

[Previous Page](#)

Is Ebix a Buffett Stock?

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Ilan Moscovitz
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As the world's third-richest person and most celebrated investor, Warren Buffett attracts a lot of attention. Thousands try to glean what they can from his thinking processes and track his investments.

We can't know for sure whether Buffett is about to buy **Ebix** (Nasdaq: [EBIX](#)) -- he hasn't specifically mentioned anything about it to me -- but we can discover whether it's the sort of stock that might interest him. Answering that question could also reveal whether it's a stock that should interest *us*.

In his most recent [10-K](#), Buffett lays out [the qualities he looks for](#) in an investment. In addition to adequate size, proven management, and a reasonable valuation, he demands:

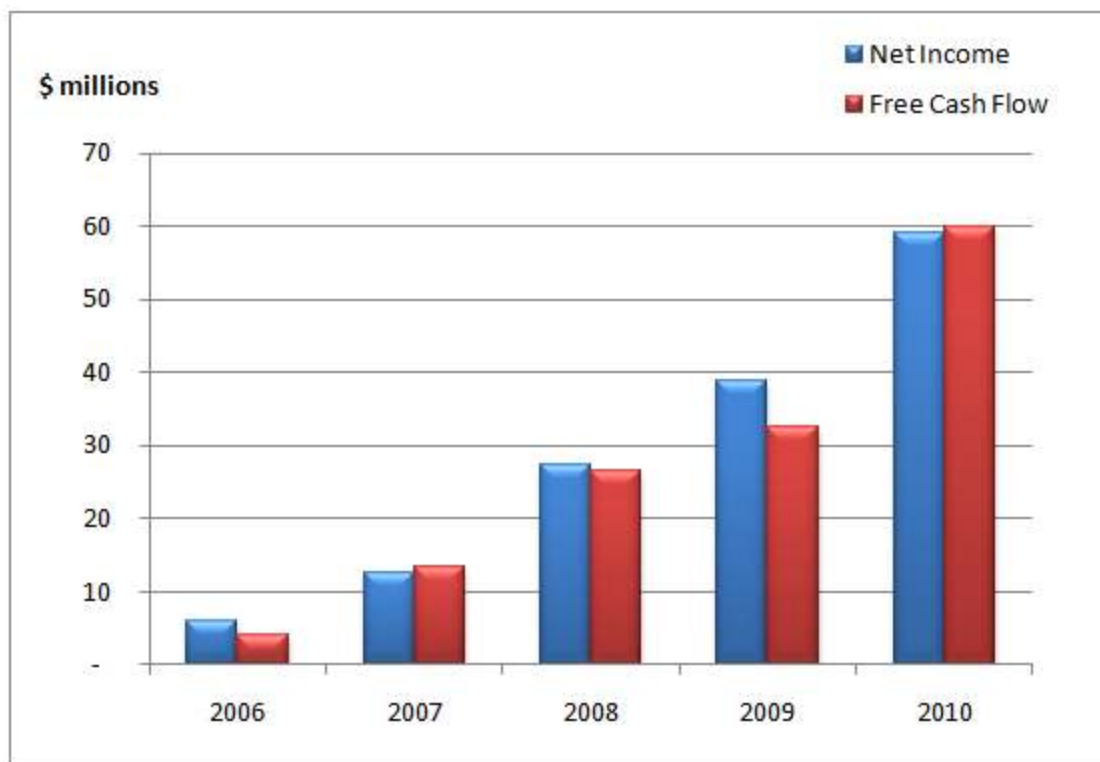
1. Consistent earnings power.
2. Good returns on equity with limited or no debt.
3. Management in place.
4. Simple, non-techno-mumbo-jumbo businesses.

Does Ebix meet Buffett's standards?

1. Earnings power

Buffett is famous for betting on a sure thing. For that reason, he likes to see companies with demonstrated earnings stability.

Let's examine Ebix's earnings and free cash flow history.



Source: Capital IQ, a division of Standard & Poor's. Free cash flow is adjusted based on author's calculations.

Over the past five years, Ebix has grown its earnings pretty significantly.

2. Return on equity and debt

Return on equity is a great metric for measuring both management's effectiveness and the strength of a company's competitive advantage or disadvantage -- a classic Buffett consideration. When considering return on equity, it's important to make sure a company doesn't have an enormous debt burden, because that will skew your calculations and make the company look much more efficient than it actually is.

Since competitive strength is a comparison among peers, and various industries have different levels of profitability and require different levels of debt, it helps to use an industry context.

Company	Debt-to-Equity	Return on Equity (LTM)	Return on Equity (5-Year Average)
Ebix	10%	24%	32%
Pegasystems (Nasdaq: PEGA)	0%	(2%)	5%
Bottomline Techlogies (Nasdaq: EPAY)	0%	3%	(4%)
Accelrys (Nasdaq: ACCL)	0%	0%	(2%)

Source: Capital IQ, a division of Standard & Poor's.

Ebix produces a high return on equity while employing limited debt.

3. Management

CEO Robin Raina has been at the job since 1999.

4. Business

Ebix's insurance exchanges require continual innovation, but the industry isn't particularly susceptible to technological disruption.

The Foolish conclusion

Regardless of whether Buffett would ever buy Ebix, we've learned that the company exhibits many of the characteristics of a quintessential Buffett investment: growing earnings, high returns on equity with limited debt, and tenured management.

To stay up to speed on the top news and analysis on [Ebix](#) or any other stock, simply [add it to your stock watchlist](#). If you don't have one yet, you can [create a watchlist of your favorite stocks](#).

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[Previous Page](#)