EBIX INC

Moderator: Robin Raina
August 8, 2014
11:00 a.m. ET

Operator: Good day, ladies and gentlemen, and welcome to the Ebix Second Quarter 2014 Investor Call.

At this time, all participants are in a listen only mode. Later, we will have a question and answer session and instructions will follow at that time. If anyone should require assistance, that's star and zero to reach an operator. As a reminder, this call is being recorded.

I would now like to turn the call over to Mr. Darren Joseph, Corporate Vice President. Sir, the floor is yours.

Darren Joseph: Thank you. Welcome, everyone, to Ebix, Incorporated second quarter earnings conference call. Joining me to discuss this quarter is Ebix Chairman, President and CEO, Robin Raina; and Ebix EVP and CFO, Robert Kerris. Following our remarks, we will open up the call for your questions.

Now, let me first 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 risk 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 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 are 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 second quarter 2014 results was issued earlier this morning. The audio of this investor call is also being webcast live on the web, on 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 for this call will be available also on our Investor homepage of the Ebix website after 4 p.m. Eastern Time today.

Let's start by discussing results announced today. Bob and I will talk about the Company from a financial perspective, and Robin will sum up and provide some added color on the quarter and 2014.

Revenue in Q2 increased 1 percent from a year ago, to $51.5 million, with a slight sequential increase over Q1 2014 revenue of $51.4 million. On a constant currency basis, Ebix Q2 2014 revenue increased year over year, to $52 million, as compared to $51 million in Q2 of 2013. Also on a constant currency basis, year-to-date revenue increased to $105.2 million, as compared to $103.6 million during the same period in 2013.

The continued strengthening of the U.S. dollar, year over year, as compared to the Australian dollar and the Brazilian real, decreased revenue by $0.5 million in Q2 2014 and $2.3 million during the six months ended June 30, 2014, across the exchange and broker system channels. On a sequential constant-currency basis, our revenues grew by $0.4 million, as compared to Q1 of 2014.

In Q2, our exchange revenue continued to be the largest channel for Ebix, accounting for 80 percent of the Company's revenues. The CRM, P&C, and Health E-commerce platforms aided revenue growth. With the Australian and Brazilian currency weakening, as compared to the U.S. dollar, and the revenues from these regions being primarily exchange-based, the FX rates hurt our exchange revenue substantially, as elaborated earlier.

Our broker business revenue, which is primarily international-based, increased by approximately $100,000 in Q2 2014, as compared to Q2 of 2013. Strengthening of the U.S. dollar continued to hurt our broker revenue streams as discussed earlier in my talk.

The risk compliance solution channel in the second quarter grew 7 percent sequentially to $3.65 million, as compared to $3.42 million in Q1 of 2013. In the same quarter last year, Ebix had been generating consulting revenue of $553,000 from CurePet as its exclusive development partner. This consulting revenue no longer exists, as the startup was 100 percent acquired by Ebix, with a view to build an end-to-end pet exchange for veterinary schools, hospitals, and general pet practitioners.

This caused a year-over-year drop in revenue. But, on the positive side, I'm happy to report that our efforts in this area have started showing results, with a few, key top veterinary schools like University of Pennsylvania and Colorado State University having decided to implement our pet-exchange solution. We are hopeful that we will start to report increased revenue streams in this venture, and also increased revenue streams from the implementation of our certificate-tracking solution in the vendor-pay and normal subscription model with clients like Walmart and Canadian railroad.

I will now turn the call over to Bob Kerris.

Robert Kerris: Thank you, Darren. And thanks to all on the call for your interest in Ebix.

Q2 2014 diluted earnings per share of $0.35 were essentially at the same level as in the second quarter 2013. For purposes of the EPS calculation, there are an average of 38.6 million diluted shares outstanding during the quarter, as compared to 38.8 million diluted shares outstanding a year earlier in Q2 2013.

As of today, the Company expects a diluted share count in Q3 of this year to be approximately 38.4 million.

Operating income for the second quarter was at $17.5 million, as compared to $19.3 million of operating income a year earlier in Q2 of 2013. Operating margins for this quarter were at 34 percent, as compared to 38 percent for the same quarter last year. The operating margins in Q2 2013 were favorably impacted by a $5.8-million reversal of earning our contingent liabilities, primarily pertaining to the PlanetSoft acquisition made in June 2012.

In our viewpoint, the true measure of the Company's fundamental strength is its ability to generate strong cash flows in existing business. In Q2 of 2014, we grew operating cash flow to $17.8 million, an increase of $7 million, or 65 percent, from the previous quarter, and $7.2 million, or 68 percent, from the same quarter in 2013.

During the second quarter, the Company used approximately $42 million of cash for the following purposes –

- $17.7 million was paid to reduce the balance on our commercial bank revolving line and term debt with Citi Bank
- $13.1 million was paid towards the purchase of our new corporate office building in Atlanta and a new operating facility building in Noida India, both targeted at reducing our ongoing rental and infrastructure expenses while providing ample facilities for future growth
- $6.0 million was used for the acquisition of Healthcare Magic
- $2.9 million was used for the scheduled cash dividend payment
- $2.3 million was used for payment of an acquisition earn-out contingency associated with our 2012 acquisition of Taimma

After paying approximately $42 million towards the above initiatives, Ebix still had aggregate cash, cash equivalents, and short-term cash deposit investments in the amount of $34.3 million as of June 30, 2014. This cash performance, in our view validates the merits of Ebix's business model.

Furthermore, as to key balance sheet metrics, as of the end of the 2nd quarter, our net debt stood at $3.6 million, our working capital position was $12.6 million, and our accounts receivable DSO was 71 days, an improvement of 3 days from Q1 of 2014.

On Tuesday of this week, we announced the signing of a new $150 million syndicated senior secured credit facility with Regions Bank, MUFG Union Bank

N.A., and Silicon Valley Bank. I am pleased to report that we now have access to total funds of approximately $150 million to fund our working capital requirements as well as support business growth, and share repurchase initiatives. This includes the worldwide cash balances in the bank of approximately $ 33 million in addition to available credit line of approximately $117million after fully paying off the previous credit facility with Citi Bank. .

We also have the option to request an increase in the Credit Facilities of up to $200,000,000 without Lender approval subject to receipt of additional lender commitments.

We are pleased to have the support of these leading financial institutions towards funding our future business growth and share repurchase initiatives at highly competitive and sensible terms. The credit facility will bear an interest rate at closing equal to LIBOR plus a LIBOR margin of 1.75%, or presently 1.90%. As of January 1, 2015, the LIBOR margin will be based on a leveraged-based pricing grid. As per our estimates, the leveraged-based pricing grid would result in a LIBOR margin of 1.50% as of closing. The support of these leading institutions is a testament to the strength of the fundamentals of Ebix.

The company announced yesterday the payment of it next dividend of 7.5 cents a share payable on September 15th to common stockholders of record on August 29th.

Finally, Ebix's Form 10Q will be filed this coming Monday August 11, 2014.

I will now pass the call to Robin.

Robin Raina: Thanks, Bob. Good morning. Darren and Bob have discussed the quarter in quantitative terms. I'll try to address it, as usual, on more qualitative, but at a specific level.

Consistency, strong operating margins, and strong cash generation are characteristics that are at the core of Ebix's fundamentals. All of them are linked to our high customer-retention rates. Ebix has a business model that thrives on providing infrastructure-based, on-demand services, and charging for them typically on a utilities model. It's a model wherein growth of our revenues is linked to the usage metrics of the customer and their own business success. As usage increases, revenue increases, and operating margins increase, too.

In any given quarter, our revenue streams tend to be extremely stable, both subscription and transaction revenues, with the main variability coming out of the amount of professional services in a quarter. Any drop in professional services has to be substituted by increased transactions, and/or subscriptions from existing and new clients, to ensure that we continue to grow our business.

Q2 of 2014 was no different in that respect. Our customer-retention rates were exemplary and as stable as ever. However, we had to substitute for sizable revenue drops in professional services on our TPP and PSS lines from the PlanetSoft acquisition and our Pharma businesses.

To explain in more specificity, we reported $50.85 million in revenues in the fourth quarter of 2013, and $51.5 million in second quarter of 2014. Out of it, professional services drop between Q4 2013 and Q2 2014 was $1.83 million of quarter over quarter from these two product lines. When you compare the two quarters, you realize that the Company's revenue from remaining businesses outside these two product lines has cumulatively grown $2.5 million, quarter over quarter, on a growth run rate of $10 million year over year. This implies that, once the professional services revenue streams from these two product lines start to grow again, our numbers will look a lot better.

We have reason to hope that we can improve our revenues from these two product lines now. In recent times, the Company has agreed on long-term deals with a few key insurance carriers on the TPP and PSS product lines. That will get the professional services business back into good territory. That's a good sign for our efforts to grow our revenue.

We also have made honest efforts in our Pharma business to convert the professional services business into a recurring subscription business. That effort will get us high-margin, recurring revenues over a period of time, but we'll have to compromise on the short-term professional services business in Pharma sector to some degree for now.

At present, we're excited about many areas of our business, namely, healthy commerce and content exchanges, TPP- and PSS-related underwriting services, reinsurance exchanges, CRM services, and our life and annuity exchanges. These are areas in which we are in the midst of large-sized deals that can make a significant difference to our future revenue streams. We feel good about the organic opportunities ahead of us.

In terms of operating margins, the Company has continued to be fairly consistent. Our non-GAAP operating margins continue to be consistently at our traditional levels of approximately 38 percent, if we were to exclude certain recent costs associated with legal and advisory services.

We pride ourselves on the strength of our financial discipline and the checks and balances in our cost-control systems. And coming days, we intend to continue to look at our cost structure so as to improve operating margins and to make our operation even more efficient.

As we grow our top line and put some of the nonrecurring legal and advisory costs behind us, we hope to get our operating margins in the 41 percent to 42 percent range. We're always looking to find efficient ways to improve our cost structure, and our recent investments in real estate are a step in that direction. We believe that it will allow us to consolidate three Atlanta offices, besides consolidating a few other non-core offices in other cities in the U.S. This will help us reduce our cost structure substantially, both on the rental and infrastructure fronts. Our increased investments in lower-cost offshore bases in India and Singapore will allow us to reduce our cost base further, worldwide.

Bob talked about the recent $150-million credit line. We're highly appreciative of the strong note of confidence reposed in us by these leading financial institutions. We wanted a current line that allowed us the flexibility to make share repurchases while utilizing money for working capital needs and to fund our acquisition pipeline. We wanted a current line that allowed us to do that at highly competitive economic terms. The syndicate of Regions, Union, and Silicon Valley Bank put a credit line in place for us which allows us to do that at terms that we are very happy with.

In second quarter of 2014, we had an outflow of approximately $42 million towards investments, capital purchases, and loan prepayments, and yet we had $34.3 million of cash at the end of the quarter. With the new credit line in place, and fund availability of $150 million to $200 million – assuming we exercise our right for the additional line $50 million – I've been asked by some of you as to what we intend to do with this available money. The quantum of available money would be substantially higher if we were to model for the cash generation by the Company in the next 12 months. Let me promise you that we intend to put this money to good use. To start with, we already have a Board-authorized share repurchase plan. Clearly, we intend to put substantial money into share repurchases over the next 12 months. We had to put some of these plans in advance, since we were in the midst of negotiating a new bank line for many months now. For us, a share repurchase plan is not about driving stock prices up in the short term. It's about providing long-term value to our investors who have believed in the inherent value of Ebix fundamentals by reducing dilution and improving diluted earnings per share.

We have a number of acquisition targets that we intend pursuing. We have consistently proven that we have the ability to make accretive acquisitions with strong cash flows. We have a strong pipeline of complementary acquisitions in certain geographies that we have eyed for some time now, and we intend to pursue them.

Many of you have asked the Company for an update on the SEC and DOJ front. The Company can report that it has not been asked for any additional information from either the SEC or the U.S. Attorney's office since 2013. Also, the Company is not aware of any further investigative steps by the SEC or by the U.S. Attorney's office since 2013.

On the governance front, the Company intends to announce a series of steps to further enhance its controls, and strengthen its audit, tax, and governance functions across the world. The Company's SOX testing is presently undertaken by E&Y. We now have E&Y as our tax advisors in India, Singapore, Australia, Brazil, U.K., and the United States. We have a number of other steps planned in the direction of strengthening our audit and internal control functions – more on that in coming weeks.

Lastly, let me say that Ebix employees are at the heart of the accomplishment of the Company over the last decade – and continue to be so. I am proud of their continued innovation, passion, and dedication that make all of these accomplishments possible.

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

Operator: Ladies and gentlemen, if you have a question over the phone at this time, that's star and then the number one key on your touch-tone telephone. If your question has been answered or you would like to remove yourself from the queue, please press the pound key. Once again, to ask a question, that's star and then the number one. It will be just a moment for questions to queue up.

Once again, ladies and gentlemen, that's star and then the number one key to ask a question.

Our first question comes from the line of Jeff Van Rhee with Craig-Hallum. Your line is now open. Please proceed with your question.

Jeff Van Rhee: Great. Thank you. Robin, first as it relates to the fundamentals of the business. Would you talk about the underlying pipelines? We're sort of treading water flattish here. There obviously have been quite a few distractions and other issues to focus on, but I want to understand what's going on in the pipeline. The revenues like I said are roughly flattish, but can you give us some quantification of the health of the pipe? And then, will I will leave it there, I have a few follow-ups.

Robin Raina: I think Jeff, first of all, as I explained in my talk. If you look at our revenue streams and you dissect it a little bit more you basically see that we've actually done quite well in terms of growing our exchange product lines and then growing our revenues.

What is starting to happen is that we have basically been hit on the professional services front on two of our product lines. One is on the pharmaceutical front and the other is the PlanetSoft side of things. Which is basically the TPP and the PSS product line.

When you look at the pharmaceutical side that was more of our decision. Simply because we felt that we needed to convert that into a subscription business rather than a professional services business. That's something which we believe in the short term might look like a revenue hit, but in the long term will give us a very solid recurring revenue streams.

On the TPP and PSS front, we basically have been taking hits for some time. When you look at these two product lines itself, the PlanetSoft, and the Pharma side of things. You add up the revenue, the example I gave you in my talk was that if you just compared fourth quarter of 2013 with second quarter of 2014, you are going to see a difference - our revenue dropped by $1.83 million in a quarter from these two product lines.

If I excluded that and looked at the remaining products, you going to see the revenue actually grew quarter-over-quarter by $2.5 million. Which means an annualized run rate of $10 million growth in revenue, which means we are starting to do reasonably well on other product lines.

So then I come back to the TPP and PSS line. You might have noticed that during my talk, when I was talking about some of the areas that we are excited about, I actually specifically named PlanetSoft product. And the reason is in recent times we have already agreed, we have been given a go-ahead by three leading carriers in the U.S., on TPP and PSS on the PlanetSoft side of things. Which we believe will start generating a lot more recurring revenue streams for us from a professional services point of view.

So having said that we believe that as our professional services line, on TPP and PSS, comes back we should see revenue growth. And because that's the only thing that's been inhabiting our revenue growth because we're having to make up for the drop in revenue on that front.

But then, as you go forward, clearly the game changes. The transformational deals haven't yet happened.

We have a decent queue of such deals that we are in the midst of. I talked about them in the last call. We think we are a front runner in a lot of deals. At the same time until they're done or not done.

Many of these deals have the ability to be transformational for Ebix, and we'll keep our fingers crossed and keep moving on them. Our pipeline continues to be extremely strong. And I know that, you know that.

The way we pick up our revenue and it's because we don't have any big license sales that we do on the exchange side of things. For us to have a revenue growth in quarter-over-quarter of $2.5 million that I just give you an example of, it's reasonable. It's a pretty decent growth considering what we deal with from a revenue recognition perspective. So as we bring professional services revenue back, that revenue gets recognized immediately so it immediately starts showing on the revenue line and so on.

So we do feel that our pipeline remains quite strong on all fronts. And it is now a matter of if we can make some of the larger deals happen, then things will look a lot better. But, when I look over the last two quarters I actually feel that we are on the path to growth. Meaning, like I said to you, that we're having to make up for the drop in professional services.

Jeff Van Rhee: OK. And I guess second question for me. Thank you for the update on IRS, SEC, the various stages in the update I guess on the timeline of the back-and-forth. What, from investors sitting here on the outside sort of looking in, you announced intentions to make a number of changes to strengthen internal controls. You mentioned E&Y does all the SOX compliance and other work for you. What else can you tell us about the Board's efforts over all these months to give assurance to themselves, and outside investors, that they've done their own work? As opposed to responding to the IRS, SEC that they've done extensive due diligence to get to comfort, and ultimately hopefully to communicate that to us investors?

Robin Raina: Jeff, I can't speak for the Board here, but I can, all I could just summarize it in one line. I think the Board has done anything, and everything, that a good Board should do from a governance perspective. And I'll leave it at that.

But having said that, I think we are governed by norms of what we can disclose and we cannot disclose. So I'll just stay with that.

But having said that, on the governance front, we do have a number of steps planed. We think that will further strengthen our governance standard which means you could possibly see if there is a particular place where investors feel that our auditor is not big enough you might see a big four auditor being hired.

We've already talked about having E&Y as our tax advisors, virtually we have done that. I named all the countries where we have E&Y as tax advisor. I have already talked about the SOX front. So there will be other things that we intend to put in place, and we will keep announcing that as that happens.

You'll also see us possibly appoint a leading IR firm in the world as our IR firm – IR and PR firms. So you are going to see a number of steps in that direction.

Jeff Van Rhee: OK. Thank you. And then, on the buyback front, what remains in terms of what's been authorized?

Robin Raina: Bob, you want to answer that? I think it's close to $100 million, I don't have the exact number it's probably close to $97 million, $98 million left. Bob will possibly answer that either during the call or offline for you. But think it's closer to $97 million, $98 million. I don't have the exact number.

And having said that, I think one of the good things about our new credit line is, and this is why it took us long, and I think in between created a high test of abeyance where we couldn’t buy stock and (sell) because once you are in the midst of changing banks it's a long process, and we couldn't have talked and we couldn't have made stock purchases during that period of time.

And so having said that, we have negotiated a very flexible line. The banks have been fantastic in supporting us, in terms of giving us the ability to do stock buybacks, to make acquisitions, issue dividends. It's been, in our viewpoint, we are very happy with what we've been able to negotiate. And that too at extremely competitive terms.

Robert Kerris: That figure is approximately $106 million left of the repurchase authority.

Jeff Van Rhee: OK and then Bob, is the G&A run rate from this quarter. Is that a good number to model going forward?

Robert Kerris: Again, we continue to bear some of the unusual legal and advisor expenses that we will expect to come down as we go forward. So we think that this period's operating margin is abnormally depressed, I think going forward, I would look to be operating margins and more of the 38 percent range.

Jeff Van Rhee: OK. And then the Healthcare Magic acquisition, I don't believe we got any details. Can you fill in some gaps in terms of what the impact there is revenue wise?

Robin Raina: Extremely small. It's a meaningless operation. It's an extremely small operation as of now. At the same time, this is an operation where we expect a lot of growth.

The reason we bought it was pretty simple, Jeff, that basically when you look at Healthcare Magic, we today as Ebix have 25 million employees lives on our health and wellness, on our back end platforms, on the Ebix enterprise. So when you consider that, the way we look at it, ask a doctor the (AAD) service that we are launching and a number of products around it, we basically believe that our pricing model is going to be a few dollars per month per employee that we want to charge. So we feel this is a pretty good business line to pursue.

So we are right now pursuing deals with insurance carriers. We're pursuing deals with large health and fitness firms in the country who have millions of users. We're doing deals with the large retail outlets, companies, and so on.

So we are in the midst of what we believe this is a big opportunity. At the same time when we bought it, it was basically their entire business was a pure B2C business, and the numbers are fairly meaningless right now.

Jeff Van Rhee: OK. Last one from me and then I will let you work through the queue. The timing on the, you mentioned 41 percent to 42 percent operating margins as a goal to get back to. I know you don't guide on any financials, but can you give us a sense of the initiatives that it takes, that you're going to put in place to drive those margins? Are these initiatives that will be put in place and should yield results in two, three, four quarters or is the kind of operating margin largely dependent upon revenue growth and you know the cost savings? Just a sense of timing there?

Robin Raina: So Jeff, there is two things that can happen on that operating margin. I will give you two examples.

On one side of things what is linked to that operating margin is, one our legal costs start to go down. Obviously we are very hopeful that will happen. But, on the other side, you absolutely rightly said, that even if that doesn't happen but in the meanwhile our revenue initiatives that we feel good about right now start to happen then we'll get back there.

I do believe that over the next three or four quarters, I would expect us to be getting there. We also have this big area of facility consolidation that we are working on that will also help us. So we have a number of cost measures, so it's both sided.

It will be a function of cost reduction, it’s even non-legal costs. I believe that we still have, as a company, a decent amount of fat now existing within the company. And we have got to keep doing that exercise of churning ourselves, looking at our inefficiencies, and making ourselves more efficient. We're in the midst of one such exercise. But, on the other side, we have all the facility consolidation, then we have all the extraneous, legal, and advisory costs. Some of those are high. And we believe that as we go forward they should start to come down.

But on the other side, we have revenue growth. When you consider all of those, even if all of those don't happen, and some of those happen, I think we can get there.

Jeff Van Rhee: OK. That's it for me. Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you have a question at this time, that's star and then the number one key on your touch-tone telephone. Again, that's star and then one.

And pardon me speakers, I'm not showing any further questions in the queue at this time.

Robin Raina: Great. I think this brings us to the end of the investor call. I look forward to speaking to all of you at the end of the third quarter. And thank you all.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Have a good day, everyone.

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