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EDITED TRANSCRIPT

Q3 2018 Ebix Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 08, 2018 / 4:00PM GMT



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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Ebix Third Quarter 2018 Results Investor Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Darren Joseph, Corporate Vice President. Sir, you may begin.

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

Thank you. Welcome, everyone, to Ebix, Inc. 2018 Third Quarter Earnings Conference Call. Joining me to discuss the quarter is Ebix Chairman, President and CEO, Robin Raina; and Ebix CFO, Sean Donaghy. Following our remarks, we will open up the call to your questions.

Now let me 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 to 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 Q3 2018 results was issued earlier this morning. The audio of this investor call is also being webcast live on the web at www.ebix.com/webcast. You can look at Ebix's financials beyond what has been provided in the release on our website, www.ebix.com. The audio and 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 earlier this morning. On a constant currency basis, Ebix Q3 2018 revenue increased 42% year-over-year to \$131.5 million as compared to \$92.8 million in Q3 of 2017. GAAP revenues in Q3 2018 increased 39% from a year ago to \$128.6 million. The revenue improvements primarily reflected growth in the company's Financial Exchange channel, with the revenues from EbixCash Financial Exchange services reflected in the Exchange Channel.

Q3 2018, our exchange revenue continued to be the largest channel for Ebix, accounting for 83% of the company's revenue. The year-over-year revenue has increased as a result of revenue growth from EbixCash Financial Exchanges, life exchange, underwriting exchange, health content exchanges and financial exchanges aided by revenue growth generated from the company's various inward remittance, ForEx, finance and travel businesses, offset primarily by declines in the area of third-party administration exchange, EHAE and the life strategic consulting business.

Our growth in the Indian market continued in Q3 2018. The Indian-led ventures showed a 339% year-over-year growth in Q3 2018 by



growing to \$60.3 million in U.S. GAAP revenue from \$17.8 million in the same period in 2017, including some of the India-led revenue that got billed in other Asian countries. We were able to obtain this growth despite a conscious decision to reduce our low-margin e-governance revenue from an average quarterly run rate of \$6.5 million to \$2.6 million in Q3 2018.

We are pleased with the sequential growth in top line in our overall business. Our Q3 2018 revenues sequentially grew by 3.2% to \$128.6 million over Q2 2018 (sic) [2018] revenues of \$124.6 million. On a constant currency basis, the revenues sequentially grew by 5% to \$131.5 million in Q3 2018. The growth was primarily driven by the growth in EbixCash Financial Exchange business, and our India GAAP revenues grew by 9% sequentially from \$55.6 million in Q2 2018 to \$60.3 million in Q3 2018, including some of the India-led revenue that got billed in other Asian countries.

On a statutory stand-alone consolidated basis, India-led revenues accounted for \$71.5 million in Q3 2018, translating to an annualized run rate of \$286 million. 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 Q3 2018 accounted for 62.4%, while India-led revenues accounted for 47% 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 deploy 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.

We remain committed to maximizing shareholder value through all sensible means besides being opportunistic in this regard. We issued a \$0.075 per share dividend in Q3 2018 to our shareholders as we have done every quarter. We also took advantage of the recent price dip and bought stock from the open market as per our daily allowable limits.

Subsequent to September 30, 2018, the company purchased 243,651 shares of its common stock for an aggregate amount of \$14 million. On September 20, 2018, the company announced that its Board of Directors has approved a 5-for-1 stock split of the company's common stock subject to shareholder approval of an amendment to the company's certificate of incorporation. The company will be holding a special meeting of shareholders as of record date October 11, 2018, so that the increase in authorized shares can be approved by the shareholders. The company anticipates holding this meeting on or about November 16, 2018. Provided the shareholders approve this amendment, each shareholder of record at the close of business on such date will receive 4 additional shares for every outstanding share held on the record date. And trading is likely to begin on a split-adjusted basis prior to December 15, 2018.

I will now turn the call over to Sean.

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

Thank you, Darren. Q3 2018 results were record results on many fronts. Firstly, these are the highest top line results ever reported by the company. On a constant currency basis, the annualized revenue run rate translates to approximately \$526 million against our targeted aspirational revenue run rate of \$500 million by Q4 of 2018.

Secondly, it is the highest operating income or EBITDA plus stock-based compensation ever recorded by the company in any quarter. The \$39.2 million operating income in Q3 2018 translates to an annualized run rate of approximately \$157 million, the highest ever in our history. The \$42 million EBITDA plus SBC for Q3 2018 translates to an annualized run rate of approximately \$168 million, again the highest ever in our history.

Thirdly, Q3 2018 operating cash flow of \$34.3 million is the highest operating cash flow ever reported by the company. Thus, we are quite pleased with the company's third quarter 2018 financial results and the operating performance associated with these results. As compared to Q3 2017 operating income of \$27.9 million, the Q3 2018 operating income was 41% higher at \$39.2 million. This translated to operating margins of 31% in Q3 of 2018.

Q3 2018 net income was 21% higher at \$29.2 million as compared to Q3 2017 net income of \$24.2 million. The company continued to grow efficiently, consistently producing operating margins of 31% through the third quarter of 2018, while revenues increased 39% over

the same interim 9-month period a year earlier. The net income in Q3 2018 showed the effect of higher interest expenses associated with our bank lines, increased foreign exchange losses and higher income taxes with a \$521,000 higher foreign exchange loss in Q3 2018 versus Q3 2017, a \$3.9 million increase in net interest expense in Q3 2018 versus Q3 2017 and a \$1.9 million higher tax expense in Q3 of '18 versus Q3 of '17. The Q3 2018 taxes reflect a provision for the global intangible low-taxed income, GILTI tax, as per the 2017 Tax Cuts and Jobs Act.

Q3 2018 diluted EPS was 21% higher at \$0.92 as compared to Q3 2017 EPS of \$0.76. Ebix's weighted average diluted shares outstanding was 31.63 million shares in Q3 of '18 compared to 31.62 million shares in Q3 of '17. As of today, the company expects the diluted share count for Q4 2018 to be approximately 31.4 million shares. This does not take into account our pending vote on the stock split.

Cash generated from operations grew 138% as compared to Q2 2018 and 81% as compared to Q3 2017 to \$34.3 million in Q3 of '18. In Q3 2018, we spent a total of \$7.7 million on dividends, tax payments and PP&E.

Specifically during the quarter, we paid \$1 million in taxes, spent \$4.4 million on capital expenditures and paid dividends of \$2.4 million while drawing \$41 million from our bank credit facilities as well as spending \$37 million for the purchase of Indus, Mercury and Leisure. After these significant uses of cash, Ebix still ended the quarter with \$155 million of cash, cash equivalents and short-term investments, an increase of \$66 million as compared to December 31, 2017, with available cash reserves of approximately \$306 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 and fund its growth and investor-friendly initiatives. We will soon be announcing the record date for the Q4 2018 dividend payable to our shareholders. Finally, Ebix's Form 10-Q will be filed tomorrow, November 9, 2018.

I'll now pass the call over to Robin.

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

Thanks, Sean. Good morning, everyone. I'm dialing into this call with Ebix CFO, Sean Donaghy, from our headquarters campus at Ebix, Noida in India. The time here is 9:45 p.m., and it is a Diwali holiday in India, and yet I can see many employees working at this time in the building. Our employees here are getting ready for Ebix's largest internal sales conference that starts on 12th of November in Gurgaon near Delhi.

Between the dates of 12 November to 14 November, we are hosting a sales conference aptly named, Ready to Race, at one of the largest ballrooms in the region in an eminent hotel in Gurgaon. The conference is being attended by around 375 senior regional sales managers and above from India, United States, Australia, U.K., New Zealand, Brazil, et cetera, to discuss the path for Ebix to propel its growth in 2019 and beyond. The conference is also being attended by the Ebix board and Ebix U.S. bankers and a number of other EbixCash partner companies in India. The conference will also include awards night for Ebix India employees with an attendance of approximately 2,000 people.

The theme of the conference is a Formula 1 goal setting with the stage, venue, booths, et cetera, designed to describe Ebix and EbixCash readiness to race in terms of a future growth trajectory. The Ebix ready-to-race conference will have a number of eminent keynote speakers on each day, including the finance minister of one of the largest states in India speaking about the Indian government's perspective in terms of digitization; the president of Bombay Stock Exchange, speaking about Bombay Stock Exchange reasons to strike a joint venture with Ebix to pursue insurance exchanges in India; and a celebrated sports person speaking about the role of teamwork and individual hard work in achieving splendid team results. I'm excited to be doing this call from India and to talk about Ebix's future growth and Q3 2018 performance in the backdrop of this growth-oriented conference a few days from now.

Q3 2018 numbers are humbling and yet fulfilling since these are record results on many fronts: record top line of \$135 million -- \$131.5 million in constant currency revenues and \$128.6 million in GAAP revenues; record EBITDA plus stock-based compensation of approximately \$41 million in Q3 2018 translating to an annualized run rate of \$164 million; record operating cash flows of \$34.3 million in Q3 2018; a landmark day for Ebix as this is the first time Ebix has crossed annualized run rate of more than \$0.5 billion, Q3 GAAP

annualized revenue run rate translates to \$516.4 million; \$0.92 diluted EPS despite \$9.5 million additional nonoperating and headwind costs between Q3 2017 and Q3 2018; \$2.9 million out of that is on account of currency headwinds in Q3 2018 while \$6.6 million is on account of increases in nonoperating expenses, like net interest charges and tax expenses from Q3 2017 to Q3 2018.

I remember speaking to you from our India headquarters campus at the end of 2017 to discuss our Q4 2017 and full year 2017 results. Let me remind you what I said during that call. I had talked about 4 key topics. I had, at that time, talked about having gotten to an aspirational annualized revenue run rate of \$400 million in top line in Q4 2017 a quarter earlier. As at that time, we had set a goal of getting there in Q1 of 2018. I had talked about a new aspirational annualized revenue run rate goal of \$500 million in Q4 of 2018. I had talked about aspiring to achieve those goals while retaining our operating margins of 30% or above.

I'm speaking to you today from exactly the same location, the India headquarters campus, and can humbly tell you that we have again beaten our own aspirational goals set a year back. We got to the aspirational \$500 million annualized revenue run rate goal a quarter earlier again like last year, but we also got there while reporting 31% operating margins in Q3 of 2018 and also 31% in the 9-month year-to-date period of 2018.

We've always believed in letting our 80 quarters of financial performance speak for itself. And in that direction, I'm especially pleased that we were able to keep our consistency record intact and also letting our financial results speak for themselves again. The credit for this goes to the splendid effort put in by our 8,000-plus employees worldwide. I'm incredibly humbled by their effort.

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 Q3 from my perspective. Firstly, let me say that we are excited by the opportunities ahead of us in 5 key markets: United States, Australia, Latin America, U.K. and India. We have traditionally performed well in our insurance businesses in most of these markets and, thus, we are committed to making efforts to continue to grow our insurance business.

We see many large, strategic opportunities today in the U.S. and in the Canadian insurance market in the area of life insurance, health insurance and some very focused opportunities in transaction-oriented RCS services business. In Q3, we continue to build upon our insurance base in these key areas. We have a number of strategic initiatives that have the potential of giving us double-digit growth in these markets. Recognizing the opportunity, especially in the U.S, we elevated one of our superstar senior executive, Ash Sawhney, to the position of President of U.S. Insurance Services, to ensure that we undertake a highly focused effort in that direction. We're quite confident that 2019 should be a great year for Ebix in the U.S. and Canadian markets as we da tamine our product database besides leveraging our enterprise implementations for cross-selling initiatives and ongoing STP projects.

We have some of the industry's leading products in the area of life illustration, underwriting, CRM, annuity order entry, annuity maintenance, health enterprise exchanges, certificate tracking, health education and content besides strategic consulting domain expertise. We are working diligently on leveraging all that in a cohesive STP Exchange offering, straight through processing exchange offering. More on that later.

In the area of insurance, we performed well internationally in Q3. In spite of major currency headwinds in Q3, we successfully deployed all the lines of insurance for PPL, the world's only market-aggregated reinsurance exchange in the United Kingdom. The project as of now has been a huge success and a testament to the Ebix's ability to pioneer new technology and functionality and then make it succeed in a record time while engaging all market questions. We expect to see increased revenues coming out of this project as transaction volumes go up and more customization efforts are undertaken for various insurance associations in London.

We continue to deploy our underwriting exchanges in Q3 in the U.S. We recently won an award from the renowned analyst, Celent, based on the expanse of our customer base in the underwriting area. We are seeing tremendous opportunities in this area all across Europe and Asia also, besides United States and are, thus, excited about the opportunity ahead of us.

Q3 2018 was a strong quarter in this area with around \$8.9 million in revenues just coming -- coming just from the underwriting exchange area. Our ongoing work in this area presently involves eminent insurance clients, like Merrill Lynch, John Hancock, Nationwide, CUNA, Cooperators, MetLife, Allstate, Manulife, et cetera.



Our annuity platform continues to grow from strength to strength. We now have successfully deployed our new enterprise AN4 system for all the major annuity clients, who account for a who's who of the annuity industry. We now have the only platform in the U.S. who can provide a market-leading annuity maintenance exchange successfully to all the constituents.

When we started on it a few years back, there were many skeptics in the industry as the maintenance area is traditionally not online. But today, we have already deployed market leaders, like Merrill and Ed Jones on the platform successfully. Q3 saw transactions from Annuity Maintenance Platform, AMP, go up sizably. We expect this momentum to continue.

Our Oakstone continuing medical education division starts ramping up business in Q3 typically and then have a crest performance in Q4. So we expect our CME business to have a strong quarter in Q4 of 2018.

Our Australian operations had a record quarter in local currency terms in third quarter of 2018. Their results in terms of revenues were record results, the highest ever in the history of Australia, of Ebix Australia. At the same time, the weakening of the Australian currency against the U.S. dollar reduced our euphoria associated with that lack of performance a little bit. We expect to continue to do well in Australia in 2019 and beyond and build up further on a dominating presence in the insurance exchange market there.

In the area of financial exchanges, our Q3 2018 revenues were impacted by a number of factors: One, a 10% precipitous sudden sequential currency rate drop in India impacted us strongly; two, our conscious decision to reduce our comparatively lower-margin e-governance business in India from an average quarterly run rate of approximately \$6.5 million to \$2.6 million in the third quarter of 2018; three, we did not have the benefit of onetime revenues approximating \$3.5 million a quarter in third quarter of 2018 as compared to a large signing bonus we picked up from a contract with a U.S.-based multinational remittance company in Q1 to Q2 each of 2018 against certain short-term goals set up by them.

In spite of these substantial headwinds, we are still reporting Q3 2018 with record revenues and 31% operating margins. On a constant currency basis, Ebix Q3 2018 revenue increased 42% to \$131.5 million compared to \$92.8 million in third quarter of '17. And the worldwide revenue sequentially grew by 5% to \$135 million in Q3 2018. The growth was primarily driven by the growth in the EbixCash Financial Exchange business.

Our India revenue grew 9% sequentially from \$55.6 million in second quarter of 2018 to \$60.3 million in third quarter of '18, including some of the India-led revenues that got billed in other Asian countries. On a statutory stand-alone consolidated basis, India-led revenues accounted for \$71.5 million in Q3 2018, translating to an annualized run rate of \$286 million.

We are committed to the aspirational goal I set up for India during the second quarter 2018 investor call: annualized quarterly run rate of \$450 million by the fourth quarter of 2019 for Ebix and India on a stand-alone consolidated basis with 30% or more in operating income. This high aspirational goal is driven by the momentum we are experiencing in India. And I believe that we can be India's largest financial insurance exchange while pioneering new business concepts and end-to-end B2C and B2B processes in India.

Let me discuss in specifics now some of the possible key growth area of the financial exchanges to give you a deeper dive into the business. Let me start with our ForEx exchange. Recently, we rebranded this ForEx exchange as EbixCash World Money and have undertaken a massive marketing exercise to change our entire branding across all the airports, branches, corporate clients, websites, et cetera, to EbixCash World Money. Last quarter, during the investor call, I had talked at length about a leadership position in this business. 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 our competitors.

Last quarter, I had talked about deploying our exchange at the sixth busiest airport in the world, Delhi airport, as also deploying it with one of India's leading e-wallet players, Paytm, as the face of their ForEx initiative. I am pleased to say that both those contracts are functional now and scaling up nicely and on schedule. We expect substantial revenues from them.

In Q3 2018, we were awarded the Cochin International Airport ForEx business besides the fact that we had many key corporate wins in the quarter. We also were recently selected to deploy our ForEx exchange at the busiest airport in the world in the Middle East. Once live, this will be a substantial multimillion-dollar recurring contract. More on that later.

Besides this international contract, we want to establish our foreign exchanges in other key international markets that have a huge inflow of visitors. We are, thus, keen to grow our expanse organically and inorganically in such markets and are pursuing a number of key initiatives in that direction.

We are, of course, aided by the strong EbixCash sales force, and the fact that now, we have a common corporate sales team that sells all our financial and travel products. The EbixCash World Money Exchange also has a 15% market share in India's fast-growing multibillion-dollar education outward remittance business. We are making efforts to grow and expand in this segment expeditiously. We see foreign exchange as a 20% to a 30% growth business every year and believe that this fits into our operating margin profile well.

I discussed the area of inward remittance at length in the second quarter 2018 investor call. This is a highly recurring revenue and margin area for us. There are primarily a few large companies who bring money into India from across the world, namely, Western Union, [Eurostar] or Continental, MoneyGram and Xpress Money, et cetera. Western Union has a dominating market share in India, while Continental is a new disruptive business that's trying to establish a market share. MoneyGram and Xpress Money have a small market share comparatively. EbixCash today has 63% to 65% of Western Union market share and 50% plus of the Continental market share. Weizmann, a competitor of EbixCash, has reportedly a market share in excess of 20% while the remaining are relatively small.

We already have secured licenses to service both MoneyGram and Xpress Money from the Reserve Bank of India. In third quarter of 2018, there were no revenue from these 2 providers as the license was secured recently only. These 2 are going to be new revenue streams that will show in the coming quarters.

We are continuing to pioneer 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 recipient while using a biometric fingerprint device attached to a micro ATM or a point-of-sale device in any corner of the country. While our second quarter 2018 remittance exchange business was strong, and it continued to be strong in the third quarter of 2018, we remain focused on the competition and the fact that we would like EbixCash to be a standout in the remittance sector.

In third quarter of 2018, we continued to cross-sell ForEx, foreign exchange, to our travel agents, large corporate, SMEs and new outlets through EbixCash existing travel network offering. The foreign exchange is highly complementary to EbixCash Via.com travel exchange offering because it now allows EbixCash travel outlets to sell foreign exchange to its clients buying international travel. In third quarter, we also made efforts to deploy new initiatives to sell Digital ForEx and multicurrency cards to our existing thousands of corporate clients.

In the area of travel, Q3 was a great quarter, with our combined travel portfolio of Via and Mercury growing sequentially substantially to an annualized run rate of approximately \$72 million based on Q3 2018 revenues. We made deep inroads in the corporate sector and continue to expand our international travel portfolio in countries ranging from Philippines, Indonesia, Dubai and Switzerland. We established a new operation in Thailand and are presently pursuing a number of new international opportunities at present.

We made a number of key hires in the travel area that should have a substantial effect on our growth plans. We see travel as a key area of growth and are pursuing initiatives that can set the foundation of a large travel operation that is seamlessly integrated with our insurance and ForEx operations.

Our bus exchange initiative in India has started well. And at present, we are pursuing opportunities to win multimillion-dollar deals to deploy end-to-end ticketing and enterprise global distribution systems for a few key bus roadway corporations that have thousands of buses that would be using of our software and hardware. Our EbixCash bus exchange initiative is in partnership with one of India's leaders in the bus device management, global distribution system, e-ticketing, bus GPS and traffic management. As a part of this new initiative, we have already secured 2 mandates for 2 of the largest roadway corporations in the country for 2 states for thousands of their buses.



As a part of these 2 deals, we will be providing devices and software to each bus besides smart card for all travelers to use these devices and pay for their tickets, e-ticketing, GPS, bus GPS and traffic management. The business model in this business is to make transaction money out of every ticket sold. No revenues are booked in third quarter 2018 for any of these initiatives. We expect to build a strong new revenue line in this area in coming quarters and 2019.

We recently bought Miles Software and Indus Software and are presently branding them together as EbixCash wealth and asset management and EbixCash lending, respectively. In both areas, 50% of the business is in India while the remaining 50% is outside India in Europe, Middle East and Asia. We made efforts in Q3 2018 to train our U.S. CRM and exchange folks on EbixCash wealth and asset management solutions with the goal of cross-selling these solutions in the U.S. We believe that there's a large opportunity to pursue in India, United States and other countries in both these areas. The cross-selling opportunities with our insurance broker clients, stockbroker clients, corporate clients, banks, et cetera, are fantastic for all these solutions. In our vision plan, we would like to own the desktop of a stockbroker in India, so that we could cross-sell CRM, insurance exchanges, mutual fund exchanges, wealth and asset management solutions to the stockbrokers while powering their transactions on the stock exchanges, like Bombay Stock Exchange.

Our education e-learning Ebix Smartclass business is continuing to perform extremely well. Our third quarter annualized run rate -- revenue run rate from e-learning was \$27.5 million, with operating margins of 32% plus. We are very bullish about the opportunities in this sector and are continuing to recruit salespeople aggressively while presently having in excess of 600 salespeople.

We are at the final stage of India's courts making the final judgment on our \$49 million bid for Educomp, India leader in e-learning that at one time, had a market capitalization of approximately \$2 billion. If we are awarded Educomp at our terms, then that could give a strong boost to the Ebix Smartclass effort to be a dominant market leader with strong operating margins as the redundancy of synergies between the 2 operations will be very high. More on that when we have something new to report, though we expect that decision over the next 30 to 60 days at best now.

In third quarter of 2018, Ebix Smartclass added 15,000 new content classrooms and clients and continues to grow on its sales staff across the country. We see e-learning as a strong area of growth for Ebix and believe that we can deliver \$100 million e-learning top line in a few years, with 30% plus in operating margins.

The e-learning business is typically asset light and caters well to strong recurring operating margins once the customer aggregation crosses a 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 Indian median household.

Cross-selling comes naturally to Ebix. At present, we're launching incentive plans to promote selling of excursion travel to students in schools using our e-learning segment, besides trying to pioneer technologies to pay school fees online using EbixCash cards, also allowing parents to issue EbixCash prepaid cards to their kids that allow them to monitor their kids' spending at school for food, books and other activities.

In Q3, we continued to successfully sell A.D.A. M. health content and continuing medical education business in India and target India's largest medical community comprising of doctors, nurses and pharmaceutical companies, et cetera. We are today in the midst of many deals that should deliver multimillion-dollar contracts from pharma companies to provide continuing medical education programs to doctors using our CME and content solutions.

In the area of retail financial exchanges, we see a large opportunity in the area of wireless micro ATM devices and in using those devices to expand our EbixCash reach to gas stations, restaurants, retail outlets of all sizes while powering multitudes of services, like shopping, cash withdrawal, bill payment, bank deposit, opening bank accounts, taking loans, getting prepaid cards in minutes and paying tax, et cetera. We've undertaken a number of efforts to deploy biometric interfacing to these devices to ensure security and instant approval to power these services. Banks and lending institutions are key facets of our Financial Exchange, and we intend to continue to grow our presence in that segment. We today work with banks in many areas, ranging from them serving as remittance distribution outlets for co-branded prepaid and credit cards, real-time settlement of money with tens of thousands of outlets every day using banks, receiving

daily deposits everyday from our outlet banks, et cetera. We intend to grow on our position with banks and lending institutions by potentially emerging as a technology player who can facilitate lending technology for them.

Lending technology play can involve providing a CRM, loan origination, loan management and loan servicing systems, all with the goal of providing a comprehensive transaction-based lending technology to them. That will also facilitate the launching of our lending exchange that will allow lenders to reach out to tens of millions of consumers in the last mile, using our fantastic distribution reach. As I said in the last quarter, we today have a distribution reach that is 5x the distribution reach of India's largest bank, State Bank of India.

Recently, we took up a 67% stake in Routier, a Delhi-based B2B marketplace for trucking logistics. Routier is pioneering a cloud-based technology to change the way people move and receive inland goods in India. Routier's online cloud-based logistics marketplace connects companies that require their goods to be delivered typically with small trucking companies, who account for 35% of the freight transportation business, allowing the carriers the ability to win a shipper's business by bidding from any smartphone, handheld device or computer.

From bidding to final delivery, Routier platform delivers a seamless, efficient end-to-end online B2B logistic marketplace, connecting shippers and carriers across the nation and powering single truck owners to work with India's largest shippers, assuring carriers of a continuous supply of business through Routier's contracts with large shippers, assuring shippers and carriers background checks, insurance, GPS tracking and real-time reporting from pick up through delivery. All stakeholders win when a supply chain is efficient. With clients like Coca Cola, Asian Paints and Samsung, Routier's marketplace is a pioneer already in the sector and has the potential to be a disruptive force in the trucking, freight movement business.

In recent times, Routier has secured a few multimillion-dollar commitments from 2 large multinational corporations to deploy hundreds of trucks daily for freight movement. We see this as a fantastic cross-selling opportunity for our EbixCash corporate sales team as the decision-makers tend to be the same people on both sides.

We had earlier set up our aspirational goal of \$200 million annualized revenue run rate for Ebix Indian operations by Q4 of 2018. As of Q3 2018, we've already beaten that aspirational goal by a large percentage. With all these opportunities ahead of us, we feel that the aspirational goal for our Indian operations ought to be a lot higher. Accordingly, we're setting up a \$450 million aspirational annualized revenue run rate goal in Q4 2019 for India-led businesses on a stand-alone consolidated basis.

Lastly, we are presently planning to launch the EbixCash IPO in India, possibly towards the end of 2019. We expect this to be a large public issue and recognize that we will need several investment bankers to handle the IPO. Accordingly, we are in discussion with domestic and internationally renowned investment bankers as well as private equity groups towards maximizing value for our shareholders. In closing, as always, I want to thank our customers, our partners and our employees for their continued trust in us and for contributing to an outstanding Q3 and in carving out a possibly exceptional future for us.

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

QUESTIONS AND ANSWERS

Operator

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

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

Robin, I had a handful of them. I'll probably jump through them relatively quickly. Thank you for the insights on the domestic business. I know on the consulting side in particular, that had been an area of headwind. It looks like if you back India out, you've gotten some pretty good stabilization in the core business. Would you talk about 2 things: one, of the segments in there that are still declining, how do you envision them bottoming? When do you see them bottoming? Just how do you see them playing out going forward? And then two, what is a reasonable rate of growth to think about when you look at the domestic business going forward?



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

Thanks, Jeff. So look, insurance is our core strength. We recognize that, and we made a lot of efforts to try and strengthen ourselves further in that business area. We're actually quite excited about a lot of opportunities in the insurance arena. Actually tried through talk to some of them. But having said that, have we bottomed out? So when you look at our business, we've actually continued to do extremely well but in a few areas. And the few areas are mainly the areas of -- it was mainly in the area of RCS. It was in the area of A.D.A. M. And -- but when you look at some of these consulting areas, we do believe that we have bottomed out there. We do believe we have bottomed out on the A.D.A. M. area, because it's relatively stable now when you look at the declines in the A.D.A. M. area. So when you look at the RCS area, I think part of it was influenced by President Trump's immigration plan. There's a little bit of confusion in the overall market with respect to how to use consultants and so on. We, however, believe we made some conscious decisions on trying to focus a bit differently on the consulting business now. We believe that'll give us results now. We're trying...

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

Oh, I lost you. I don't know if you can hear me, Robin. I can't hear you.

(technical difficulty)

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

I'm here. Can you hear me?

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

Now I can hear you, Robin. You said our sales was influenced by immigration, and you started talking about consultants and then you went dead.

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

Okay, got it. So what I was basically saying we believe we've kind of bottomed out in those areas. We believe that we made a lot of changes in that area. We have -- we've tried to dovetail that nicely with our product business. Having said that, we have made management changes at the senior level, trying to strengthen and bring people from the -- senior people from the consulting arena. So we kind of believe that we have kind of bottomed out in that area. We like to believe that. At the same time, we have -- we're making strong efforts in that area to try and prop those areas up.

But other than that, when you look outside the consulting area, our businesses are continuing to do nicely. We believe we have so many large opportunities in many areas, which can move the needle. So we would like to see our core business grow at double digits as we go into 2019 and beyond. And we see no reason why we can't do that.

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

That's great. That's helpful. And then on the e-governance side, I think you commented to the effect of \$2.6 million in Q3, down from a prior run rate of roughly \$6.5 million. What was it doing prior quarters? So for instance, what was that running in Q2?

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

It's been almost running at \$6.5 million average over the last 2 quarters, over the last few years actually. So that's been our average run rate. The challenge we had with -- you see, we're very committed to ensuring that operating margins are at 30% or above levels. And the challenge we had with e-governance was that if we continued to pick up larger business, that typically is going to hurt our operating margins. We're also -- as you heard me talk through, we're making a lot of investments in new areas, and we're also investing in the brand and the marketing and so on, which means we need that leverage. To do that, so we just can't afford to pick up a low-margin area. So in e-governance, our margins tend to be a lot lower as compared to what you're used to, 30% plus. And so we felt that we needed to kind of take that business down, so that we don't have to compromise in the 30%-plus margin area. So that's why you saw us kind of take that margin level down -- revenue down. .



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

Got it. On Ebix India, the 2 numbers, the \$60.3 million and the \$71.5 million, just can you clarify? Because the \$71.5 million is the statutory consolidated basis. What's the delta between the 2?

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

So the delta between the 2, these are 2 different numbers. Because technically, what happens when India goes for an IPO, all, even the transfer pricing revenue, is going to be counted as a stand-alone revenue for it. So the delta actually is transfer pricing revenue, sister companies of Ebix paying it money. So when you -- so the reason I mentioned that number is simply because that'll be important from an EbixCash IPO perspective on a stand-alone basis. As it goes for a IPO, its statutory numbers are going to be important. Because every dollar it makes, whether directly with customers, outside clients or with a sister company, technically becomes a customer to it. And so that number becomes important from an IPO perspective.

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

Okay. So when you talk about a \$450 million aspirational goal and that being the trigger for the IPO, you're referring to the \$71.5 million number this quarter.

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

Not really. I'm actually referring to a number that we would like to get to with respect to a pure outside client number. Look, bottom of it is we also have to be we also have to keep resetting the goal as the currency fluctuates. So the challenge with all this has been that when I set up these goals, it all depends on where the currency ultimately plays itself out but just because -- just between Q2 and Q3, the currency depreciated by 10%. And since then, it's depreciated by another 3% or 4%. So it's -- that's the challenge with giving goals in dollars right now. But yes, we would like to believe the \$450 million that I'm talking about, that's referring to a number that can -- that will also factor into our Ebix numbers, which means it will not include any intercompany transfer pricing there now.

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

Okay, yes. So just to be clear then, this quarter that's \$60.3 million number. Obviously, it'll change with currencies. But that's the one we should be looking for to track to that \$450 million eventually.

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

Right.

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

Got it. On the IPO, I don't want to split hairs, but then it seems last quarter, I remember the commentary about the IPO timing was second half '19 and the commentary this quarter was late '19. And I also remember you referring to run rates well below the \$450 million as being the trigger for the IPO. So I guess, 2 questions embedded in there. Did your thinking change on the timing? And I guess, if so, why?

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

Well, we actually didn't change the timing. I actually said in the last call, I talked about doing it after elections, sometime after elections. That's all we said. So that's exactly what we are saying right now. There's no firm timing as yet. Frankly, the timing will get dictated more by our results than by anything else, because we're really committed to this whole idea that we would like to go for an IPO when our top line is \$450 million with 30% or more in operating margins. We believe that'll get us the right valuation that we would like to get. So that would be the delay if there is any delay. So we, right now, feel good about getting there. We feel that we want to do this sometime in '19 towards the second part of '19. Look, the elections in India are going to go -- it's a long process of 4 months. And elections are a very involved period in India. We don't want to do an IPO in the midst of elections in India. So we will do it. That's what I said the last time, and that's what I'm saying now.

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

Got it. Okay. And then one more from me. I'll let somebody else jump in. On the acquisitions, you had Mercury, Leisure and Indus in the quarter. What were the close dates? I'm trying to get a sense of what kind of impact they had during Q3.

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

I think the Leisure was virtually we got 3 months of Leisure. We got 2 months of Mercury, and we got 3 months of Indus.

Operator

(Operator Instructions) Our next question comes from Allen Klee with Maxim Group.

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

I was encouraged to see the improvement in operating cash flow this quarter. And I was just interested if you could maybe talk about that and also the fact that you're going to be -- seems like cutting back on the e-governance business, which, given India's government has been slower to pay than you overall average for the company, that maybe that gives some insight on that, the free cash flow numbers could potentially be stronger going forward.

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

Well, look, it's very hard to predict the cash flow number. At the same time, we believe that all our businesses are cash flow-oriented. So the good news in our -- especially in our India businesses there, if I take my e-governance business out, all our businesses are cash-oriented. The business -- the cash happens in days or weeks, rather than months. So we feel good about the cash flow. As long as India continues to make more money, the cash flow will continue to happen in India. So I think that's pretty simple.

And with respect to our insurance businesses worldwide, the only area where we get delays in terms of cash is mainly Brazil. And that, too, is virtually one client. So we feel that we should see decent cash flows coming out of Ebix all through. I think the only area where we've had a decent AR grow up is mainly when we deal with government of India. Because government of India has their own payment terms. And the way they work is slightly different in terms of how they pay, and we have to follow their rules. So if we are going to reduce our e-governance business, then our cash flow will automatically improve.

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

That's what I was thinking. And then just some minutia a little bit in the modeling. I've noted sequentially your gross margin has improved the last 3 quarters sequentially. And I was just wondering if you could comment on what's behind that. And if that's a trend that you feel comfortable with? And then also, there's been a pickup in G&A and product development as a percent of sales. And do I think of those as kind of as a good run rate going forward?

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

I think, yes. You can think of those as good run rates on both fronts. So I feel -- we feel good about that. Frankly, we don't really care that much about gross margins. We're very focused on the net operating margin, ultimately. Because that's what, ultimately, we care about. But having said that, I think the present ratio of what you're seeing with respect to G&A and others, I think makes sense and we feel that those are good numbers to stand by.

Operator

And I'm currently showing no further questions at this time. I would like to turn the call back over to Robin Raina for closing remarks.

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

Thanks, Shannon. I think we have -- since there are no more questions, we'll finish the call. We look forward to speaking to all of you as we announce our Q4 results. We're quite excited by the conference we have a few days from now. This is the first time we're doing a conference of that scale, and I think the whole idea of this conference is to try and figure out a way to propel our growth, and that's why we named it ready to race. So having said that, we'll report on the conference and on the future growth story as we speak to each other over the next quarter and year-end. Thanks, everyone. With that, I'll close the call.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thanks for your participation. Have a wonderful day.

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