q1 2018 will be approximately 31.7 million shares.

Q4 2017 operating margins increased sequentially to 32% as compared to 30% in Q3 of '17 and were down compared to 35% in Q4 of '16, mainly because of the short periods associated with bringing the right synergies in place with the recent acquisitions in India. Operating income for Q4 of '17 rose 20% to $33.1 million compared to $27.7 million in Q4 of 2016. Q4 2017 net income increased to $26.6 million compared to $24.6 million in Q4 of '16, primarily due to $5.4 million of higher operating income, offset by increased bank interest expense of $2.4 million, reduced interest income of $535,000 and increased net income of $638,000, attributable to non-controlling interests.

We are pleased by the fact that the company continues to report sequential quarterly revenue growth, robust cash flows from our operating activities, consistent operating income and attractive operating margins above 30%.

As we scale our business up over the next 6 months, we expect our operating margins to grow by a few points. Cash generated from operations was $26.7 million in Q4 2017 compared to $30.7 million in Q4 of '16 and $18.9 million in Q3 of '17. The operating cash in Q4 2017 reflected the increased receivables associated with some of the contracts in Brazil, U.S. and India that have longer payment terms.

During Q4 2017, we invested a total of $2.4 million on dividend payments, $1 million on CapEx, $3.1 million on principal payments towards the term loan and $1.7 million on tax payments. We funded these initiatives from existing cash plus operating cash flow of $26.7 million during Q4 2017 while drawing $60.5 million from our bank credit facilities upon the closing of our 3 acquisitions in Q4.

Ebix ended the quarter with cash, cash equivalents and short-term investments of $89.5 million, with available cash reserves of approximately $119.5 million, including the available borrowing capacity and the accordion available to the company.

As of February 27, 2018, we announced the expansion of our existing credit facility from $450 million to $650 million to assist in funding our growth. Ebix also announced that we now have access to total funds of approximately $331 million to fund any of our working capital or any other growth or share purchase initiatives. This includes the worldwide cash balances in the bank of approximately $85 million in addition to an available credit line of approximately $246 million.

Furthermore, as to key balance sheet metrics, our balance sheet remains healthy and our company's financial position remains solid, with a current ratio of 1.72, a working capital to short-term liquidity position of $106 million, a debt-to-leverage ratio of 3.31 and a debt-to-equity ratio of only 0.81 as of December 31, 2017.

Finally, Ebix's Form 10-K was filed yesterday. I'll now pass the call on to Robin.

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

Good morning, everyone. I just want to start by congratulating our entire company and all of our shareholders and investors on just what has been an outstanding Q4. It has capped off just a truly record year for Ebix. This has been an outstanding quarter for the company. This is the first time ever that we got Ebix across the $100 million a quarter milestone. What is exciting is that we did that while achieving 32% operating margins and while setting 2018 goals that are more ambitious than ever.

I remember the days when Ebix revenue was $7 million a quarter, and I talked about setting up a company that could report 30%-plus operating margins consistently. I used to hear quite often that it is easier to report these margins when you're small, but these margin levels would be unsustainable when you become a bigger company.

I feel great about the fact that we are still reporting 32% operating margins in Q4 of 2018 (sic) [2017] while reporting annualized revenue run rate of $418 million.

Ebix is today set on a path to be the largest exchange in the world that will have converged insurance and finance while establishing a leading role in each segment. We could not have got to this point without the support of all our employees, our customers, our partners and of course, all our shareholders.

I'm dialing into this call from our Indian headquarters in Noida Delhi. While I do a public call later today in India on account of Holi, the festival of colors, I still see employees working here at 9:30 p.m.

With an employee count of around 4,700 employees worldwide, Ebix has truly been blessed with some of the best and brightest employees that any company can have. Ebix is today not just a great company with an incredible culture, but a company that's on a mission.

While speaking to you as regard to 2016 financial results in March 2017, I had set an aspirational goal for Ebix to be at $100 million quarterly run rate by Q1 of 2018, with 30% or more in operating margins. We not only beat that aspirational goal by achieving $104.7 million in revenues with 32% operating margins, but we also got there a quarter earlier. That's incredible.

Our aspirations are higher now and so are the facts on the ground. We feel that we have momentum on our side. With incredible products, aggregated networks, incredible reach, great partners and an unparalleled reference customer base, I am now raising the bar and setting an aspirational goal that's a lot higher than ever.

The new aspirational goal for Ebix is to be at an annualized run rate of $0.5 billion by Q4 of 2018. We would like to get there with at least 32% in operating margins. That's a lofty aspiration for the company, not guaranteed by any means, but very achievable.

What gives me confidence that we could get there? For that, let's examine the Q4 results and the state of the business today.

Firstly, let's look at the numbers numerically. Ebix Q4 2017 revenues of $104.7 million did not include 1 month's revenues from the recent acquisition of Paul Merchant's remittance asset and the Via travel exchange, nor did it include any revenues from the recent acquisition of Transcorp. It only included a few hundred thousand of revenues from our e-governance division, which typically has a quarterly run rate of $6 million.

Once we get the full effect of a quarter from these 3 acquisitions, our standard run -- and our standard run rate of approximately $6 million from the e-governance sector, the revenues will look a lot higher. Many other initiatives can further aid this aspirational goal. The momentum generated by our EbixCash Financial Exchange, the continued growth of our insurance exchanges, the momentum we expect in the RCS revenue line, the recent mandate of our PPL reinsurance platform by Lloyd's of London, the BSE Ebix joint venture for insurance, our acquisition pipeline, our recent large wins in the insurance exchange sector, et cetera.

Let's look at each one of these areas now, in a random order.

In April 2017, we started on our India and the Ebix exchange -- Financial Exchange strategy. As of December 31, 2017, India was basically running at a run rate of approximately $127 million, when you consider the impact of a full quarter of revenues and the e-governance revenues, $127 million of revenue that we reported in Q4 of '17. Add to that the growth momentum we have generated in our EbixCash Financial Exchange and you truly start seeing the full picture, with a Phygital strategy that combines 231,500 physical distribution outlets in many Southeast Asian nations around the ASEAN to an omnichannel online digital platform, the company's EbixCash Financial Exchange portfolio now encompasses leadership in areas of domestic and international money remittance, travel, prepaid and gift cards, utility payments, et cetera, in an emerging country like India. EbixCash, through its travel portal, Via.com, is also now one of Southeast Asia's leading travel exchanges, with over 110,000 distribution outlets and 8,000 corporate clients processing over 24.5 million transactions every year.

We believe that by the time we finish 2018, India could be at a run rate north of $200 million in revenues, with profitability levels that will be north of 30%.

Even though we have not finished all the acquisition, integration and efficiency-related measures, our profitability levels in India are still beyond 30% today.

We have been lately in the news as a bidder in the bankruptcy court for India's leading e-learning company Educomp. Educomp is by far the dominant leading player in India's e-learning market. We believe that e-learning businesses have the potential of giving us as much as $60 million of revenues a year in recurring revenues. The company has debt of around $550 million, with 45-plus banks and foreign institutions and is in resolution courts at present. Fifteen bidders have been involved in the process, and as of yesterday, we were the only ones in contention, with an approximate bid of $67 million.

Our resolution proposal asks for the court to hand over a 100% debt-free company to us, free of all liabilities in any form. What we like about Educomp is its reach across the country, the breadth of exposure, its leadership in the market and the fact that the e-learning sector has tremendous support from the government of India in terms of mandating e-learning in India's hundreds of thousands of government schools.

The company's debt is linked to a number of mistakes 3 to 5 years back in terms of overstretching its bank debt and trying to grow for the sake of growth by getting into sub-prime schools and buying disparate companies all across the globe. The basics of their business can be very solid once the debt is taken out by the court.

I cannot speak more about this deal at present, as the deal has not been awarded as yet to us by the court. We feel confident about our chances. And as always, we'll report to you once that happens.

So one, rest assured that we are getting into this opportunity since we sense a multibagger future opportunity. We have a history of converting distressed assets into highly profitable assets, and that's what we intend to do with this asset if the court goes with us. The decision is likely to be made very soon, over the next few days, or at the most, a few weeks.

We believe that Ebix has the potential of emerging as India's largest end-to-end financial exchange in the next year or 2. Towards that extent, we are looking to expand a dominant way to other financial exchange sectors like India's outward remittance and ForEx markets. We have a plan on how to dominate the sector and get there. That, by itself, can be a large opportunity for Ebix in 2018 and beyond. More on that later, as at present, I do not want to lay out our strategy for competitive reasons.

We have already taken many initiatives that will bring new revenue to us in 2018. For example, we have started converting our travel distribution outlets in Philippines, Thailand, Singapore and India, et cetera, into inward and outward remittance outlets. We are in the process of launching an electronic wallet to put the power of EbixCash on the mobile phones of millions of people, to pay their utility bills, buy travel, hotel, airline, train, bus tickets or buy movie tickets or remit money or top up your mobile phone minutes or pay for your cable or satellite TV or pay for your gas or power or water bills or buy a gift card or buy a prepaid card or pay for your movie or concert tickets or carry a discount voucher for shopping in malls or pay for all your purchases, et cetera, all through a few clicks on your phone.

We already have consumers transacting business with us in millions through our 231,500-plus physical outlets. We will now provide that power to them also in their wallets by interfacing EbixCash with their multiple bank accounts.

We also intend to take the EbixCash brand to international airports, international shipping ports, duty-free shops, et cetera, allowing consumers a non-aligned money exchange experience that will blend the best of technology with the ease of doing business anytime, anyplace, anywhere. And for example, traveling abroad with a multicurrency card that will allow a traveler to spend money in any country that they go to or withdraw money from an ATM in any country, et cetera. All that is achieved through the network of multi-corridor providers and partners that EbixCash presently has.

We also see Ebix creating lending exchanges, both in the B2C and B2B arena. In B2B sector, our goal would be to power the technology of banks and lenders in terms of CRM, loan creation, loan management, loan servicing, et cetera, and making money while charging for transactions, as also for custom services provided to the lenders.

In the B2C sector, we would like to use the power of our 231,500-plus distribution outlets and the new EbixCash app to provide microfinance lending to consumers in every nook and corner of the country in minutes. We will be creating the marketplace, bringing the consumer, powering the technology of lenders and not taking any risk on the transaction, while making money on each transaction that happened on the platform. This is a natural progression of our vast reach today and another means of empowering our distribution outlets, consumers and also the banks and lenders.

We will give the lenders something. All of them aspire for the last mile reach and access to a consumer in the remotest corners of the country. Ebix has always been a cash story, and all our recent investments have one common characteristic: That they are strong cash-oriented businesses.

In our Financial Exchange business, all our money collection happens, at the latest, within a few days of a transaction. Regulations around the financial exchange market mandate that all transactions be settled immediately. Also, there are many safeguards built by the regulators in terms of escrow accounts, with EbixCash holding deposits from distribution outlets and guidelines that every constituent must meet in terms of net economic worthiness, all leading to a quick money collection cycle. As we start to generate strong operating margins from our Financial Exchange businesses, our cash returns will be quick. Clearly, we like that.

Let me now talk about other areas that give me the confidence of a great year ahead of us, and I'll come back to India towards the end of my talk again, to talk about some really exciting possibilities with respect to India for Ebix.

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I will now talk about our insurance exchanges, a business that comes naturally to us. Darren and Sean talked at length about the momentum associated with year-over-year revenue changes in that business, so I will just focus on a few key elements that have great possibilities ahead of them.

We are continuing to strengthen our hold in key insurance markets and areas that we believe are growth markets for the future in insurance business.

Let's start with the world's largest market, London. Recently, Lloyd's of London announced its intent to mandate the PPL platform powered and built by Ebix in London to be used by all brokers, insurers, reinsurers, et cetera. This is a very exciting development for Ebix, as this has never happened before.

Basically, it will mean that everybody in the insurance markets in London and abroad who is part of London's insurance business has to use our exchange. That brings tremendous new possibilities for Ebix, not only in London but in international markets. As now, Ebix would have done what is unheard of earlier, to power a technology and functionality that allows people electronic placement, contract negotiation, contract subscription to a policy with multiple carriers subscribing in varied proportions to a policy, binding of a policy, contract certainty, et cetera, while owning all intellectual property rights to the exchange. We intend to back Lloyd's of London, LMA, IUA and PPL, et cetera, strongly in this mandate.

In U.S. and Canada, we believe that the single biggest technology opportunity in insurance is in the area of underwriting. It's a highly complex area but an evergreen area for an underwriting insurance lender, with its consistently-changing needs for each and every carrier. Irrespective of who the carrier is, they have to adjust their underwriting needs regularly, at times weekly if need be. An insurance carrier can never be content or done in the underwriting area, as you have to evolve the platform continually to cater to all the risk analysis.

Over the last few years, we have tried to put a lot of focus in this area. We sensed an opportunity, especially in the area of creating an enterprise underwriting platform that can be a system of choice for all large carriers. Our thinking was and is that once we have all the large carriers, the smaller ones will follow, [first of all], to have the same agility and flexibility as the larger carriers.

I'm pleased to say that our efforts have continued to give us great results. We win 9 out of 10 such deals in which we get involved today. In the last 1 week itself, we won 2 large deals with highly-coveted clients, Allstate and Gen Re.

In recent times, we have also created some highly automated data mining and statistical and trending tools that can be highly powerful for our carriers. With tens of billions of dollars of transactions happening on our platform across hundreds of thousands of agents, we have a tremendous repository of insurance data and trends and analytical insight. We can slice and dice that data and provide incredible insight into consumer behavior, underwriting successes and failures, footfall analysis, et cetera, that can be a new revenue source for us.

We have some very large opportunities in insurance in the RCS sector in terms of helping certain named large carriers take their insurance processing business offshore. These can be very large deals involving hundreds or thousands of people, if inked. We'll report more on any such deals if and when inked.

In 2017, we bought a 51% stake in a U.S. third-party administrator owned by an insurance company, IHC, named [EA], Ebix Health Administration Exchange, this TPA was losing money before we took a majority interest in it. Today, not only is it back on the path of strong profitability, but we also see tremendous growth opportunities in this sector. We knew that a successful TPA needs efficient technology and high-quality manpower at sensible prices. We invested in our own Ebix enterprise technology to power the TPA, and also invested in creating a high-quality learning center in India, with highly-focused niche employee base in the form of doctors, medical examiners, claim specialists, et cetera, to process insurance. That has been a great success, and we see that now being multiplied to power the technology and manpower of other TPAs in the U.S. We believe that we can aggregate a number of TPAs in the U.S. at low valuations, since they tend to typically have low or no profitability and then plug in our technology and India processing base in the midst of it to convert them into highly healthy assets. That's a great opportunity, and we intend to pursue within 2018 itself.

We believe that the 2 insurance markets that have the potential of excellent growth are India and Brazil. Both India and Brazil are 2 of the emerging economies today that we intend to continue to invest in over the next few years, as these are economies with one of the largest middle classes in the world that have continued to grow even in adverse economic conditions. In both these countries, there is new wealth being created across all strata of society. And every time wealth is created, people tend to find ways to preserve it. That's where insurance comes in.

Let me first talk about Latin America. Ebix Latin American venture showed 157% year-over-year growth in the 12-month period ending December 31, 2017, by growing to $21.1 million from $8.2 million in the same period in 2016.

We are targeting to grow this business strongly in the year 2018 and have set some ambitious targets for ourselves. Our growth would have been manifold than ever reported if exchange -- if foreign exchange rates had remained at the levels they were a few years back. We feel great that we have shown this growth in spite of the currency trading at less than half its levels a few years back. Our performance in Brazil's local currency, Brazilian real, is truly incredible.

The Indian ventures showed 353% year-over-year growth in the 12-month period ending December 31, 2017, by growing to $64.3 million from $14.2 million in the same period in 2016. With respect to India's insurance markets, we think that we are up to something big. That's why we created this unique Ebix Bombay Stock Exchange joint venture in India. We are endeavoring to do something that has never been done earlier in any part of the world.

Traditionally, across the world, insurance is only sold by insurance agents, brokers or directly by carrier salespeople who have to be licensed agents. We want to do something completely different. We want insurance to be sold in every nook and corner of India through distribution outlets that, for example, could be a grocery shop or a mobile phone outlet or a financial distribution outlet or a travel distribution outlets, et cetera. Basically, we want to sell insurance through any distribution outlet that have a relationship with the consumer and the last-mile reach, even if they have never sold insurance.

We intend to convert each such distribution outlet into a point-of-sale insurance outlet by empowering them with an 11-inch handheld device and a wireless connection and with Ebix technology that will allow them to bind a policy in minutes across tens of insurance companies on simple lines that people need in every corner of the country, insuring 2-wheelers, insuring cars, insuring homes, travel insurance, accident insurance, health insurance and term life insurance.

Indian insurance regulations allow a digital broker to create this point-of-sale network, train the distribution outlets on how to sell insurance over an online course of 10 to 16 hours, issue online certification to each such point-of-sale distribution outlet and then empower them to sell insurance.

This is a pioneering venture that no one has ever embarked on at this scale. We feel that we can make it succeed, and we have 3 key ingredients all ready for it to succeed. One, the backing of our joint venture partner, Bombay Stock Exchange, with their reach of 300,000 terminals and financial broker institutions all across the country who can now sell insurance. Two, EbixCash already has an existing outlet base of 231,500-plus distribution outlets across more than 3,000 towns ready to sell insurance, as it gives these outlets a new tool to maximize their income. Three, insurance technology and functionality is Ebix's core strength and an integral part of our DNA [hierarchal] structure.

We are presently working diligently towards launching this while seeking all regulatory approvals to do so. This could be a very large opportunity in itself for Ebix and BSE.

Let me now talk about a few growing pains associated with all these growth initiatives and the recent U.S. government tax initiative. We made approximately 6 acquisitions in 9 months in 2017, and it created quite a few new challenges in terms of business integration, employee integration, efficiency challenges and timeliness challenges on us and our partners.

For the most part, I believe that we handled the challenge extremely well. However, as a part of our control evaluation process, we recognize material weaknesses in 2 areas that, fortunately, did not have any numerical effect on our past and present results.

On a qualitative basis, one weakness identified was in the company's effective internal control over the preparation of income tax provision and the contemporaneous documentation of segment and acquisition-related transactions. Our tax provisioning, documentation, tax filing, tax advice work in 2017 was handled by Ernst & Young tax team, and we feel that the weakness is mainly highlighted by our recent spurt of acquisitions and can be remediated over a few quarters. We intend to work closely with Ernst & Young tax partners towards that extent.

The other material weakness identified was in the area of business combinations. Specifically, whether the company had adequate controls to supervise and review third-party valuations or property accounting for opening balance sheet amounts. In this area, too, in 2017, we worked with one of the top 5 firms, [Lazard]. We believe that this weakness can also be remediated in a short period of time by having a valuation function within Ebix to supervise the work done by any of these big valuation firms.

The good news is that none of this had any restatement associated with it, and both these weaknesses were primarily associated with our recent spurt of acquisitions. And in both areas, we have 2 Big 5 firms already associated with us.

Let me also confirm that there were no disagreements with our auditors, and the auditor issued an unqualified opinion without any restatements or numerical revisions involved for any period, past or present.

The other area that we will need to address as a part of our growth, like all other U.S. companies with international operations is a fact of the Trump tax plan. For the record, I'm a supporter of the Trump tax plan for corporations and believe that the rationalization of corporate tax rates will spur growth within the U.S. corporate sector. It will also make companies rethink whether they want to keep new intellectual property in the U.S. or abroad.

It also, in my view, will allow U.S. companies to be more competitive abroad and repatriate money a lot more easily from abroad in the future. These are all good things, in my view, as they finally translate to putting more money in the pockets of our investors through enhanced net income, enhanced earnings per share, higher dividends and higher valuation for the stock.

In the short term, the Trump plan mandates that companies have to look at all their past cash and non-cash, retained international income, and accordingly, pay a onetime tax to IRS. The Trump plan allows companies to pay the tax over 7 years, but the company essentially has time to analyze and book the P&L impact of the tax payment before December 31, 2018. Our intent is to get a full-fledged study done by international tax adviser, Ernst & Young, and then take this onetime P&L hit, whatever it comes out to be, in one go and then pay IRS in a span of 7 years. From that point onwards, we can focus on the positive part of the Trump tax plan and the opportunities it brings to the company.

Let me now summarize my talk today and essentially lay out our financial vision for 2018. One, an aspirational goal of $500 million annualized revenue run rate by the fourth quarter of 2018. Two, an aspirational goal of 32% or more in operating income when we cross the $500 million annualized revenue run rate. Three, an aspirational goal of $200 million annualized revenue run rate or more from our India operations by the fourth quarter 2018. Four, an aspirational goal of 20% or more in operating income when we cross the $200 million annualized revenue run rate in India.

Let me add that we are seriously contemplating the possibility of a public IPO for our Indian operations 12 months from now, wherein Ebix, Inc. will hold a large stake. We see that as a possible multibagger opportunity for the shareholders of Ebix, Inc., as all other financial exchange sector companies in India with billions of dollars in valuation do not have the strong financial metrics that our operation in India have.

Great companies do more than just creating great products and great services. They establish integrity, transparency and trust as their prime values. We have always endeavored to do that with our shareholders, our customers, our partners and our most prized asset, our employees. It has translated into Ebix having the unique distinction of featuring in Fortune's list of fastest-growing companies 5 times in the last decade, including in the year 2017. That's incredibly humbling for us.

In closing, I want to thank our customers, our partners and our employees for their continued trust in us and for contributing to an outstanding Q4 and just an exceptional full year of 2017. Thanks, everybody, for that.

Lastly, let me thank each one of you for having given me the opportunity to lead this company. I feel truly blessed to have this opportunity and also humbled by the trust reposed by each one of you in the company. I'm still here with the basic belief that the best is yet to come. I'm hopeful that the 42nd year of Ebix's 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 to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Jeff Van Rhee of Craig-Hallum.

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

A handful of questions for me, if I could. First, I wanted to just start, Robin, as you look at the EbixCash business, you referenced the opportunity for IPO. I have a couple of follow-ups there. First, just with respect to the EbixCash business, you set this benchmark of $200 million run by the end of Q4 -- I'm sorry, '18, Q4 '18. What do you think is this -- what's your sense of sustainable growth, organic growth in that business? You're putting a lot of things together. Obviously, there's been a lot of synergies, as evidenced by your margin commentary. But how do you think about the growth opportunity, from just an apples-to-apples organic basis in this business?

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

Well, we would be disappointed if we couldn't grow this EbixCash business 25% year-over-year organically.

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

And do you -- so with respect to that benchmark of $200 million for India, what's included in there? Are you thinking the, for instance, if you get Educomp or you have the e-governance business already, those right now, I sort of think of outside of your core EbixCash business. So just to be clear, what's included in the $200 million and when you talk about both the top and bottom line, just what exactly is in there?

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

Well, what is in there is it includes all our -- it will include any new remittance, outward remittance businesses or any outward ForEx businesses. It will include everything else that's already contained in the EbixCash business today or any new initiative that we launch over the next few months.

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

And would that be Educomp as well or the e-governance, which dipped from the typical $6 million down to whatever, a couple hundred k this quarter, does that include those 2?

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

Well, frankly, it better not. We would like to see Educomp be outside that number. At the same time, we have -- this is an ambitious target, so let's see how we perform over the next few quarters and months.

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

Got it. And then also with respect to the EbixCash, I'm just curious, with these couple hundred thousand-plus now franchisees out there, you're adding these new tablets, you're adding a lot of capabilities, you're adding more products. How has that -- I realize it's early, but how has that been reflected thus far in terms of the retention of existing franchisees and the attraction of new? So any visibility there with respect to churn or new partner capture from an organic basis as a result of just them seeing the vision of what you're trying to build here?

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

Jeff, it's just been an incredible experience. What we have experienced is that not only has it helped retention, but it has also helped us get into new distribution outlets. So this 231,500 number is actually a bit old. We are presently at 250,000-plus outlets already in India. So we have continued to grow the outlet base. And basically, what is happening is because we are able to bring so many new revenue opportunities to a same outlet, that makes us very powerful in the market because we have such a wide spectrum of products that we can -- we have available. And we are the ones who can bring insurance and we are presently bringing travel, we're bringing the inward remittance, that's easy money for them. When you bring inward remittance, for example, to an outlet, they really don't have to do anything except hand over money. They're servicing it, they're like a BPO arm, so they would welcome it with open arms. And clearly, because we are the dominating player in the market, it clearly makes them -- makes us very attractive to them. And so it's like a carrot for us to offer because we can kind of guarantee them business if they start working with us, because we bring in good business. So that actually starts the whole conversation. And having said that, we bring so many different other opportunities to them that, that makes it -- the retention a lot more easier and the growth a lot more easier. So it's been a fantastic experience.

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

Yes, makes sense. The India e-governance revs, typically running at $6 million, dipped this quarter, what drove the dip? And is the message that you would expect that to return to kind of prior run rate?

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

It will come back to $6 million or more. So to give you a simple example of what happened was we, we just had a late delivery of some software or some hardware that had to come in and it got stuck in customs, and net result was we couldn't pick up that revenue. So it was -- we recognize revenue on a percentage completion basis. So really, all that has happened is that revenue got pushed into -- we now have a much bigger chunk of revenue rather than $6 million that we would have recognized in the next quarter, we possibly now have double that revenue available to us. But again, we are going to only recognize what is done on a percentage completion basis, so you could -- we will for sure be back to our normal levels of $6 million.

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

Okay. And last for me, I'll let somebody else hop on. So many things here seem like you're crushing it. Let me take the flip side of it. It sounded like from the description, the biggest challenging areas have been health e-commerce, health content and annuities. I don't want you to spend too much time on it, but as you look at that basket of businesses, just talk to me about where you think you are with those challenges. Have we seen the worst of it? Do growth rates improve from here? How do you think about it?

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

Look, annuities is an area where Ebix just -- it's an industry trend right now. What's happened is all this DOL reform has shrunk the industry a bit, because there's so much regulation around the DOL reform that the business is [less the] business being written. It's as simple as that. So it's a -- we'll have to wait and watch the impact of if they can delay some of that DOL reform. There's all kinds of discussion happening right now in the industry, whether that will be delayed and so on. And we're hoping that it will come back. So it's easy -- it's not -- it's early days for me to predict what's going to happen with that industry. So we obviously are the dominant player in annuities, so it impacts us. The good news is we've taken that impact and grown in other areas. So having said that, we feel -- if you take annuities out -- and the health content arena is another arena where we think we've kind of touched the bottom. It's not really -- if you look at the revenue stream, it's not when you get to a low point and we got to a low point on health content, any more drops, first of all, won't make a difference to us, but more importantly, we don't see that happening. So I think the crux of that is that outside those 2 areas, we actually feel pretty good about all the remaining areas of our business.

Operator

(Operator Instructions) And our next question comes from Allen Klee of Sidoti.

Allen R Klee - *Sidoti & Company, LLC - Senior Equity Research Analyst*

I think it would be helpful for investors to understand a little bit. In your 10-K, you show pro forma revenues for 2017 if all the acquisitions were owned for '17 and '16, and I think it shows revenue growth rate of around 1.4%. And I think intuitively, we might think it would have been a higher number with some -- with these new growth businesses. So could you maybe help people understand what's going on there?

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

Well, Allen, first of all, you believe all the assumptions on how those pro forma growth are calculated. That pro forma showed you that what is included and what is not included. So it's more like an -- while on paper, it looks like an apple-to-apple comparison, what you're doing is you can't control we're buying distressed businesses at times. And when we buy distressed businesses, the first thing that happens, we take over a business, and for example, give up on the revenue. I'll give you a very recent example, travel. We bought a company called Via. Via was running at a revenue run rate that the plan was to be running at a revenue run rate of around $55 million. We took that revenue run rate down on day 1. We -- first of all, we took that revenue run rate down to closer to $30 million or lower, simply by changing the way they recognize revenue. We decided to do -- we gave up on a few products that we thought were a loss-making product. Part of the rationale -- reason is why do we do that? Part of the reason is we bought a company, which has never made -- who wasn't making money, who had NOLs, who was not growing at the pace that we wanted it to and was indulging more in unprofitable kind of sources of revenue. So traditionally, that's just an example, each and every business that we enter, we either give up on -- this is our business line. Like if we go into Educomp, right? This is a distressed asset. We're going to buy Educomp, we're going to get rid of a lot of things that we don't want. That's a simple trick to basically inheriting the good pieces of the business and then giving up on the bad pieces of the business. But when you do a pro forma comparison, by law, by rules, I can't, for example, take Via's revenue, I can't take the revenue down to my way of doing things. I still have to report their revenue from the past, whatever it was, which I had no control over. So that's the kind of -- that's why under the pro forma table, it actually shows you the basic -- it shows you the basic assumptions, so that you know what the assumptions were when we calculated that. So it's -- the pro forma really wouldn't give you a true picture of what the revenue growth rate has been, is what I'm trying to say, simply because you're comparing, in a way, apples and oranges. You're comparing a past period of somebody with our present period, where we have made dramatic changes in their business.

Allen R Klee - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Okay. And then I just wanted to confirm for the RCS segment, the reason for the decline, is that due to the e-governance business in India?

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

First, yes, absolutely. First of all, that $6 million number became $300,000 number, right, in this quarter, because I told you it's percentage completion, all that we did. We delayed the revenue, simply because on a percentage completion basis, we couldn't have picked it up. And in the year, we had one more development happen in RCS that we think we're going to be able to overcome and we -- I talked about, in my talk, I talked about a few very large possibilities. I talked about in the RCS arena, we are in discussions with some very large named financial institutions, insurance carriers.

We are talking about possible deals which could have hundreds of people involved or thousands of people involved, where you will basically move jobs from U.S. or Canada into an offshore center of Ebix and where we would process business. So we feel very good about the RCS sector. But having said that last year, one of the major developments that happened, one of our large clients, a named insurance carrier, one of the large ones in the U.S., decided to do a joint venture with Cognosante. And then with the joint venture with Cognosante clearly, from one day to another, we had to -- that revenue kind of dropped. Now it's coming back, actually. That revenue, we believe, will come back because after they went into the JV, they realized that they still probably needed Ebix kind of players, because of our domain knowledge, so we had a bit of a [bullet] at that time on that revenue stream, but we expect that to come back. So we feel pretty good about the RCS sector overall.

Allen R Klee - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Okay, great. And then you talked about PPL and how Lloyd is recommending mandating your solution. How -- can you help me understand how that can translate into how you make more money from it? Does it work that you're just sort of getting paid a set fee for what you've done? Or can this shift to getting paid more?

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

Yes, so I can talk in generalities, simply because I have a very tight NDA with PPL, with Lloyd's, I couldn't talk about the specifics of the deal. But at a high level, we have -- we get a guaranteed amount of money from them every year, but that money is linked to X number of transactions. Once we cross that transaction number, we're going to get more money, per transaction and for -- then the second part to it is when you mandate these things, you're going to have multiple other opportunities that will happen. First of all, you will have custom development opportunities involved. You will also have to interface it with all kinds of vendors. You will also have to make these things work, for example, for LMA, IUA, the large -- all the underwriter associations, the London market association and so on, which would mean that you would need dedicated teams of people. You would need more customization to be done and so on. Also, when you mandate something like this, what is going to happen is it's going to bring newer opportunities because our contract covers X number of products. So if we now bring in something new that's not under the contract, but we already are being used by everybody in London, we would be able to bring in newer products into the mix a little bit more easily. We will also be able to possibly bring in more interface solutions that we have. For example, our CRM solution and possibly get them -- get it to be used a lot more in other places. So it opens a lot of different opportunities, just in the London market per se. Now remember, when we say London market, London market is not truly just London market. Why London is the largest market in the world is, because London market, you could be a broker sitting in Dubai. You could be sitting in Europe. You could be sitting in Asia. It could be anywhere, and you're part of the London market and you are writing -- you are subscribing to a policy, you're taking 5% of a policy, 10% of a policy, negotiating it with somebody, all of those opportunities, because as they mandated, all of them will also have to use us. What that does is it also allows us that opportunity that now we have brokers within Europe, within Asia, who will be kind of forced to use this. And as they start using it, it will increase transaction count, because part of it is, that technically is outside the scope of our transaction count. And also, what will also happen is it will also allow us a say in those markets. As we launch other exchanges outside PPL, whether it is in the markets like Singapore or Bermuda or U.S. or wherever, it kind of opens up that opportunity also for us. In addition, frankly, in London, one of the good things that's starting to happen when you're outside the PPL, is the exchange rates are starting to come back. And because of Brexit, the rates have dropped quite sizeably. So now that the rates are starting to come back, hopefully, that also helps us in the future.

Allen R Klee - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Okay, great. And lastly, it was very interesting you talking about getting into electronic wallets. My understanding is, it's a large opportunity, but the margins for that has tended to be kind of thin. What's your view on that?

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

You are absolutely correct. The margins on this are thin. But when you say margins are thin, look, it depends on how you're recognizing your revenue. If you're going to recognize your margin as your revenue, then it really doesn't matter, because to you, that's like 100%. So in our case, the advantage we have is our cost on that business is going to be minimal, simply because we are not going like other vendors and marketing ourselves to get an electronic wallet consumer. We already have that consumer. We have the consumer walking into our physical stores and we have the means of converting them into our e-wallet customers. So we don't have to do that advertising that some of the other companies have to do, and that's why they're losing a lot of money. So for us, we have a ready-made client who we are putting on a wallet. And what we are doing is if this client now runs a utility transaction, for example. Let's say if that translated even to, let's say, something we make $0.10 on it. Let's say that $0.10 translated to 4% of revenues or 2% of revenues. That 2% to us is 100%, simply because for us, we're recognizing that 2% as our revenue stream. We're not recognizing [under that] revenue and then taking 2% as our margin. We're taking that 2% as our revenue and that to us is a starting point. Now we will see whatever cost on that 2%, if our cost on that 2% is minimal, we could still generate our 30% margin, our 35% margins that we want out of that business. Because we have the advantage of not being dependent on this business and we are indirectly converting this client, because you already have the client coming to our outlet or doing this business with us, in many, many, many different ways, whether they -- because they are already using us, that puts us in a very strong position. And that means we are not bound by the industry's low-margin rate. They are getting low margins simply because they, first of all, they are picking up -- simply because they have a very high advertising cost and also, it also depends on what is the revenue recognition, whether they're recognizing gross revenue and then taking -- whether they're recognizing the gross value of the transaction and then taking the 2% margin as their margin. And so it all depends on how you set it up. Our intent in electronic wallet is to pick up our margin as the revenue, and that becomes our starting point. So that puts us in a very strong position because for us, it's an add-on stuff and because of the minimum cost associated with it for us.

Operator

And I'm showing no further questions at this time. I'd like to turn the conference back over to the company for any closing remarks.

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

Thank you, Candace. I think we've had a -- I feel really good about the quarter, and I thank each one of you for participating in the call. I look forward to speaking to you at the end of the first quarter. Thanks, everyone, for joining in on the call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone, have a great day.
