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The Long And Short Of Ebix

6/24/2010 7:55 AM ET

Only very few companies get a second chance at life after languishing in the red for several years, and fewer still are such turnaround companies, which go on to create new benchmarks in terms of performance standards.

Insurance software provider Ebix Inc. (EBIX), best fits the description of a phenomenal turnaround, as it has been making new benchmarks in profit, revenue and net margins since 2001 after reporting losses for more than twenty years at a stretch.

Read on to find out more about this Atlanta, Georgia-based international supplier of software and e-commerce solutions to the insurance industry.

Founded in 1976 as Delphi Information Systems Inc., the company adopted the name Ebix.com in 1999 and finally changed its name to Ebix Inc. in 2003.

Ebix provides a series of application software products for the insurance industry ranging from carrier systems, agency systems and exchanges to custom software development for all entities involved in the insurance and financial industries. With more than 30 offices across the U.S., Singapore, Australia, New Zealand, Brazil, India and Canada, Ebix powers multiple exchanges across the world in the field of life, annuity, health and property & casualty insurance while conducting in excess of \$100 billion in insurance premiums on its platforms.

The company's technology vision is to focus on convergence of all insurance channels, processes and entities in a manner such that data can seamlessly flow once a data entry has been made.

Ebix generates revenue primarily from subscription and transaction fees pertaining to services delivered over its exchanges, fees for business process outsourcing services, and fees for software development projects provided to customers with installed systems. Revenue is generated through four main channels - Exchanges, Carrier Systems, Broker Systems, and Business Process Outsourcing.

The company, which was once reeling under losses continuously, has been a consistent performer over the last many years, achieving outstanding financial metrics for growth, profits, margins etc. And

what's more, in 2009, the company was ranked the "4th fastest growing company" in the world by Fortune magazine.

... So what's driving growth at Ebix?

Robin Raina, who took over as CEO of Ebix in 1999, is credited with leading a turnaround at the company. In 1999, when Raina became the CEO, the company had 23 consecutive years of losses, with a loss of \$19 million that year. However, since then there has been no looking back.

Under Raina, the company has been reporting sequential growth not only in terms of earnings, but also in terms of revenues and net margins.

A look at the company's financial metrics from 2004 through 2009 shows that net income has grown at a rapid compounded annual growth rate, or CAGR, of 77.5% , while sales and net margins have increased at a CAGR of 37% and 27%, respectively. The company's fiscal year ends December 31.

Net Income/EPS

2004 - \$2.2 Mln/ \$0.08

2005 - \$4.3 Mln/ \$0.15

2006 - \$6.0 Mln/ \$0.21

2007 - \$12.7 Mln/ \$0.40

2008 - \$27.3 Mln/ \$0.76

2009 - \$38.8 Mln/ \$1.03

Revenue

2004 - \$19.98 Mln

2005 - \$24.10 Mln

2006 - \$29.25 Mln

2007 - \$42.84 Mln

2008 - \$74.75 Mln

2009 - \$97.72 Mln

Net Margins (after taxes)

2004 - 12%

2005 - 19%

2006 - 23%

2007 - 30%

2008 - 37%

2009 - 40%

The net income, EPS and revenue recorded in the first-quarter ended March 31, 2010 were the the highest in any one quarter that the company has reported in its 34-year history.

Net income for the first-quarter rose 48% to \$12.38 million while EPS increased 39% to \$0.32. Revenue for the quarter was up 53% to \$31.6 million and net margin rose 39%.

The exchange segment continues to be the company's largest revenue contributor - accounting for 72% of the revenue in the first quarter. The BPO channel accounted for 11% of Ebix' revenues, the P&C backend systems Broker Channel made up 9% and the P&C backend systems Insurance Company Channel contributed 8%.

Ebix' Life exchange processes nearly 16 million life sales illustrations every year while the company's annuity exchange powers in excess of \$40 billion in premiums annually in the United States. Ebix Exchange in Australia powers the majority of the electronic property & casualty insurance transactions.

Not being complacent, Ebix, which has emerged as the largest On-Demand Insurance Services Exchange in the world, is also progressing into the cloud-computing arena. The company unveiled its strategy for cloud-computing for the insurance market last month. Being one of the only players who can deliver a multitude of services while processing an end-to-end insurance transaction, Ebix believes it is uniquely positioned to play a major role using cloud-computing within the insurance industry.

Unlike other industries, insurance industry does not generate a big profit margin and there has been a steady increase in the desire to reduce paper based processes and improve efficiency both at the back-end side and also at the consumer end side among insurance companies. Ebix , which serves its agents and consumers efficiently, cost effectively, and without using any paper in the process, may address some of of the most critical spending priorities in insurance.

No wonder the company has a stable, predictable base of recurring revenues and a large, impressive customer base.

Ebix generates over 70% of its revenue from recurring sources and has a reputation for superior customer satisfaction as can be evidenced by a customer retention rate of over 99%.

The company has plans to deploy key initiatives and many new exchanges across the world this year. GR8, one of the most ambitious initiatives in the software industry and the insurance offering industry in the United States, is expected to be deployed this year. GR8 is intended to provide a state of the art On-Demand Backend system for Health, Employee Benefits, Life, Enrollment, Billing, and Accounting etc.

On a recent conference call, Raina revealed that the company is looking for organic growth that accompanies more than 40% in operating margins. Ebix is focusing equally on growth through acquisitions as well.

Ebix has also had significant success in making acquisitions. Early this year, the company set its base in Latin America with its strategic acquisition of Sao Paulo based MCN Technology & Consulting. MCN provides a wide array of IT products and services with the key one being Exchanges for pension and annuities, besides specialized Enterprise Integration Products, eBusiness Transactional Portals and Specialized Consulting, Implementation and Support Services to the insurance industry in Latin America.

Last month, Ebix acquired Houston-based Connective Technologies Inc., gaining access to the property & casualty exchange market in the United States, which is dominated by one player, Ivans Inc.

The U.S. accounts for about 38% of the \$1.5 trillion premiums conducted in the property and casualty sector worldwide. It is estimated that approximately \$59 billion a year is being spent on paper-based processes in the United States P&C insurance sector. The entry into property & casualty exchange market in the U.S. provides a big opportunity for Ebix.

One of the most strategic deals completed by Ebix last year was the acquisition of E-Z Data, a leader in CRM (Customer Relationship Management) solutions for insurance brokers, for \$50.35 million. The acquisition helped Ebix to achieve its vision of including CRM into the core fabric of the information exchanged in the insurance business.

As of May 3, Ebix had a cash balance of \$23.5 million and over the next 12 months, expects to generate cash flows of about \$50 million.

With sufficient cash on hand, Ebix is pursuing acquisition

opportunities in the areas of Health and Employee Benefits, Reinsurance Exchanges across the world and Compliance Exchanges that allow it to enter new markets like Exchanges for mutual funds, SEC and FINRA Compliance for Bank Assurance, Insurance Companies etc.

Earlier in the month, the company tripled the size of its stock buyback plan to \$15 million. Under the authorized share repurchase plans, the company has thus far purchased shares for a total aggregate consideration of \$5.9 million.

With an experienced executive management team headed by Raina, the company has not only effected a turnaround, but has also emerged as the leader in addressing many of the most strategic requirements of the insurance industry.

Looking ahead, Wall Street analysts have pegged earnings estimate at \$0.30 per share and revenue at \$31.81 million for the second quarter. For full year 2010, analysts are looking for earnings of \$1.24 per share and revenue of \$129.29 million. The estimated earnings and revenue of 2010 represent year-over-year growth of 20% and 32%, respectively.

Having adopted the mantra of growing revenue aggressively, but sensibly, Ebix is targeting an annualized revenue run rate of \$200 million by fourth quarter of 2011.

As the company continues to do well on all fronts, it will be no surprise if it keeps up with its trend of setting new benchmarks in terms of financial metrics in the coming quarters.

EBIX has 35.04 million shares outstanding and a float of 34.05 million. Of the total outstanding shares, 14.50% is held by insiders and 64% by institutions. The company has a short interest ratio of *25.5. (*Data as of May 28).

Stock Performance

The stock has run up pretty nicely since 2007 and is now seen pausing for consolidation. Quite surprisingly, the stock reacted only slowly and steadily to the improvement seen in the fundamentals of the company since 2001, largely trading range bound between \$0.40 and \$2.50 till 2006. Then followed a scintillating rally that helped the stock rise more than seven folds, although it was interspersed by a short-term downtrend in late 2008. Subsequently, the rally resumed at a faster pace, helping the stock settle at an all time closing high of \$21.92 in October 2009.

From the peak, the stock pulled back sharply in late 2009 and has settled itself in a range of \$14.30 and \$17.97. Technicals suggests near term weakness, with the stock's 200-day moving average rising

above its 50-day moving average in March. That said, the relative strength index shows that Ebix is now at a more neutral zone. As an added consolation, the stock has recently risen above its 50-day moving average of \$15.46, which may serve as a near term support level. On the downside, further support is available around the \$14.30 level. The stock may face resistance around \$16.01 and \$17.97. If the stock breaks above these levels, then it may go on to successfully challenge its peak.

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