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EBIX - Q2 2018 Ebix Inc Earnings Call

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CORPORATE PARTICIPANTS

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

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

Sean T. Donaghy *Ebix, Inc. - CFO, Principal Accounting Officer & Company Secretary*

CONFERENCE CALL PARTICIPANTS

Allen Robert Klee *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

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

PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for your patience. You've joined the Ebix Second Quarter 2018 Investor Call. (Operator Instructions) As a reminder, this conference may be recorded.

I would now like to turn the call over to your host, Corporate Vice President of Ebix, Darren Joseph. Sir, you may begin.

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

Thank you, and welcome, everyone, to Ebix, Inc. 2018 Second Quarter Earnings Conference Call. Joining me to discuss the quarter is Ebix's 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 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 Q2 2018 results was issued earlier this morning. The audio of this investor call is also being webcast live on the web at www.com/webcast (sic) [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 the text transcript of this call will be available 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 Q2 2018 increased 43% from a year ago to \$124.6 million. On a constant currency basis, Ebix's Q2 2018 revenue increased 44% year-over-year to \$125.4 million as compared to \$87.4 million in Q2 of 2017. The revenue improvements primarily reflected growth in the company's financial exchange channel as well as new revenue streams from the company's e-learning division with the revenues from the EbixCash Financial Exchange service reflected in the exchange channel.



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In Q2 2018, our exchange revenue continued to be the largest channel for Ebix, accounting for 82% of the company's revenues. The year-over-year revenue increase was a result of revenue growth from EbixCash Financial Exchanges, e-learning business, P&C, life exchange, annuity exchange, underwriting exchange, health, e-commerce exchanges and the financial exchanges aided by revenue growth generated from the company's various inward remittance, ForEx, finance and travel businesses, offset primarily by the declines in the area of third-party administration exchange, EHAE, CRM, RCS, continuing medical education business and the life strategic consulting business.

The revenue drop in the CRM business is also partly due to the implementation of the new 606 guideline. Our growth in 2 key markets, India and Latin America, continued in Q2 2018. The Indian-led ventures showed 280% year-over-year growth in Q2 2018 by growing to \$55.4 million from \$14.6 million in the same period in 2017, including some of the India-led revenues that was billed in other Asian countries.

The Latin American ventures showed 19% year-over-year growth in Q2 2018 by growing to \$5.2 million from \$4.3 million in the same period in 2017. 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. We are pleased with the sequential growth in top line in our overall business.

Q2 2018 revenue sequentially grew by 15% to \$124.6 million over Q1 2018 revenue of \$108.2 million. The growth was primarily driven by the growth in the EbixCash Financial Exchange business and the new revenues from the e-learning business.

Our India revenues grew 53% sequentially from \$36.4 million in Q1 2018 to \$55.6 million in Q2 2018, including again, some of the India-led revenue that was billed in other Asian countries. We expect this growth to continue and have a number of organic and inorganic initiatives targeted at growing our India revenues continually in a sequential manner.

International revenues in Q2 2018 accounted for 60%, while India-led revenues accounted for 45% of the Ebix revenues in the quarter, exemplifying the tremendous growth we've experienced in our international businesses, primarily due to the EbixCash Financial Exchange business. As we deployed our insurance exchanges in India through the new BSE-Ebix venture, we expect that our insurance business will start to account for substantial revenue streams in India.

I will now turn the call over to Sean.

Sean T. Donaghy - *Ebix, Inc. - CFO, Principal Accounting Officer & Company Secretary*

Thank you, Darren. These are exciting times for us as we take the company to a new era of growth. It's an especially exciting time for those of us who have been here at Ebix and have seen the Ebix story play out in a continual manner. I joined the company in 2006 when Ebix revenues were \$28 million annually. Today, Ebix is on the cusp of history with its Q2 2018 annualized revenue run rate running close to \$0.5 billion. We are thus quite pleased with the company's second quarter 2018 financial results and the operating performance associated with these results.

As compared to Q2 2017 operating income of \$26.5 million, the Q2 2018 operating income was 44% higher at \$38.3 million. This translated to operating margins of 31% in Q2 of 2018. Q2 2018 net income was 25% higher at \$29.2 million as compared to Q2 2017 net income of \$23.4 million. The net income in Q2 2018 showed the effect of higher interest expenses associated with our bank lines, increased foreign exchange losses and higher income taxes with \$1 million higher foreign exchange loss in Q2 of '18 versus Q2 of '17, a \$2.7 million increase in net interest expense in Q2 of '18 versus Q2 of '17, a \$2.5 million higher tax expense in Q2 of '18 versus Q2 of '17. The Q2 2018 taxes reflect a provision for the global intangible low-taxed income, GILTI tax, as per the 2017 Tax Cuts and Jobs Act.

Q2 2018 diluted EPS was 25% higher at \$0.92 as compared to Q2 2017 diluted EPS of \$0.74. Ebix weighted average diluted shares outstanding remain flat at 31.6 million shares in Q2 of '18 compared to Q2 2017. As of today, the company expects the diluted share count for Q3 2018 to be approximately 31.7 million shares. We are pleased by the fact that the company continues to deliver attractive top line growth and operating profits with a 31% operating margin during Q2 of 2018 for the entire business.



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In Q2 2018, we spent a total of \$4.9 million on dividends, tax payments and building construction. Specifically, during the quarter, we paid \$1.6 million in taxes, spent \$941,000 on capital expenses, \$173 million for the purchase of CentrumDirect and Smartclass and paid dividends of \$2.4 million, while drawing \$185 million from our bank credit facilities.

After these significant uses of cash, Ebix still ended the quarter with \$134.7 million of cash, cash equivalents and short-term investments, an increase of \$45.2 million as compared to December 31, 2017, with available cash reserves of approximately \$326 million, including the available borrowing capacity and the accordion available to the company. We are very pleased with the company's continued ability to generate cash to fund its growth and investor-friendly initiatives. We will soon be announcing a record date for the Q3 2018 dividend payable to our shareholders.

In Q2 2018, 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, August 9, 2018.

I will now pass the call on to Robin.

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

Thanks, Sean.

(technical difficulty)

Operator

Ladies and gentlemen, please stand by. Robin, please proceed.

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

Can you hear me clearly?

Operator

Yes, sir.

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

Okay. Q2 2018 translates to a record annualized EBITDA plus stock-based compensation of close to \$163 million. Q2 results translate to a record annualized operating income of \$153.3 million, \$38.3 million in the quarter; \$0.92 diluted EPS, despite a \$6.6 million increase in nonoperating expenses like foreign exchange loss, net interest charges and tax expenses from Q2 2017 to Q2 2018. I am especially excited with the fact that we are getting to the quarterly annualized run rate of \$0.5 billion while keeping our operating margins at 31%. That is humbling and yet quite fulfilling for me as I set on this journey 2 decades back with a disciplined simple goal of getting to my first \$0.5 billion in revenues at 30% or higher in operating margins.

Ebix has been a story of discipline and consistency. As we started achieving these 30%-plus operating margins with revenues of \$30 million or more in the year 2007, many investors used to wonder if it was going to be possible to sustain these operating margin levels when we become a larger company and get to our first \$100 million in revenues. We knew that we had a few things going for us, financial discipline, a commonsense approach to business, our analytical approach to business, our airport business model and our desire to be a pioneer in every sector that we go into. That relentless discipline, along with a humble commonsense approach to business, have gotten us to this point where we are still producing 30%-plus in operating margins as we approach \$0.5 billion in annualized revenue run rate. That is just incredible and humbling.



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In the Q1 investor call, I had talked about an aspirational goal of \$500 million annualized revenue run rate by fourth quarter of 2018. Well, we almost got there already, a lot earlier, in Q2 2018 itself. So I'm going to reset the aspirational goal again for Ebix 2.0.

Ebix 2.0 is a company today that have more ambitious goals than ever in terms of its growth trajectory, expanse of services and geographical reach. I will today set up a new aspirational goal of \$600 million annualized revenue run rate by first quarter of 2019.

There are many things that should contribute to that aspirational goal. The main ones amongst them being as follows: one, our insurance exchange businesses worldwide, aided by a few key initiatives; two, our EbixCash Financial Exchange businesses that we intend to grow globally rather than just in the Southeast of Asia at present; three, our new e-learning business that have the potential to be a \$100 million recurring revenue unit in just 3 years; four, new initiatives, like outward remittance, bus and train technology and e-ticketing, lending technology, luxury travel initiative, mutual fund exchange, person-to-person lending exchange and money clearance exchanges, et cetera.

Sean and Darren have talked about the financial performance of the company in the quarter. Let me now talk about some of the key happenings in Q2 from my perspective.

Our India-led revenues in Q2 grew to become 45% of our worldwide revenues, up 53% sequentially from \$36.4 million in first quarter of 2018 to \$55.6 million in second quarter of 2018. Some of the India-led financial exchange revenues got billed in other Asian countries like Dubai, Philippines, Indonesia and Singapore. A few quarters back, I had set an aspirational goal of \$300 million annualized quarterly run rate by Q4 of 2018 for India with 30% or more in operating income. I am now setting another aspirational goal for India, annualized quarterly run rate of \$450 million by the fourth quarter of 2019 for India with 30% or more in operating income. This high aspirational goal is driven by the momentum we are experiencing in India and a belief that we can be India's largest financial insurance exchange while pioneering new business concepts and end-to-end B2C and B2B processes.

We're very excited by the opportunities ahead of us in the insurance arena. Insurance is a fundamental strength and thus, is a natural area of pursuing growth for us. I see 3 key opportunities in the insurance area: one, our core insurance businesses in the U.S. and abroad; two, the Bombay Stock Exchange EbixExchange in India; and three, wealth management exchanges.

Towards the end of last year, we announced that India's leading stock exchange, Bombay Stock Exchange, BSE, and Ebix are forming a joint venture to set up a pioneering insurance distribution network in India with the goal of revolutionizing end-to-end sales and processing of insurance in India. I am pleased to say that as of today, BSE-Ebix have made giant stride in its efforts to create this nonaligned distribution exchange for 25 carriers or more to handle the insurance needs of consumers all across the country. We are today in the testing stages of deploying the exchange across 6 personal lines with 25 carriers interfaced on any kind of device, be it a phone, a handheld tablet or a computer. The goal is rather simple: to bind and issue an insurance policy within a few minutes in the simplest possible manner.

The venture have many firsts attached to it. This will be India's first exchange providing a transparent, independent, real-time connectivity between 25-plus carriers and distribution outlets. India's market has typically operated as a captive agent market with an agent writing business for a particular carrier. Also, BSE-Ebix is endeavoring to do something that is absolutely pioneering for the insurance industry. It intends to take the process of insurance sale to a grocery shop, a watch shop, a battery shop. Basically, any last-mile outlet or franchise that has footfalls in their store and have a relationship-oriented business. We intend to provide these outlets with WiFi-enabled handheld tablets loaded with a simple, idiot-proof solution that mandates a step-by-step insurance sales process. The outlets will be trained by a simple step-by-step, computer-based training program, followed by a self-certification test.

The venture will also enable distribution outlets, stockbrokers, wealth management advisers and financial institutions, et cetera, across the length and breadth of the country to sell life and nonlife products. The venture will utilize the distribution reach of both Ebix and BSE that spans more than 260,000 franchisee outlets and more than 300,000 BSE insurance terminals across the entire expanse of the country.

The state-of-the-art platform will leverage Ebix's world-leading, end-to-end insurance exchange technology and will encompass the entire insurance lifecycle, from customer relationship management, agency management, multi-quoting, underwriting, policy creation, claims filing and settlement, to back end insurance policy administration. This joint venture with one of the world's largest stock exchanges, Bombay Stock Exchange, is part of



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Ebix's ambitious drive to pioneer the convergence of insurance and financial channels in India. We see the BSE-Ebix venture as a very large initiative. More on this in coming months.

We see wealth management as an area that we don't have at present wherein we don't have the back end enterprise technology associated with wealth management. We see that as a natural fit with Ebix's present platforms in the life and nonlife arena and the audience that we cater to, be it agents, brokers, investment advisers, banks or financial institutions. You could see Ebix make a focused acquisition in this arena. Our intent is to continue to grow our present insurance exchange businesses, both in the U.S. and abroad, in that direction. We intend to make a few senior personnel deployments in coming weeks to enhance that focus and also to ensure that each division of the company is continuing to grow substantially and is growing in convergence with our other exchanges.

Let me now discuss in specifics some of the key areas of financial exchanges to give you a deeper dive into the business. In the area of inward international remittances, EbixCash today dominates the Indian market in terms of market share. India is the largest inward remittance market in the world with as much as \$60 billion of inward remittances coming into the country last year.

In inward remittance area, there are primarily a few large companies who bring money into India from across the world: namely, Western Union; Eurostar or Continental; MoneyGram; and then a few smaller ones like Xpress Money. Western Union has a dominating market share in India, whereas Continental is a new disruptive business that is trying to establish a market share. MoneyGram and Xpress Money have a much smaller market share.

EbixCash today has 63% to 65% of the Western Union market share and 50%-plus of the Continental market share. Weizmann, a competitor of EbixCash, had reportedly a market share in excess of 20%, while the remaining are relatively small.

In the second quarter of 2018, EbixCash made strong, successful efforts to grow its franchisee servicing base with Continental Exchange across the country. We secured licenses to service both MoneyGram and Xpress Money from Reserve Bank of India. In second quarter of 2018, there was no revenue recorded from these 2 new providers, MoneyGram and Xpress Money, as their license was secured towards the end of the quarter. These are going to be new revenue streams that will show in the coming quarters.

We embarked work on pioneering new technology and concepts that will allow remittances to be brought into an EbixCash e-wallet or an EbixCash smart card and also be received by a recipient while using a biometric fingerprinting device attached to a micro ATM or a point-of-sale device in any corner of the country. While our Q2 2018 remittance exchange business was strong, we remain focused on the competition and the fact that we would like EbixCash to become a standard in the remittance sector. We are aided by the 500-plus person strong EbixCash sales team across the country in this endeavor.

In the area of foreign exchanges, this was the first quarter after the purchase of CentrumDirect. ForEx is a highly regulated activity, driven by an AD-II license from Reserve Bank of India. We have now received approval of Reserve Bank of India to rebrand our foreign exchange operations as EbixCash World Money Exchange. We had a few key wins this quarter in the area of foreign exchanges by securing approval for Seychelles Airport and also key account wins like Ernst & Young, Wipro, Golden Temple Amritsar, IIM Bangalore and Paytm. We also deployed 4 new centers at India's largest international airport, Delhi, and started our ForEx operations there. Recently, we announced an exclusive relationship with India's largest e-wallet, Paytm, wherein in EbixCash World Money is now the foreign exchange face of Paytm.

In Q3, we are bidding to win presence at a number of key international airports in India like the Cochin Airport. We will also be making efforts now to establish a strong presence at the Indian ports as foreign vacation cruise liners are starting to receive approvals from the government of India. And ports are likely to emerge as a key area of growth for foreign exchange transactions.

Today, EbixCash World Money is the leader in India's foreign exchange sector with presence in 25 international airports besides partnerships with hundreds of corporates across the country. The company's main competition in the sector comes from Thomas Cook and Weizmann, who have a countrywide presence, too. We are thus focused on winning market share from these 2 competitors. We are aided by the strong EbixCash sales force and the fact that we now have a common corporate sales team that sells all our financial and travel products. We expect to continue to increase our market share in the ForEx segment, both in India and abroad. We intend to grow our foreign exchange business to Singapore, Indonesia,



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Middle East, Europe and United States, et cetera, in coming quarters and years and are taking many steps in that direction. The EbixCash World Money Exchange also has a 15% market share in India's fast-growing, multibillion-dollar education outward remittance business.

The foreign exchange will bring thousands of travel agents, large corporates, SMEs and new outlets to EbixCash's existing travel network offering. The exchange is highly complementary to EbixCash's Via.com travel exchange offering because it now allows EbixCash travel outlets to sell ForEx to its clients buying international travel. Also, it now provides us the ability to sell digital ForEx and multicurrency cards, et cetera, to our existing thousands of corporate clients. EbixCash existing corporate clients are presently provided a variety of offerings, including utility payments, corporate gifting, cash management, telemedicine for employees, travel bookings and prepaid gift cards, et cetera. EbixCash's ForEx presence in 24 international airports lends itself out to marketing the EbixCash brand to Indian and international consumers at these airports besides being a very recurring source of business for EbixCash.

In the area of travel, we have 3 key initiatives at present: Via.com, a travel exchange focused at present on the Southeast Asian markets; two, Mercury, a new luxury initiative; three, EbixCash bus exchange initiative targeted at the bus travelers. We recently announced the setting up of the Mercury Travel brand by combining 3 elements of travel. Our acquisition of Mercury Travels, our acquisition of Leisure Corp and the assimilation of Via's event-based travel business. The amalgamation of these 3 will create a luxury brand initiative that will focus on a comfort-focused consumer who is willing to pay a bit more for luxury, adventure sports and event-related travel. The Mercury brand will, for example, be the exclusive travel and hospitality partner in India for the ICC Cricket World Cup to be held next year in London. Amongst other things, the Mercury initiative intends to focus on the massive corporate events market in India, wherein travel, hotel, et cetera, is booked in aggregation for hundreds of employees by an organization related to a corporate conference or corporate events, et cetera. The Mercury brand, amongst other things, will focus also on possibly white labeling marquee trains in India as an exclusive travel and e-ticketing partner.

Incorporated in 1948 as an Oberoi Hotel company, Mercury is a popular luxury travel brand with a pan-India network of 40 preferred sales agents, 20 branch offices across 16 major cities in India, 350 employees, an extended reach in international markets through marketing offices in London, Hamburg and Frankfurt. Mercury is also seen as a leader in the adventure space, with specialization in organizing adventure safaris, seawater rafting and Himalayan expeditions. The company also owns an adventure hotel property through its Mercury Himalaya Expo joint venture. Mercury has multiyear contracts and associations with airlines, bus operators, hotels, et cetera, besides having a client base that includes leading names like the Oberoi Hotels chain and the Mahindra Group.

Amongst other travel-related services like event-based travel and insurance, Mercury also has a foreign exchange business serviced through its AD-II license issued by the Reserve Bank of India. Mercury also today has 54 franchisee partnerships for undertaking money-changing activities with leading hotels like Hyatt, Oberoi, Imperial, et cetera. Mercury's ForEx business will be integrated into EbixCash World Money foreign exchange business.

The other niche travel company we acquired recently is Gurgaon-based Leisure Corp. The 21-year-old company today is one of India's leading players in the events-related travel space and the luxury trains and the luxury travel market with a focus on insurance and financial sector and the incoming luxury travelers. The company's core competency is to build a customized range of services from conceptualization, design, budgeting, planning, to execution of large corporate meetings and conferences involving thousands of attendees. The company also specializes in creating tailor-made packages for the sports travelers with exclusive travel agent rights from India for premier world events like the recent FIFA Football World Cup in Leningrad. Leisure Corp has exclusive tie up with luxury train travel in India for trains like Palace on Wheels, Maharajas' Express and Golden Chariot Train. It's poised to become the market leader in the luxury inbound train travel by 2020.

Leisure Corp has an impressive client base spread across the insurance and finance sector in India, including companies like ICICI, Axis, Yes Bank, HDFC Bank, ICICI Prudential Life Insurance, Max Life, ICICI Asset Management, GE and Honda, et cetera. The company has a rich history of partnerships with many renowned hotel chains like Four Seasons, Ritz-Carlton, W Hotels and the leading hotels and resorts of the world.

Ebix intends to consolidate both these acquisitions, Mercury Travels and Leisure Corp, into its financial exchange, EbixCash, under the Mercury luxury brand while bringing significant synergies and redundancies to the combined operation. We believe that the merged Mercury business initiative can continue to grow at the rate of 20% or more annually with operating margins of 30% or more once fully integrated. We expect both



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the new travel acquisitions to be immediately accretive to our earnings and forecast \$0.09 in increased diluted EPS once the acquisitions are fully integrated over the next 6 months.

Last quarter, I talked about our efforts in the area of bus travel and related opportunities. I am pleased to say that we have now established EbixCash bus exchange initiative in partnership with one of India's leaders in the bus device management, global distribution system, e-ticketing, bus GPS and traffic management market. As a part of this new initiative, we have already secured 2 mandates for 2 of the largest bus roadways corporations in the country for 2 states for thousands of their buses. As part of these 2 deals, we will be providing devices and software in each bus besides smart cards for all travelers to use those devices and pay for their tickets, e-ticketing, global distribution system, bus GPS and traffic management. The business model in this business is to make transaction money out of every ticket sold.

No revenue was booked in second quarter of 2018 for any of these initiatives. We expect to build a strong new revenue line in this area in coming quarters and 2019. We see bus travel as a strong area of growth in the Indian marketplace. With 1.3 billion people and 70% of the country in an income bracket that does not allow for them to afford airline travel, bus travel has emerged as the single-biggest growing travel medium in the country for both intracity and intercity travel, especially in intracity travel. Buses are the only real medium of mass transportation with less than 10 cities in India having intracity train system. Thus, we have evolved a comprehensive strategy to become an end-to-end solutions player in the bus market as it holds the potential for a large value of recurring revenue for Ebix with 30% plus in operating margins. It also is a perfect complement to our travel and EbixCash smart card business.

Today, in the area of travel, Ebix is the third-largest player in the market, though, we are the only strongly profitable player amongst of the top 3 companies. The reason for the losses of our competitors is their readiness to subsidize hotel rates below cost and still grow their revenues and also their primary reliance on B2C revenues. The 2 competitors for EbixCash's Via and Mercury Travel brand in the business are MakeMyTrip and Yatra. We believe that a business model of having a strong franchisee base provides us with the travel reach next to none and also a much more performance-based approach wherein we only pay our franchisees as they generate revenues for us.

Our corporate travel channel in second quarter of 2018 continue to show double-digit growth, leveraging our cross-selling and technology tools. We have a B2C channel also, but with very little reliance on consumer advertising, positioning us uniquely as compared to our competitors. E-learning is a key sector emerging across of the world. We have, for many years, been involved in the e-learning segment, educating patients, consumers, doctors, nurses, pharmacists, insurers, underwriters, et cetera, through a wide spectrum of e-learning tools through our A.D.A. M. brand.

The e-learning business model is typically asset-light and caters well to strong, recurring operating margins once the customer aggregation crosses the threshold levels. We have been eyeing India's fast-growing e-learning sector for many years now, fueled by education being one of the highest-spending areas traditionally for an Indian median household. In line with that goal of entering the lucrative e-learning business in the K-12 schools arena, we recently acquired a 60% stake in India-based Smartclass and rebranded it in second quarter of 2018 as Ebix Smartclass successfully. The initiative is targeted at education services, development of education products and implementation of education solutions to K-12 schools.

In second quarter of 2018, we signed 1,694 contracts with schools for 13,696 e-learning classrooms and grew our Ebix Smartclass employee strength to 1,100-plus across the country. We see e-learning as a strong area of growth for Ebix and believe that we can deliver \$100 million top line in 3 years with 30%-plus in operating margins in this sector.

Ebix Smartclass today has a customer base encompassing thousands of classrooms paying for Smartclass, e-learning products and services in an on-demand subscription basis. Ebix Smartclass will be tightly integrated into Ebix's education and e-learning initiative in India and is one of the many steps that we intend to take to consolidate the e-learning sector in India.

Last quarter, during the investor call, I talked about our initiative to sell A.D.A. M. content and continuing medical education businesses in India and target India's largest medical community comprising of doctors, nurses and pharmaceutical companies. In second quarter of '18, we achieved success in that direction by signing a deal worth approximately \$3 million over the next 2 years with a pharmaceutical company in that arena.

A few days back, we announced the acquisition of lending technology player Indus Technologies. Indus, powered by its 900 domain-specific employee base, offers a specialized suite of products and technology solutions for banking and finance, telecom and insurance industry. With more



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than 150 enterprise lending implementations in 15 languages across 50-plus countries, Indus derives 56% of its revenues from India and the balance coming primarily from Europe, Middle East and Southeast Asia. With enterprise solutions that are designed for international markets with multicurrency, multilingual and multi-organizational support, Indus Technologies today forms the backbone lending engine for over 100 banking and finance, captive auto finance, telecom and insurance companies globally. Indus today has an impressive base of global who's who blue-chip customer base and partner base. Banking and finance clients of Indus include leading names like Standard Chartered Bank, Societe Generale, Canara Bank, Kotak Mahindra Bank, Doha Bank, United Arab Bank, Dubai First Bank, IDFC Bank, Thanachart Insurance and FMB, et cetera.

Captive auto finance clients includes names like Isuzu Leasing, Volvo, Toyota Financial Services, BMW, Nissan, Volkswagen and HeroFinCorp., et cetera. Insurance clients include names like HDFC Life, Kotak Life Insurance and Exide Life Insurance. Telecom clients include names like Idea, Airtel, Maxis, Aircel, VIVA and Ooredoo, et cetera.

Indus solutions tend to form the backbone of enterprise loan lifecycle management for a lender with modules that encompass retail and corporate origination, loan management and collections for areas as diverse as auto, mortgage, credit card, personal loans, education loans, consumer loans and gold loans, et cetera. The company's solution set includes functionalities ranging from commissions and incentives, workflow management, mobility, lead management, collateral management, dealer funding, et cetera. Besides its end-to-end lending suite, we expect the Indus acquisition to be immediately accretive to our earnings and forecast \$0.19 in increased diluted EPS once the acquisition is fully integrated over the next 6 months. Indus will be tightly integrated into our EbixCash family of financial solutions.

We have always believed that lending is a must-have functionality for any leading end-to-end financial exchange. Accordingly, in our vision plan for EbixCash with respect to the area of lending, we see 3 opportunities: one, powering the technology for lenders in any industry; two, creating a person-to-person lending exchange that can be available for over the web, e-wallets, mobile phones, white label corporate intranet and EbixCash outlets to consumers; three, lending services for our EbixCash outlets that allows them the power to borrow and expand their business at EbixCash.

Indus also provides us with the ability to launch a person-to-person, P2P, lending exchange into the back-end systems of top lenders in the marketplace and move data seamlessly across front-end and back-end systems. This will also allow Indus clients to access the 260,000-plus physical distribution expanse of EbixCash franchisee base, along with a strong corporate and electronic network and be a lending provider to our vast consumer network in India through a future EbixCash P2P exchange. Indus incidentally also fits in well with our goals of expanding the EbixCash network globally since it already provides us with an international customer base across Europe, Middle East and Southeast Asia.

Our efforts have made EbixCash today India's largest financial exchange. We're going to continue to grow this EbixCash exchange with the might of our 7,500-plus employees in India backing this effort. All of this has emboldened me to set up a new aspirational goal for Ebix today. A \$600 million annualized revenue run rate globally by Q1 of 2019 and an annualized quarterly run rate of \$450 million for India by Q4 of 2019 with 30% or more in operating income. As always, I will add that while there are no guarantees that we will meet these goals, yet rest assured that we will try our best.

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 second quarter.

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

QUESTIONS AND ANSWERS

Operator

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



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

Obviously, just a ton there trying to digest, but I'll try to maybe just start at the high level, Robin. First, with respect to India. Obviously, the business is doing really well, top and bottom line. Talk to me about -- you had referenced on several occasions discussions of possible spinout out, et cetera. Didn't hear any mention this quarter. Just give me your current thinking along those lines.

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

Well, I think I didn't talk about it this quarter simply because I've already talked about it. So there's nothing new about it. So clearly, our intent is to take the Indian company, EbixCash. Basically, we want to take that entire Indian entity rebranded as EbixCash public. So our intent would be to list it on the Indian stock market. Our intent is to do that, but preferably in the second part of the next year, 2019, mainly because we would like the elections to play out in India. Apparently, the election, that's a very involved exercise in India so investment bankers and bankers are telling us that it is better to do that after the elections. So that's our present intent. So our intent is, we have not fixed anything as yet, but my recommendation to the board would be to take parts of the company -- while the company will be taken public, at the same time, majority of the ownership will stay with Ebix, the parent company. And maybe up to 30% to 40% might be available to institutions and the public to subscribe to.

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

Got it. That's helpful. And then on the BSE joint venture. Maybe a little more emphasis there than we've heard. Although you announced it and you obviously have been working on it, but it sounds like we're getting ready to really roll this out. You commented that the distribution there is the combination of the Ebix network as well as that of the BSE. Can you spend a second and briefly, what does the BSE distribution look like? What are those outlets? How are they going to leverage your platform? A little clarity there would help.

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

So there are virtually -- you have to look at it, there's 2 different channels. So one channel will be the normal franchisee channel, which is where I talked about pioneering something that has never happened in the insurance industry before. So what I mean is that when we go into from a -- one side of it is the distribution base, which is basically the retail base, the outlet base, which EbixCash brings to the table. For example, each of our 260,000-plus distribution outlets potentially could be an insurance distributor. So how do we make them an insurance distributor? We want to provide them these 11-inch devices, handheld devices. So we would team up with one of the large players that we will name at the appropriate time. And we will provide these devices to these franchisees on an EMI basis so that the devices will come preloaded with all the idiot-proof, simple, mandated kind of a process to sell insurance. And these will be WiFi-enabled devices. They will have activity program to go through their training and then the self-certification program. And so it's all driven by the license that you have with the regulatory board, the IRDA. But having said that, on one side, we're going to have this vast EbixCash distribution base. On the other side, Bombay Stock Exchange has 300,000-plus terminals. Their main client base are the who's who financial institutions.

To give you an example, 3 years back, Bombay Stock Exchange decided to enter the mutual fund market. Today, BSE has 26% of India's mutual fund market. So they're a very strong player in terms of their reach in the financial world, in terms of especially catering to the financial institutions. So we basically see this as 2 parallel opportunities. One, the more retail mom-and-pop shop that we want to enable because we believe India is a highly underinsured country. We want to make sure that insurance is available to be bought and sold in every nook and corner. You have to educate the consumer. Who best to educate that consumer in a C-grade city than the next door shop who has all the footfall, where all the people end up to buy their stuff. And we want to be enabling them to be able to sell insurance. And that's pretty much what we're trying to do through pioneering something which has never been done. But on the other side, we'll have BSE, who's already been successful at doing similar stuff, for example, in the mutual fund arena, and we will basically go with more traditional technologies, basically take these, whether it is technology-agnostic phablets or tablets or phones or computer-based, laptop-based insurance selling processes.

But what we also want to do, we don't just want to distribute insurance. We want to have an end-to-end technology process. And that's where Ebix back-end technology comes in. We want to take this -- when an insurer tries to write this insurance, we want to be able to provide Ebix TPP



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product, for example, to underwrite that insurance, right, to be able to absolutely have a dream toolkit for them to be able to underwrite it and keep changing the underwriting rules. Similarly, we want to be able to provide all the tools, whether it is a CRM management tool, whether it is multi-quoting tool, whether it is claim settlement, claim adjudication, installment planning. You name it, the policy admin, we want to be able to provide all of that and take the data all the way from a consumer, through the broker, through to the carrier, through to a TPA, if required, and so on because that's our main strength. And that's where we want to become like an insurance airport by taking a name like BSE on our side. BSE is an institution that is -- every school kid would know BSE in India. They are the oldest financial institution in the country, very strongly respected and revered across the country. This will be the first JV that they have done. So we're very pleased that BSE chose us to do this JV with them.

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

Okay. That's great. And one more on India before I want to jump to the domestic India piece. With respect to the same-store sales. As I think about this, your individual locations that you were just touching on those distribution outlets. Do you have any anecdotal or any quantifiable metrics that you've been able to gather thus far that talk to the, for instance, the average number of products each individual location is selling? Somebody might have been selling travel now or they're doing remittance. Like how are the individual locations adopting the new capabilities? Do you have any metrics along those lines that might be helpful?

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

So Jeff, frankly, it's a bit early for us to be defining those metrics because we're trying to target 2, 3 different sectors. One is the retail segment and one, you have the corporate segment, right? And from a retail perspective, and we launched some of these newer products because last 12 months have been - we're moving at an absolutely -- at the speed of lightning. So what we want to be able to do is first reach a stage where we can absolutely start kind of writing some of those metrics because today we are at a point where we are teaching the market. We are pioneering. Remember, we are the first ones who are doing this. So we'll have to establish those metrics. So today, I don't have those metrics to tell you what those metrics are because, look, we're going to pioneer this market. We are setting up the benchmark. Nobody else has done what we are doing before. So as time evolves, we're going to start evolving these metrics in terms of, okay, these are the number of products that we are selling. This means like a -- this is the benchmark as we go into a newer state or something like that. So I don't think I could give you some easy statistical metrics to kind of evaluate on a month-to-month basis.

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

Okay. Fair enough. And then on the domestic business just...

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

The revenue number I think is a -- that is clearly a metric as you go into it. I think just looking at the overall transaction and the net margin, net margins will give you an idea of how well we are performing in those markets.

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

Yes. Got it. Got it. The core domestic business, I think when you guys were giving the initial model, I think, at the Analyst Day, you commented on some of the key drivers and then some of the key offsets, if you will. If I look at the key offsets, I think you touched on EHAE. But I think CRM was in there, RCS, continuing ed, et cetera. Most of those are in that sort of what I would call the core legacy/domestic business. And I want to -- maybe 2 questions. You commented on at one point the addition of incremental leadership. So 2 questions. One, if I just look at the domestic business, what's your thinking from here? Namely, does overall growth there look as though it's on a trajectory to accelerate its year-over-year growth rates, maintain growth rates or see declining growth rates? That's one. And then two, on the leadership front. You referenced leadership additions there. Is there anything you can do to expand that?



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

Well, I think, first of all, let me take it in the reverse order. Leadership front, I think we want to embrace global leadership in the insurance arena. So I cite global. We think that insurance market. U.S. is just one of the markets. There's a lot of growth that's happening in the Latin American market. There's a lot of growth that's happening in the Asian market because partly because as people -- you see, what is insurance? Insurance follows wealth creation. As people are creating a lot of wealth in these Asian countries or these Latin American countries or these African countries, what's happening is, as they create this wealth, they want to preserve that wealth, and that's where insurance comes in. So the rate of the insurance industry is going to continue to grow in the market. So it is smart on our part to not only have a U.S. focus. U.S. clearly is our foundation. At the same time, I think that, frankly, the opportunity, the bigger opportunity lies outside the U.S. in the insurance market.

Having said that, our intent in coming there in the domestic market is to realign. I actually hinted on that during my talk. We are going to make some key management changes, some key strategic changes in the U.S. We want to set this company up for growth in the right fashion. In the quarter that you saw, where you saw some of these, in certain areas, you saw revenue declines, for example, in the area of consulting. We have seen revenue declines. Part of it is, when you go into strategic consulting, it's going to be associated with a lot of what is going on in the present day world with respect to -- there's a lot of confusion with respect to immigration, with respect to usage of consultant. So that's going to take some time.

The area of health exchanges, there's been a lot of confusion post President Obama, but there's a lot going on in that industry. There's a little bit of confusion in that market. In the annuities market, we have seen confusion in the U.S. with respect to some of the new rules that were put in place, the DOL rules and so on. So having said that, we actually sense opportunities in the U.S. in specific areas, and that's what we are trying to focus on.

In recent time, we've also seen the implementation of 606 guideline, right, the revenue recognition, the 606 guideline. It has impacted a few of our products. But again, that revenue doesn't go away. As you know, we're going to get that revenue. But at the same time, in the short term, there might be certain products where you have some short-term hits because of the way the revenue gets recognized because of the new guideline. So having said that, we're trying to realign, we're trying to regroup, we're trying to see what works in the U.S., what doesn't work in the U.S. Good news is, U.S. has always been our mainstay. Good news is, we're very well-established in the U.S. So we are continuing to focus on the areas where we think that we can grow our businesses.

I talked about wealth management, for example, as one of the areas. So we feel that's a natural opportunity for us because we are very strong in the life arena, right? And pretty much, when we look at all the investment advisers, banks, the broker community and so on, we are very strong there. And we see a natural fit if we had a wealth management solution to kind of integrate it within our entire offering. So having said that, you're going to hear more about how we plan to kind of set ourselves for the next round of growth for Ebix in coming days.

Part of it is as Ebix evolves, our goals are becoming bigger, right? We're not anymore happy with the \$2 million and \$3 million or \$5 million of growth in a particular period of time. We're looking for much more bigger numbers. If we're going to be a \$600 million company like the ambitious goal that I set up, U.S. has to also help us beat that goal hopefully, by a big number, which means we want all these divisions to grow. And to do that, we also want focus. And so we're going to realign. We're going to set up certain priorities to ensure that the focus is there in our businesses. So you're going to hear a lot more of that.

So one of our goals as we move forward is, we don't just want to be -- we want to integrate all these units. We don't see insurance or finance as 2 separate units. We actually see them as flowing into each other. And that's something the market doesn't realize. Today, if you ask somebody, they would say insurance is something else and finance is something else. But in reality, the audience is the same. The providers tend to be sometimes the same. Majority of the time actually, especially in areas like life or annuity, they tend to be the same. And life is the single-biggest arena of growth, right? And so we feel you have to integrate. It's the same insurers who are doing all these things that we try to work in the financial sector. And ultimately, all the financial instruments that we talk about are actually getting used in insurance. So we want to integrate very tightly. So for that, it's very important that Ebix sets itself in such a manner that there's complete convergence within Ebix on these channels and outside in our product set and the way we present these products.



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

Okay. All right. Got it. And then, obviously, then just taking it to the numbers, a few numbers questions then I'll let somebody else jump on. Obviously, way ahead of the Street for the quarter on both top and bottom line. The aspirations again also way ahead of anything else you gave. So pretty clearly, a lot is going right. A couple of things down in the weeds. One, you referenced in the press release here the \$5.3 million to pay down cash overdrafts. Just touch on that for a second and then I have one follow-up on cash flow.

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

So what happens in financial exchanges is that you have to fund a lot of these transactions. For example, when money is moving, there's sometimes a 1-day lag typically. So we settle money transactions in the area of inward remittances 5 times a day with our franchisees. So we basically, as they pay the money, we get money from, let's say, Western Union or a Continental and we, in turn, have to fund it. Sometimes what will happen is that there is a Friday or a Saturday and that creates an extra need of money because the bank hadn't settled and we are running our businesses on Saturday and Sundays also because our businesses are virtually running all 7 days. So now there is a need to have -- either Ebix has to have that extra bit of cash in the business or you go overdraft. So we realize that we had overdraft needs. So what we did was, we realized that the overdraft cost in India tend to be high because the interest cost in India are high. So we used that for some time and then we basically decided to pay that off. And that's basically what we mean. So we paid off the overdraft line of \$5.3 million that we had with one particular bank in one of these areas. So that's what it refers to.

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

Okay. And so is that it for the overdraft, sort of paying down those lines or will we see that recur?

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

There will be minimal usage in overdraft from time to time because you can't predict. You will have peaks. You know our businesses. There are holidays. There are particular festivals where you could have possible peaks of business wherein we may not have that much money in the bank to fund it, and that's where your overdraft line comes in. But those overdraft then will come in for days and then you fund it afterwards. Because remember, our cycle of money is very fast in all of this. So you basically see money come in and out. So if you have an overdraft, it's typically for a few days that you tend to take. So there could be possibilities from time to time that you have a peak period where you use it. But as of now, we have minimized the use of overdraft today.

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

Okay. That's helpful. Last one then, cash flow, you commented on the Via AR being up, DSOs up, how do you think about those 2 metrics and ultimately the output, the cash from operations with respect to the match to non-GAAP net income? You had sounds like some deltas there you wanted to call out. What should we expect over the coming quarters?

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

Well, don't read much into it. For example, the difference between the cash flow primarily as the press release talks about because of Via travel. That's a matter of -- sometimes you will have a -- for example, you could have a \$16 million -- X amount of money going through and you would have a 2-day overlap and it could hit you at quarter end. And so it will hit your operating cash flow in your numbers, but 3 days from now if you look at that cash, you would probably have that cash. So that's the cycle of these financial exchanges. But in accounting, you have to account for it if money is moving through. So it depends on -- you could have, for example, you could end up at the end of the quarter. And it could be a holiday period, for example, where you have come in and funded a particular amount of cash. And now in another 2 days, which becomes, let's say, the



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second of the next month or third of the next month, you get your money from the bank. Because there was a bank holiday in between, now it's going to create an artificial cash flow issue with respect to operating cash flow. So with Via's business, we virtually do extremely well. With all the financial exchanges, money collection is never an issue. So you should see this catch-up. I think part of what we see is because Ebix is in such an evolutionary phase that we are continuing to add new areas. We continue to go into newer areas. So sometimes that can create some pretty lags. And that's what your experience is. So I wouldn't read much into it.

Operator

(Operator Instructions) Our next question comes from the line of Allen Klee of Maxim Group.

Allen Robert Klee - Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst

Can you tell me when Smartclass closed? And if Indus and Mercury if they've closed, when that was?

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

Allen, welcome back. So Allen, with respect to Smartclass, beginning July 1 (**CORRECTION: BEGINNING APRIL 1**) is Smartclass. With respect to Indus and Mercury, both are Q3 events. They have nothing to do with Q2.

Allen Robert Klee - Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst

Okay. And for CDL, do we have a sense of what that contributed during the quarter?

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

CDL contributed approximately somewhere close to \$9 million. So that's foreign exchange.

Allen Robert Klee - Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst

Okay. And then are you still targeting 32% operating margins by the year-end or are we maybe more like 31%?

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

Well, it will be somewhere in that range, frankly. Meaning, we were pleased that we had a 31%. Part of it is that -- you see, we have 2 different goals that we are trying to balance. On one side, I've already defined aspirational revenue goals, which means I'm looking for top line growth. On the other, I definitely want 30% or more. So I think it's going to be -- we're going to see. Meaning, it's going to be somewhere in that range of 30% to 32% is what we will target. Hopefully, we can surprise everybody. But as of now, I want to be conservative so I will basically say that we have defined the lower side of it, the 30%, is what we would like to be at.

Allen Robert Klee - Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst

Good. And it broke up during the call so I wasn't able to hear when you guys said what your available borrowing capacity is now.

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

Sean, can you answer that?

Sean T. Donaghy - *Ebix, Inc. - CFO, Principal Accounting Officer & Company Secretary*

Just one second. Sorry, I can jump back.

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

Sorry for the call quality in between. I think while Sean was speaking to a friend something -- the call wasn't properly coming through. Hopefully, my section of the call came through okay.

Sean T. Donaghy - *Ebix, Inc. - CFO, Principal Accounting Officer & Company Secretary*

Yes. The borrowing capacity is \$326 million.

Allen Robert Klee - *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

\$326 million?

Sean T. Donaghy - *Ebix, Inc. - CFO, Principal Accounting Officer & Company Secretary*

Right, including the accordion and the -- including the accordion. And Robin, can you clarify the Smart question? Robin, I think the question was when did we close...

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

I already answered. I already answered the Smartclass. And your line is quite bad, Sean. So the line is breaking or 2. So I think for -- Allen, if you didn't get that answer, I can repeat that. So basically, what Sean said is, if I heard him correctly, he said there's available cash reserve of approximately \$326 million, including the available borrowing capacity and the accordion that's available to the company.

Allen Robert Klee - *Maxim Group LLC, Research Division - Senior VP & Senior TMT Analyst*

Okay. Great. And then you've kind of touched on this. But my last question is, you have a very large distribution outlet footprint. And I'm just wondering, to what extent of the different services do you have do you think are capable to sell across that whole distribution outlet and which ones do you think have to be kind of sold on a more limited basis?

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

Well, I mean, look, the foreign exchange is one that you can't really sell across all these distribution base. So that's one. That's a very limited one because the way AD-II licenses flow, they can refer business to you, but the distributor can't really sell the foreign exchange. So we have to have either our own branches. Or when a corporate, for example, does a partnership with us. For example, Paytm did a simple relationship with us where we are ultimately selling that foreign exchange. So having said that, with respect to the distribution base, almost every product of ours, virtually everything that I've talked about can be sold to each of these distributors. There's nothing that is stopping them. Now the only limiting factor can be in the area of inward remittance. In the area of inward remittance, we might not need that kind of an expanse because we are limited by the



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amount of money that is coming in into the country. So if the money is coming in into the country and we can service it through, let's say -- let's say, we have 50 outlets in a city, that might be enough. We may not have to add another 30 to it because those 50 might be able to service the money, handing over of the money. However, we can use them for travel. We can use them for outward remittance, domestic remittance. So virtually every other product outside inward remittance and foreign exchange can be sold across all these outlets.

Operator

Our next question comes from the line of Alex Antebi of OBI Capital. (Operator Instructions) There appear to be no further questions in queue. At this time, I'd like to turn the call back over to management for any closing remarks.

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

Thanks, Latif. I think that brings us to the end of our call. I look forward to speaking to each one of you at the end of the third quarter. Thanks, everyone, for the time and sorry for the slight disturbance in the call in the beginning. Thanks a lot. And with that, I'll close the call.

Operator

Thank you, sir. Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day.

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