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Ebix Inc. at Singular Research's Annual "Best of the Uncovereds" Conference Presentation

September 17, 2008 | about stocks: [EBIX](#)

Ebix Inc ([EBIX](#))

Singular Research's Annual "Best of the Uncovereds" Conference Presentation

September 4, 2008 11:00 am ET

Executives

Joe Lambert – Director of Marketing, Singular Research

Robin Raina – President and CEO, Ebix Inc.

Presentation

Joe Lambert

Hi, my name is Joe Lambert with Singular Research. It is my pleasure to introduce to you Ebix Incorporated. Our analyst, Mark Rye, says Ebix Incorporated is an international provider of software and e-commerce solutions for the insurance industry. It focuses on the sale and support of its insurance carrier systems, broker/agency management system and eXchange family of products, which provides connectivity between consumers, agents, carriers, and third-party providers. It also provides services for software development, delivering of software as an application service, software license, maintenance, and business process outsourcing. It has operations in the United States, Australia, New Zealand, Singapore, and India. It was founded in 1976 as Delphi Information Systems and changed its name to Ebix in 2003. The company is headquartered in Atlanta, Georgia.

And today, it is our pleasure to have Robin Raina. He is the President and CEO of Ebix Incorporated and the company has been listed on the NASDAQ. Ebix is software solutions providers to insurance industry and today powers in excess of \$100 billion in insurance premiums across the world. Robin joined the company in 1999 and has led the transformation of Ebix from a company that made \$19 million losses in 1999 to the present state where the company netted \$6.3 million in net income, \$1.62 in diluted earnings per share and 36% in net margin after taxes in just one quarter, the second quarter of 2008.

Our analyst, Mark Rye, has a buy recommendation on the stock and a 12-month price target of \$130 per share. But, with that, I am going to let Robin tell the story. Robin Raina.

Robin Raina

Good morning everybody. I have been given 20 minutes to speak, so I'll try adjust to it and hopefully we will have a breakup session and answer any questions that you guys will have. I'll try to jump through some of the slides that I'll come back to. What's Ebix's mission, what is Ebix trying to do? Ebix's goal is to be an insurance powerhouse of transaction. We want to be like a Cisco of the insurance industry, which means we don't really care about whether our name in the front or not, we would rather white label our technology and make sure that we are powering transactions, be it transactions on the insurance company side, be it on the broker side, be it at an exchange, or in any form or fashion across the world. That is our basic vision plan.

We feel there is an opportunity for one single large player who can power insurance transactions across the world, and believe me there are none today, and as I walk through the presentation, you will understand that more.

I am going to jump through a few slides. And this is kind of a slide which walk you through the five different industries we try to target. We try and target the property and casualty side of business, the life and annuity side of business, the health and employee benefit side of business, provide custom software development services at times, and then business process outsourcing services related to insurance per se. Again, we are a software provides.

Now, this slide pretty much sums up what we do. We provide -- you could divide the company into 4 different divisions, primarily the insurance company system division, the brokers systems division, and exchange division, and the BPO services division. These two services, the exchange and BPO, are going to be utilized at times. They will be utilized at the brokers and insurance companies both so that's why we put them in the middle.

Again, I want to jump through that, but primarily we try and target all segments of the market. This is a slide just showing you some of the customer base we have. To summarize it, we work with -- our customer base is in excess of 3,000 plus customers. We work across in 50 plus countries today. We work -- we have multilingual, multi-currency platforms. We have hundreds of insurance carriers that are loyal [ph] as our customers.

We deal at times with -- on the BPO side of business, we do a bit of insurance tracking. What insurance tracking primarily means that for a Home Depot, for a Lowe's, for a Sears, for a JC Penny, you can name it, a lot of retailers I could go on an on, what we do is we track their (inaudible) insurance. We provide the software and the manpower behind it with an entire end-to-end service. That is the BPO offering that we offer.

These are some of the awards we have run through. We recently were named as (inaudible) as the second best performing company in Georgia. We have been fortune [ph] small business that ranks companies with 100 fastest growing companies in the market with revenues of \$200 million or lower. We have been consistently in that list four years now. We were ranked 23rd this year. We have been ranked by Investor's Business Daily as 5th countrywide in net margins. We run the business with 36% net margins after taxes today; I will walk through that.

This is a slide, which will give you a summary of what has happened in this company. This is the revenue growth and the net margins, our net margin are after taxes. We have grown the company from, when I took over was in 1999, this company has not had a great deal of any business at that time, not a single profitable year. Since the 1999, in the 32 quarters that I have been there or less than 32 quarters, every quarter we have had a sequential improvement in revenue, sequential improvement in income, and sequential improvement in EPS. There has not really been a blip in between.

Now, as you can see from this slide, you will see the net margins have continued to grow from 12% to presently at 36% or so. Our -- 70% plus of our business is recurring now. What we define as recurring is, we don't really sweat about that 70% every quarter. We can predict our revenue with a lot of regularity six months in the future. We have our long-term client relationship rate, retention rate is almost 99% right now, and we have really lost a customer in -- across 50 countries now in the last six years. Maybe in the small BPO segment, which is again -- tends to at times get (inaudible) we might have lost something but if you look at the overall retention rate, it has been reasonably good.

I am going to jump through a few slides there. Again this is a slide trying to capture for you the income stream. They come under EPS. The income grew from \$1.7 million to \$12.7 million in '07. As of now, in the first six months of '08, we are already at \$12 million in income. EPS for six months of \$3.01 versus \$3.61 for the full year of 2007.

This is another slide trying to capture for you the last seven or eight quarters. I think last six quarters and again it will tell you the revenue grew from Q1 of '07 when it was \$9 million a quarter, it has grown to \$17.8 million a quarter right now. Our income has grown from \$2 million a quarter to \$6.3 million as of second quarter of '08. Our net margins have grown from 22% to 36%. And again, these net margins are after taxes.

So, what are our revenue drivers? Basically, you could break up our revenue for '08 into four pieces. The exchange segment would be 58%, the broker segment is 19%, the insurance company segment is 13%, and the BPO segment is 10%.

Let us look at each segment now. The insurance company segment. In the insurance company segment, we primarily provide two backend products. What do we really do for insurance companies at the back-end? We provide them a backend system that helps them run their own business. It is an end-to-end system. It is like an SAP, an ERP, a PeopleSoft, an end-to-end system, which will have everything from a quality processing, sales [ph] administration, your sales processing, your underwriting, rating, claims administration, general ledger, virtually everything an insurance company needs to run its business.

Now, this is a relatively new offering from our company, and this is not a market, when you look at the insurance company channel, I would by no means call Ebix the leader. This is a newer market we have brought. We have today 32 insurance companies across US and Europe as our customer, but we are just getting started at this one. We have two different products in this, both are -- one is more .NET oriented, ASP oriented; the other one is client-server oriented. And again, as you will see that, as I go through future slides, you will see the revenue has continued to grow.

The second revenue driver is our broker segment, insurance broker segment. We primarily work with super brokers. What we call super brokers means that the Aons, the Marshs, the HSBCs of the world, as you know, they tend to be bigger than insurance companies most of the time.

We have three different products targeting them. eGlobal is a product which is more multi currency, multilingual, which means this is again an end-to-end broker system. That means if you are an Aon and you are wanting to establish an operation in

China, Ebix gets an immediate order, because companies internationally when you step outside the US, there is no other vendor who can provide a common core base and provides the same core product to an Aon or a Marsh or a Miller and say you can switch on a feature in a particular country, switch off a particular feature.

Now, what is this product? It is an end-to-end system for an Aon. Anything they need to run their business internally. Again, everything an insurance company system has, this has. It is a very complicated system. Again policy processing, claims administration, sales management, underwriting, rating, general administration, general ledger, reinsurance, you name it.

Today, this product is deployed across 50 plus countries. At any time, we have an order base of 15 or plus countries just as super brokers. It is available – is deployed in German, French, English, Portuguese, Chinese, Japanese, and Spanish. I am probably missing a few languages. We also have a product called WinBEAT that is only tailor made for Australia.

In Australia, basically we on the broker desktop side, we own 85% of the market. Most of the time when you – most brokers would be using – this is P&C, property and casualty side of the market. We bought our largest competitor a few years back and we tend to dominate this market, so they sell WinBEAT. WinBEAT is more of an ASP kind of a product where people pay in advance on a monthly basis – on a quarterly basis. It has been a very good cash earner for us and very high margin business.

The third product we have is EbixASP. EbixASP is been primarily developed for the US market and US insurance market for brokers. They tend to be a bit different than more standard oriented US market tends to be operated by 50 countries. 50 states are like 50 countries, extremely regulated in insurance, and so you have to produce something which is dramatically different from what is used outside the US and that is EbixASP was born. As the word convey, it is an ASP.

The third revenue driver which is, just to come back to a previous slide, the broker segment side of our business generates around 19% of our revenue.

Exchanges. Exchanges in '08 will constitute over 58% of our revenue. What do we do on exchanges? We do three different kinds of exchanges. Going back to our Australia story, in Australia, we are the exchange. Pretty much any insurance P&C transaction that close in Australia on the – any (inaudible) would grow on our exchange. It is called Sunrise. We bought it from Telstra. Again, since we had one end of the telephone. The insurance transactions are like a telephone transaction, you need a broker at one side and you need an insurance company on the other side and then there is a telephone wire. There is a communication.

We already in Australia own one end of the telephone. We own the brokerage segment. So, it was quite natural for us to own this exchange. We felt because if you cut this one end of the telephone, the broker segment, the carriers can't do much because most of the business is flowing through brokers. So, we went in and started building our exchange and our – Telstra, the telecom giant, ran an exchange in the middle and pretty much kind of monopoly in the market, and they realized (inaudible) it might be better to sell it to us because they were trying to create competition and we owned one end of the market. So, we ended up buying them and today we dominate that market. That is the P&C exchange.

The other exchange we run in US is the annuity exchange. On annuities, we conduct close to \$36 billion in premium. Virtually, you could name a large player in annuities that conducts annuities from Merrill Lynch to Wachovia Securities to (inaudible) to a Pershing, all of them are our customers today. The two big names we don't have today are American Express and Morgan Stanley. But other than that, I would say we pretty much have quite a bit of the market. The market side is almost \$230 billion, which means we have \$36 billion of the market, so there is still – the remaining market is primarily paper driven still and that is the opportunity for us to take it over the Net.

The third exchange we run in US is the life exchange. On the life exchange, we conduct close to 14 million transactions a year. What do we do on that is primarily a (inaudible) exchange, where in excess of 300,000 life brokers use us to deal with all their insurance companies to handle what is called appraisal [ph] illustration to do a comparative, it's not just prices, it's all kind of permutations on handling a particular policy. We have become kind of a standard in the industry on the life exchange and even standard data stream that are found by standard bodies are based on what we do.

We have 70 top rated life insurance companies that are our clients, again the AIGs, the Alliances, the Prudentials, you name it virtually, MetLife, Mass Mutual, everybody is our client today. Various opportunities there, opportunity is one in – today this product is called WinFlex that is deployed as exchange. That exchange, there are 1 million commission agents in the US, 300,000 use our exchange. The opportunity is to expand it to the remaining side of the business.

Carriers tend to pay for it. We get paid on a transaction basis on all these exchanges, and carriers are paying for it, so carriers are very choosy about which brokers to give it to. So, as we convince them to roll it out to more brokers, the numbers will increase. Also, we are now presently launching what is called LifeSpeed. LifeSpeed is a (inaudible) exchange. It starts with WinFlex and – which means the sales (inaudible) you are going to take the policy to the life cycle of a policy and by the way, we launched it with Aegon. We have already rolled it out with Aegon as a client.

This is our recent -- we recently made an acquisition, but it took us into employee benefits and gave us primarily 7 million insured lives that is used by top carriers like AIG, it has got claims processing, claims adjudication, employees enrollment and so on. Again it is an end-to-end kind of a software and we tend to expand it, and our big story is when you make an acquisition, we cross sell a lot, and again as I take you forward, you will understand that.

Ebix BPO is our fourth segment and a BPO. As the word conveys, the difference here is we are not competing with a local Indian company or we are not competing with a Philippines company, we are competing because we are a service provider, with a software provider. So, we are selling the service primarily, a turnkey solution, manpower becomes just an add-on. We are not getting the business because we have cheaper manpower. We are getting this business because we provide the service and we understand insurance and we power transactions around the world.

In this particular business, we have around 115 employees in the US, again we run a backend unit in India, a Carnegie Mellon Level 5 certified unit, highest level of quality that Carnegie Mellon gives you. And we have -- we own two facilities in India and our goal is to take a lot of that unit -- a lot of this BPO backend work to India. So again, we believe our margins will go up considerably as we take that work back to India. Primarily, today even while doing it in the US, we are generating 35% plus net margin on the BPO side of the business.

This is roughly again a story that is trying to capture the Ebix story, from a \$19 million loss, we are already at \$12 million in income at the end of six months. It kind of captures for you the sequential story that this has been, there's really not been a blip on it. We do not issue guidance. So, again, I wanted to clarify one thing. As a company, there is one strategy we have always followed. As you try and look back at us, you will see we do not issue guidance. We do not set high expectations. We talk about the past. You will never hear us talk about -- when we make an acquisition, we don't even put a press release out telling what we expect out of it. Again, this is a right or a bad -- wrong or a bad strategy, we have sold us (inaudible) to the market and we have shown results rather than just talk, and I think that is the way we want to stay with our --

What change between '99 and now, and I used to kid around with investors, when I use to go out and they will say what is your big vision plan, and I will say my vision plan is selling price has to be a lot higher than the cost price, and that still remains my vision plan. When you talk about on the marketing and technology vision plan, but at the end of the day, business is all about simplifying, as Warren Buffet would say, simplify, make sure that you can do business. If I can -- if selling prices are lot higher than the cost price, everything else will work to our advantage.

We have had, what is helping us grow sensibly? Organic growth, sensible accretive acquisition. Each and every acquisition we have made as has been accretive from day one. Not even the first quarter has been accretive. Each and every -- and you can look through our history.

Ebix India, we totally -- we overall have 675 employees now. We have in excess of 350 people now in Ebix India. Ebix India, I will later on talk, that I came up as an Indian in 2003, we set up Ebix India, is phenomenally helped us in doing what we do. We have a 90% plus senior employee retention rate worldwide and that really has helped us. Our realization that we have a long way to go. We still rate ourselves 3 out of 10. We still believe we are just getting started, so it keeps us humble and keeps our feet on the ground.

70% of our business is accretive [ph]. All our products have cutting edge and e-commerce technology, all products are fully ready and have a large customer base, so they are not getting in trying to (inaudible) with the market. Rather than license our products in perpetuity, we either license them for a few years or license them on a transaction based model. In no case will we ever sell an IP to somebody. We do not sell source code. We don't provide an IP to anybody. We will never sell perpetual licenses. We will always want to be the driver of the transaction and on the IP in every transaction around the world.

We are considered a local player in every market we operate. We have 23 offices around the world. If you go to New Zealand, we are seen as a New Zealand company, if we go to Sydney, we are seen as a Sydney company, and Singapore is the same way and so on, and London and Canada and so on. We have not lost many customers, I would say, in the last six or seven years, and that has really helped us quite a bit.

This shows a bit (inaudible) I talked about our acquisition history. To give you a metric of how we rate ourselves, we bought a company called Heart Consulting in Sydney. This was primarily in the broker segment. They had a revenue run rate of 750,000 a quarter. By the time we finished, today if you look at second quarter 2008, they had a revenue run rate of \$1.45 million, the 93% kind of growth.

This is another acquisition we made. It is part of our Ebix eXchange -- our exchange. We made -- this acquisition was made 2.5 years back. They ran at a revenue run rate of \$1.3 million, run at a run rate of \$2.45 million a quarter, 88% growth if you compare that to the time we bought it.

Another acquisition, we bought a company, \$1.275 million. Today, with 88% growth, it is at \$2.4 million. Another annuity exchange, we have at times found -- what are we doing with these acquisitions. Insurance is a market (inaudible) lot of systems [ph] to change. So if we walk in into Ireland and say, "We are going to sell you the greatest exchange in the world, they are not

going to accept it." You know, we might have one, two customers, but in order to dominate in the market, we will have to find a backdoor entry. We will have to figure out who the player, who the local player who kind of has a market share. The rest, we will take care of; we will take care of it. What we do then, we will go in, arrive at the net rate before we make that acquisition, make sure the cost structure is right, fire a few people if we have to, and we will make sure the right redundancies take place. We will make sure that it is accretive on day one and now our goal is to cross sell. They are selling, let's say one product, we are going to sell seven new products to that market using that relationship model that they have, and that has helped us thoroughly. So again, you see that through our eXchange concept.

We bought a company in '06 of October with \$1.675 million in revenue quarterly run rate, today it is at \$2.85 million run rate, a 70% growth rate. This another recent acquisition we made in Australia for 50 million Australian, pretty close to \$50 US today, and again this has helped us dominate that market, and again as you will see, before and after is what it talks about -- this was their product before, this is their product after. So, cross selling is the name of the game for us. We go in and cross sell a lot of our products because we have a lot of services we offer and all of them are integrated.

Ebix's entire vision plan could be summed in one word, convergence. So, our goal is, you do data entry once, after that data should keep flowing whether it is a consumer or broker, or carrier or bank or third-party administrator, that's easier said than done. Insurance is highly complicated and thousands of entities work in insurance in every market.

This is another acquisition we made a month back. We have not announced any guidance on it, so I will not talk about much guidance, except say we bought it for \$22 million. We have publicly announced this will be accretive on day one. But that is about all we could talk about it, employee benefits, (inaudible) and we will expand it and do the same cross selling. And launch, they were primarily doing employee benefits in the US, for us an immediate employee cross selling opportunity is, we have all these large brokers across the world, insurance companies looking why can't we take employee benefits from here and just deploy it now internationally because we have the reach. So, that is our model and we are going to do that.

I am going to jump through most of these slides in the interest of time and if anybody else has interest, we will talk to it later.

So what's next? I think revenue growth has to be directly proportional to income growth. We have setup a benchmark for ourselves and the benchmark is pretty clear. We have always said we want net margin after tax to be 35% or above. That is the benchmark we are evaluating ourselves on and that is something we will -- that is our mantra today.

Focused on organic growth through say, accretive acquisitions. We will make a few more in coming years, but again we are going to go into this -- we have a global expanse. We want to go into countries like France, into Germany, Ireland, and we want to create a one large player. In insurance, there is none. All these segments that I talked about, if you ask me what the competition is, it is a different competitor in every four -- all the four segments, not -- even in each of the four segments, I could subdivide that segment into 10 pieces, and in each of the 10 pieces, there is a separate competitor in the US; outside US, a separate competitor. So we will go into France, we will compete with a local French player, in Germany with a different player. There is no one player we compete with. That is a good thing and a bad thing. Good thing is, we are seen as the only international player who can provide commonality of services, which becomes extremely critical for a large insurance company, a large broker. They don't want a potpourri of systems. However, it is also a challenge which means every market we have to now play against a local player and that becomes challenge by itself.

So I think that is about it. I think my time is -- pretty much taken up most of my time. Any questions that I could answer?

The last thing I wanted to say, we just announced a split, three-for-one. Record date will probably be somewhere in the last week of September. Our stock is probably trading at \$110 right now. I came in when the stock was around \$7 in the company. So, I have seen a decent turnaround. I will also tell you that I am one of the largest shareholder; own around -- we have total outstanding shares of close to 4 million. I own 0.5 million or so. In ten years, I have sold 10,000 shares, 11,000 actually. That is about it. Yes?

Question-and-Answer Session

Unidentified Participant

Are you on the stock exchange (inaudible - microphone inaccessible).

Robin Raina

We are on NASDAQ. We are on NASDAQ since 1984. So this is not a new story. Unfortunately, like I said, till 1999 the company had done terribly, great customers in [ph] 1999, but the problem was primarily that lack of common sense, you know, the selling price like I said, finally the business is about net income not about market shares only. So all I had to do was simplify the thinking process and the rest took care of itself.

Unidentified Participant

How much cash do you have (inaudible - microphone inaccessible).

Robin Raina

How much cash? I think we have around \$14 million of cash in the bank. If you look back at November of '07, we were a zero debt company, virtually no debt in any part of the world. Any time we borrow money, we have been very good at returning it. We generate a sizeable amount of cash. And in recent times we have borrowed a little bit to fund some acquisitions, but we have the power to pay it back rather quickly. We are generating virtually every day, so it is a very cash-oriented business. We don't have DARs [ph] or anything like that, so we have done quite well on that. Rates and [ph] growth, it becomes a challenge in today's market, when you have banks offering you LIBOR plus 130, that is what our rate is. With a \$25 million line, you want to use that entire line, 3.83% interest, it does not get better than it. You take some of that money, throw that into India, get a 10.5% interest, save 23% tax on it and now you've got still some -- you took somebody's money and made a bit more money in the process and I believe you have done that too. It doesn't help letting it stay when a banks are ready to give you money at that kind of rate.

We also -- I wanted to, sorry, add one more point. We have accumulated NOLs of close to \$40 million, which will help obviously in coming days.

Unidentified Participant

(inaudible - microphone inaccessible)

Robin Raina

You see, for us, organic is the word, but at the same time -- The question here was that, will we focus on organic growth or will we focus on acquisitions as a way to grow? Well, the answer, in insurance industry, software industry tends to be a bit more complicated than that. The reality of it is that, it is organic growth finally is what is going to make a model sustainable. You can't keep every quarter showing revenue growth and income growth and EPS growth and cash growth simply by making acquisition, finally you got to fund that acquisition and what do you do with that acquisition finally makes the difference. So, here the mantra is, we will go in into certain markets to use an acquisition as an entry door, simply because they have the relationship. In insurance industry, at times, insurance companies work with somebody who provides them a terrible service but they are still not willing to move. They are willing to move but it takes them about 5 years to just make that decision finally. So, how do you get there? You get there through back-ended relationships. See who the relationship czar is in that country, we are buying market share. We go in and buy market share in a key segment, when we do that, after that we have already done all the home work to make them profitable, make them accretive on day one, and after that we focus on organic growth immediately by cross selling. We will bring in all of our products. Finally they had one service and we come up with 10 different services and start cross selling and your organic growth starts happening. So that's the answer to that.

Joe Lambert

At this time, I will move on with the schedule. But to continue question and answers, we have the breakout room over there and he will be available for more question and answers in the breakout time.

Robin Raina

Thank you very much.

Joe Lambert

Thank you.

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