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EBIX - Q2 2015 Ebix Inc Earnings Call

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CORPORATE PARTICIPANTS

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Bob Kerris *Ebix - EVP, CFO*

Robin Raina *Ebix - Chairman, President, CEO*

CONFERENCE CALL PARTICIPANTS

Jeff Van Rhee *Craig-Hallum - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Ebix Q2, 2015 investor call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions). As a reminder, this conference is being recorded.

I would like to introduce your host for today's conference, Mr. Darren Joseph, Corporate Vice President of Ebix. Sir, you may begin.

Darren Joseph ***- Ebix - Corporate VP, HR***

Thank you. Welcome everyone to Ebix, Inc.'s 2015-second quarter earnings conference call. Joining me to discuss the quarter is Ebix Chairman, President & CEO Robin Raina and Ebix EVP & CFO Robert Kerris. Following our remarks, we will open up the call for 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 Q2 2015 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 web site www.ebix.com. The audio and the text transcript of this call will be available also on the investor home page of the Ebix web site after 4 pm EDT.

Let's start by discussing the 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 the times ahead of us.

Revenue in Q2 2015 increased 26% from a year ago to $64.7 million. On a constant currency basis, Ebix Q2 2015 revenue increased 31% year over year to $67.4 million as compared to $51.5 million in Q2 of 2014. Also on a constant currency basis, year to date revenue increased 29% to $133.1 million as compared to $102.9 million during the same period in 2014. The continued strengthening of the US dollar, year over year, as compared to the Australian dollar and the Brazilian real decreased revenue by $2.7 million in Q2 2015 and $4.6 million during the six months ended June 30, 2015 across the Exchange and Broker Systems Channels.

In Q2 our Exchange revenue continued to be the largest channel for Ebix accounting for 72% of the Company's revenues. The year-over-year revenues increased as a result of revenue growth from Life, Annuity, Underwriting, CRM and Health Ecommerce services in addition to revenue growth generated from the Company's 2014 and 2015 acquisitions, partially offset by the drop in revenue from international locations as a result of the strengthening U.S. dollar and a decrease in revenues from the company's pharmaceutical and P&C Carrier backend operations.

Life Exchange revenues grew 11% year over year in Q2 of 2015 while Annuity Revenues grew 14%, and Life Underwriting exchange revenues grew 54%, CRM revenues grew 2% in the same year over year period. Health content revenues were up 72% aided by the recent acquisition of Oakstone's continuing education business. RCS Revenues were up 310% because of the recent acquisitions of consulting companies.

The revenues in Q2 of 2015 were impacted negatively by the recent decision of the Company to de-emphasize certain operations which we don't think can give us the same margin profile and market positioning that fits in with our present strategy and growth plans. We have accordingly scaled down a number of product related initiatives – for example one of those decisions resulted in the life sciences division generating revenues that were 35% lower year over year.

The carrier business was down approx. by half a million dollars year over year due to reduced professional services associated with certain P&C carriers going into production as also lesser emphasis of the company on non-recurring license and professional services based product sales.

The strengthening of the US$ had a big impact on our revenues from Australia, with its year over year revenues being down by approximately US$1.5 million for Q2

2015 and $2.7 million for the first six months of 2015 since the US$ has appreciated an average of 14% year over year as compared to the Australian dollar impacting Australian Revenues adversely.

Our Broker business revenue, which is primarily international based, decreased by approx. $1.2 million in Q2 2015 as compared to Q2 of 2014 due to the strengthening of the US$.

I will now turn over the call to Bob.

Bob Kerris *- Ebix - EVP, CFO*

Thank you, Darren and thanks to all on the call for your continued interest and support for Ebix. Q2 2015 diluted earnings per share of $0.54 was up $0.19 or 54% from the second quarter of 2014. For purposes of the Q2 EPS calculation, there was an average of 35.3 million diluted shares outstanding during the quarter, as compared to 38.6 million diluted shares outstanding last year in this second quarter.

As of today, the company expects the diluted share count for Q2 2015 to be approximately 34.8 million. Operating income for the second quarter was $20.4 million as compared to $17.5 million of operating income in 2014 second quarter. Operating margins for the second quarter stood at 32% compared to 34% for the second quarter of 2014. The operating margins in the second quarter were adversely impacted by lower margins associated with our strategic consulting business. Operating margins for this consulting portion of the business were 24% while being 33% for the remaining portion of our business. While we are pleased with the second quarter results, we believe that the company can improve its operating margins significantly through a number of efficiency initiatives that have already been put into place.

In our viewpoint, one of the true measures of the company's fundamental strength is the ability to generate strong sustainable cash flow from its operations. In the second quarter 2015, we grew operating cash flow to $17.5 million, actually the same levels as compared to $17.8 million last year but significantly improved from [$7.3 million] of outflow experienced during the first quarter of this year.

During this past second quarter, in spite of robust returns to shareholders, we obtained $12.2 million back to repurchase of 414,258 shares of our common stock, and paying $2.7 million through the company's quarterly dividend of $0.075 per share. In spite of that, and however, from a liquidity perspective we still have $28.4 million of cash and short-term investments on hand and access to $89.5 million of potential available capacity from the expanded line of credit with Regions Bank to support the continued profitable growth of the Company, both organically and through accretive acquisitions, to efficiently integrate recent business acquisitions, and to repurchase shares of our common stock, as market conditions warrant. The current interest rate on our syndicated credit facility is a very attractive 1.94%

Furthermore, as to key balance sheet metrics, as of the end of the 2nd quarter, our working capital position stood at $34.8 million, our current ratio stood at 1.66, our accounts receivable DSO further improved to 61 days, and our net debt position was $123.7 million.

I will now pass the call on to Robin.

Robin Raina *- Ebix - Chairman, President, CEO*

Thanks, Bob. Good morning. Darren and Bob have already discussed the quarter in numerical and qualitative terms. I will discuss the quarter briefly and then focus my talk on what I see ahead of us.

Let me first address the diluted EPS growth on a constant currency basis. Our diluted EPS on a constant currency basis would have been $0.60 for Q2 of 2015, an increase of 71% over second quarter of 2004 diluted EPS of $0.35. I am pleased with that trend as it is on the lines that we expected it to be.

Diluted EPS growth is a function of many things, including but not limited to, one, income growth accompanying revenue growth, two, accretive acquisitions, three, share buybacks that allow us to retire the stock bought back by us. We feel that we have momentum on our side to fuel revenue growth. We also have a strong pipeline of accretive acquisitions that we are targeting at present. We intend to keep using our operating cash flows to fund share buybacks over the next 12 months. Accordingly, we feel that over the next 12 months, we will have many of these drivers still in place to possibly fuel further earnings growth for Ebix.

We see many opportunities ahead of us that can increase our 2016 EPS substantially. We expect to be getting substantially higher operating margins from many large committed deals in 2016 which can add a substantial impact on our diluted EPS. Also, we are going to be opportunistic in terms of acquisitions and believe that acquisitions can also help fuel this diluted EPS growth.

Let's now talk about the top line. On a constant currency basis, Ebix's Q2 2015 revenue increased 31% year-over-year to $67.4 million as compared to $51.5 million in

Q2 of 2014. Also on a constant currency basis, the year-to-date revenue increased 29% to $133.1 million as compared to $102.9 million during the same period in 2014. We feel that we have momentum on our side now. The last few quarters have been very eventful for us in terms of setting the foundation for revenue growth.

Amongst other deals, we have inked many contracts with large life carriers in the area of exchanges. We are in contract stages of many multi-million dollar deals with large life carriers. We are in contact stages for a multi-million dollar recurring deal with a leading health insurer. We will have a rather material London reinsurance exchange deal generating our largest revenue stream from any one contract beginning in January 2016.

Our momentum can be best exemplified by the fact that our life underwriting exchanges grew organically by 54% year-over-year in second quarter of 2015. This growth is in spite of the fact that most of the deals generating revenue in this area are still in the early stages of ramp up. As we ramp up our efforts over the next few quarters and the other deals in contracts start generating revenues, we will see revenue further go up substantially in this area.

Our life exchange revenues grew 11% year-over-year in second quarter of 2015 while our annuity revenues grew 14% and life CRM revenue grew 2% in the same period year-over-year. Cumulatively our life exchanges grew by a healthy 18% year-over-year in the second quarter of 2015. We expect that this momentum will continue in the quarters and years to come as we implement the deals we already have in hand and sign up new contracts. All of this growth has been organic.

Health content revenues were up 72% aided by the recent acquisition of Oakstone's continuing education business. RCS revenues were up 310% because of the recent acquisition of consulting companies. We expect the health e-commerce group to join this momentum as they scale up some of their existing implementations and implement some of the recently committed large value recurring deals. We expect that RCS revenues will keep looking up as we implement some of the newer deals that we recently secured and also because of our acquisition strategy in the domain-specific insurance consulting area.

We believe that we will start generating revenues from the London reinsurance exchange deal beginning January 1, 2016. Clearly it will be by far our largest revenue generating deal, both on an annual and a five year rolling basis. This deal has already opened many door for us, since reinsurance is a competitive market and key financial hubs would not want to be competitively left behind and that opens up new possibilities for us.

We are excited about the opportunities ahead of us in the field on e-governance and telemedicine. We have a very defined strategy in both these areas that we are rigorously pursuing at present. In the press release, we talked about a type of strategic alliance with a key advisory firm to target certain growing markets. We see that as opening many large opportunities for us. More on that later when we announce the detail on that front in coming days.

Let's now talk about telemedicine. Telemedicine is a whole industry by itself. We feel that we have powerful solution and operational skills in that area. We are now trying to focus our efforts in this area in a few countries in the beginning. We presently have multiple solutions in this area. We can provide a doctor on-demand service today over the web in a guaranteed four-hour period through our 33,000 strong doctor network. Our target market in this segment is both business-to-consumer, B2C and business-to-business, B2B clients. We see B2C and B2B as separate divisions who can create sizable revenue streams.

On the B2B side, our target end user is an employer or an employee who gets access to the service through a TPA or an insurer. The insurer will provide the service with the goal of ensuring that the insured uses the service first before going to a doctor or hospital in person. This saves tremendous amount of money for the insurer, who on an average pays $250 per doctor visit and $750 for an ER visit.

At the least, it saves money by ensuring the right referral. The employer gets a discount in terms of insurance premium from the insurer if they use the service, and a share of the insurance money -- insurer money in return. The employee gets fast turnaround and thus everyone benefits. Ebix charges for such a service to an insurer on a PEPM model, per employee per month model. Today, we are in discussions with many large and small insurers, superbrokers and TPAs as regards to this opportunity.

Ebix has the technology and operating model now to - one get the insured medical advice from specialist doctors [professional] advice at times from doctors across the globe in a guaranteed four-hour period; two get the insured connected to a doctor over the phone, and three, hand over the claim for telemedicine payment to our claims exchange and get it processed and paid over the web.

On the B2C side, the opportunity is to figure out how to scale the service on a large scale. The goal has to be to provide service in a four-hour guaranteed period, create a paid-for doctors network by ZIP code for each specialty or medicine which can be provided to the consumer for a video or an audio call as a referral after the web advice is provided. And lastly, connect them to the doctor for a visit to the doctor's clinic. Ebix intends to bring tens of thousands of doctors to this service by charging doctors an annual fee to be listed on a telemedicine exchange.

This fee will include them getting access to our ADAM Encyclopedia, enriched content in their specialty area as a reference to and also CME programs aided by Oakstone acquisition getting doctors continuing education credit. We will pay the doctor in turn also anytime they offer medical advice to paying consumers over the web on our telemedicine exchange. This is a win-win for the doctor and the patient.

We believe that our end-to-end operating model and technology in this area is ahead of anybody in the world. At the same time, the key in this area is to target mass volumes in terms of getting new users. We do not like the idea of spending on Super Bowl ads or spending mega dollars over the web to bring consumers to the service, as that has traditionally created loss-making, cash doubling, but growing ventures.

We are trying a different approach in this area. We are carving out exclusive tight deals with large telecom providers in seven countries to preload our telemedicine exchange in the phone provided by them and mass market our solution to the tens of millions of subscribers on a revenue sharing model. We are very hopeful of a major effort in that area which could be a game changer for us in the telemedicine arena.

We are also creating a new business area of BOT exchanges, build-operate-transfer exchanges, wherein we take a minority stake in a TPA operation with the right to increase it to a majority or 50% ownership position on the condition that they outsource their technology and manpower to our offshore operations. We will charge them for the manpower on a normal T&M rates while charging for the use of Ebix Enterprise exchange in terms of transaction and subscription fees for each employee life on their system, cumulatively creating a large revenue opportunity for us. This model allows the TPA to make their business highly efficient and profitable while providing Ebix with a new opportunity to keep replicating the service for other TPAs through this unique model, more on this soon, as and when we announce any deal in this area.

As you know, over the last decade, the company has made many acquisitions. Acquisitions have allowed us to add new functionality, at times enter new business areas, at times open up a particular country audience for us, and add another spoke in the wheel to achieve our straight through processing attempt in any business area. One thing that you might find common in most of our acquisitions is that the acquired company is in a bit of distress. We like situations wherein the company has all the right things going for it but still have a distressed situation in terms of profitability, cash flow or just a deficit in terms of common sense management. We are able to pay a lot less for such companies. We enter such situations and put the EBIX centralization and operating business model at the center of it. We give up on bad revenues that are low income intensive while focusing our attention on revenues that have high margin associated with them.

We are willing to be highly disciplined as also are ready to take revenues down initially if need be to ensure that they have a highly profitable business model. Once we have a great proven operating model, then we concentrate on growing the business profitably by compensating on the good revenue streams. We intend to keep doing that as we look at new acquisition opportunities.

We are clearly quite excited about the opportunities ahead of us. We believe that the company's recurring revenue stream, cash flow characteristics, sticky client base, on-demand business model, rich domain expertise, strong barriers to entry along with the highly diversified client base, et cetera are not fully reflected in the company's present valuation. Accordingly, we are committed to expanding our share repurchase plan substantially as we see share repurchases as one of the most accretive areas of generating value for our shareholders.

In August 2014, the company had announced its intent to purchase up to $80 million of EBIX shares over the next 12 months. As of July 31, 2015, the company has already purchased 4 million shares for approximately $80 million since August 2014. The company board of directors is likely to authorize a new $100 million share repurchase plan once the previously authorized amount of $100 million is fully utilized. As Bob conveyed during his talk, we have access to $118 million of financial resources as of June 30, 2015 in the form of cash and cash equivalents and access to a bank credit facility. This $118 million number does not include a prospective cash flow generated from operations by the company over the next 12 months. Thus we believe that we have the financial resources to carry out all the growth initiatives discussed here with the goal of delivering improved diluted EPS and increased shareholder value.

We are a growing company today who believes that it can be a lot larger company in the years to come than it is today. We have ambitious goals on that front and believe that we can do so while reducing strong operating margins and cash flows. We expect our operating margin profile to increase quite a bit as we roll out many high margin large size deals over the next year or so.

Lastly, let me say that our 2,800 plus Ebix employees are at the heart of the accomplishment for the company over the last decade and continue to be so. I am proud of their continued innovation, passion and dedication that make all the accomplishments possible. This brings me to end of my talk.

I'll now hand it over to the operator to open it up for questions. Thank you.

QUESTION AND ANSWER

Operator

(Operator Instructions). Our first question comes from Jeff Van Rhee of Craig-Hallum. Your line is now open.

Jeff Van Rhee - ***Craig-Hallum - Analyst***

Thanks. Can you hear me?

Robin Raina - ***Ebix - Chairman, President, CEO***

Yes.

Jeff Van Rhee - ***Craig-Hallum - Analyst***

Okay, great. The audio quality was really, really difficult in some of Bob's comments. I didn't catch everything here. So, some of this maybe repetitive, but Robin with respect to the business that you've concluded that you're going to walk away from that doesn't meet the strategic margin or other criteria that you established, can you put a little finer point on it exactly what that is, how big it is and in particular, do you see other portions of the existing business that fall into that same basket?

Robin Raina - ***Ebix - Chairman, President, CEO***

Well, I think I was referring more to things that we've already done. There are no specific areas in the future that I was referring to in this discussion, but basically my sense of what I was trying to say was that we have done some of that in this year in 2015 actually and we're done with that already. At the same time, we will keep looking at it as an ongoing exercise. I'm not aware of another area where we need to do something like that in the near future.

Jeff Van Rhee - ***Craig-Hallum - Analyst***

And could you quantify how much business or what kind of drag that represented in terms of business that you chose not to renew?

Robin Raina - ***Ebix - Chairman, President, CEO***

Well, for us, the business was more related to taking decisions like moving our entire employee base in a particular region in a particular area for example to an offshore facility and that obviously we knew would affect our revenue stream for a substantial amount of time until we can get it effective and working and so on. And there are specific areas that we were doing quite well in terms of revenue stream, at the same time they were not really profitable revenues and we moved that business. We do think that we will finally get back to the levels that we used to do once our offshore units are fully functional and at the same level as the onshore units. But at the present moment, numbers have come down pretty substantially - to give you a simple example, in some areas we would do close to $1 million in a quarter, we would probably be down to $0.5 million or so a quarter.

Jeff Van Rhee - ***Craig-Hallum - Analyst***

Okay, got it. And then with respect to the cost improvement or efficiency improvement opportunities that you referenced -- can you expand on that a little bit? Specifically what those opportunities are and quantify those give us a sense of the magnitude of what the opportunity there is?

Robin Raina - ***Ebix - Chairman, President, CEO***

Well, cost improvement is in multiple areas. First of all, as you know, we recently combined all our offices in Atlanta. We have moved everything into a combined global campus in Atlanta. As we consolidate some of our other offices into Atlanta, we are going to see substantial slowing in basically in terms of rentals, in terms of some of our internal hosting infrastructure, telecom. But then we are in the process of moving quite a few other functions over to India and Singapore and as we do that, that's going to result in substantial savings.

The other area is primarily the area of the fact that as we bring in more high-margin deals, and some of these deals have much larger size and they have a much higher-margin profile than the 40% that we were used to. So we believe that that will end up, including the margins overall, quite substantially. I hesitate to give you particular numbers out there.

Jeff Van Rhee - ***Craig-Hallum - Analyst***

Okay. And obviously the London deal is obviously a meaningful number and you I think outlined that one well. With respect to the other, I think what you term transformational deals, I know there were several that you have referenced in the past couple of plus quarters that seem to be pretty mature in the pipelines. Can you update us on a little progress and when we might see some of those?

Robin Raina - ***Ebix - Chairman, President, CEO***

Jeff, I don't know whether I would say they are mature or they are not mature, simply because I hate to comment on anything that have not been announced. All I will say at this point is that, clearly our goal is to make sure that we can keep bringing in larger size deals that are recurring revenue value. That's going to make us a much stronger company and we don't want the London deal to be one of its kind, we would like to see many deals like this. So we are going to try and target some of these larger deals. So as and when we get them we will announce them. As of now, I would not right now tell you either way whether we are at a mature stage or whether it's a done deal. I prefer to wait and when the time is right and if we do the deal, we will definitely announce it.

Jeff Van Rhee ***- Craig-Hallum - Analyst***

Okay. And then I guess just last one for me, you referenced in the release coming strategic relationships, stay tuned essentially and you talked about large strategic alliance. Can you just talk a little bit more about what those -- put a little finer point on that what those might look like, not necessary giving us names, but what might it look like?

Robin Raina ***- Ebix - Chairman, President, CEO***

Well, first of all, I believe we will be announcing them pretty soon. And these are in my mind very transformative for Ebix, what does a deal like that look like - to give you an example, Ebix could be tying up in a go-to-market partnership with let's say a key advisory firm. And we could virtually create a partnership for number of countries, specific countries where we would jointly market, we would jointly go to the market via the common brochures, common marketing, common sales programs then selling all of the Ebix products and so on.

It's very rare to have an advisory firm do that, but if you see a key firm willing to do that I think it will speak volumes first about Ebix products, second what they believe they can generate out of it. Because all these firms have a lot of reach, they deal with the government all the time, they deal with the private sector all the time. It brings in a different level of scale to Ebix. So that's basically the kind of stuff that we are referring to.

I also believe, I specifically talked about telemedicine today and I do believe that there are transformative things that can happen in the in the telemedicine sector for Ebix. And to me an example of a transformative deal would be, if there is a large telecom provider who has got tens of millions of subscribers, if they decide to preload Ebix as a telemedicine exchange and they start promoting it aggressively to their audience, that's a transformative deal in my view because of the volumes that they bring to us. So those are the kind of examples that I was referring to.

Jeff Van Rhee ***- Craig-Hallum - Analyst***

And I guess just one last one. On the aspirational goals, I think you outlined a couple of pieces last quarter. Any updates there still comfortable with those, any tweaks that you're thinking about how those play out?

Robin Raina ***- Ebix - Chairman, President, CEO***

Jeff, as you know, I don't give guidance. I classified them as aspirational goals. My aspirations have only increased, they haven't come down. Let's put it this way. I feel very good about where Ebix is today and I think Ebix’s ambitions are much more defined right now, we are very aggressive, we feel we have momentum on our side. We would like 2016, for example, to be big deal for us and we do feel we have all the right ingredients to make that happen. So we are all going to keep our fingers crossed and keep looking through it. So as things happen, we are going keep announcing them. But right now, I feel good about where we are.

Jeff Van Rhee ***- Craig-Hallum - Analyst***

Okay, sounds good. Thank you.

Robin Raina ***- Ebix - Chairman, President, CEO***

Thank you.

Operator

(Operator Instructions). And I am showing no further questions at this time. I would like to turn the call back to management for any closing remarks.

Robin Raina *- Ebix - Chairman, President, CEO*

Thanks everybody. I think, we look forward to being again on the call and presenting our third quarter results. Thanks again. With that I will close the call. Thank you.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This concludes the program. You may now disconnect. Everyone have a great day.