



## EBIX – Still A Bargain With At Least 25% Upside Potential

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The shares of insurance software provide EBIX ([EBIX](#)) jumped more than 30% to \$21 a share in the last three trading days on large volumes. We believe that the stock is still undervalued and it has at least 25% upside potential.

About 18 months ago, when Goldman Sachs ([GS](#)) called off its merger deal to the buy the company at \$20 a share, the stock plummeted to \$8. We wrote on June 21, 2013, [EBIX is a deep bargain, announcing \\$100 million buyback](#). Since then the stock has gained 160%. It is now traded at 13 times of the distressed earnings of the company, far below the market average. If the stock is traded at its historical median P/E ratio of 16, the stock would be traded at \$26. Please look at the chart below:





If we look the earnings line (light green) in the chart above, from 2002 to 2012, EBIX was able to grow its earnings per share almost 100 times under the leadership of its CEO Robin Raina. Its stock price also appreciated from 30 cents to \$27, a gain of 9000%. The growth was disrupted by short attacks and its earnings growth stopped. Starting 2014, the company is getting back its original growth strategy. We won't be surprised the company will start growing again in the next several years.

When we wrote "[EBIX Is a Deep Bargain](#)", we reviewed the thesis of short sellers. Their short thesis made us more confident in our long thesis. Short sellers were arguing that EBIX might owe \$100 million to IRS. The recent settlement with the IRS turned out to be just \$1.4 million. Short sellers also said that [Warren Buffett \(Trades, Portfolio\)](#) or [Seth Klarman \(Trades, Portfolio\)](#) would not buy EBIX, and used that as the base for their shorts. This is laughable as Buffett and Klarman would not buy most of the companies in the market due to various reasons. EBIX is simply too small for Buffett. Shorter sellers then repeated their nonsense and published on influential media such as Bloomberg, caused the stock price to plummet many times. All of these turned out to be great time to buy and sell put options, which is exactly what the author of this article did and has profited handsomely.

EBIX could definitely have run its business better, which would have left no base for short attacks. But the company is getting things in order, especially with the addition of two independent directors from activist hedge fund Barington Capital. Barington wrote a [detailed letter to EBIX board of directors](#) in last November, provided a comprehensive plan to fight short sellers and getting business in order. We can see that things are going in the right direction. As activist investor, [Barington has pushed changes](#) in Darden Restaurants (DRI) before and has been quite positive for the company's stock performance.

As of Dec., EBIX stocks still has more than 45% short percentage of float. With the recent stock run-up, the short sellers are stuck in a deep hole dug by themselves. The company has been buying back shares, and most of the \$100 million share buyback is still outstanding. The company generates more than \$50 million of cash flow a year, and most of them can be used to acquire business, buy back shares and paying dividends.



In summary, we are very optimistic about EBIX, even after the 160% gain since our article in 2013. As the company comes back to its growth path, the long upside potential can be substantial. We will not sell any shares below \$30.


Disclosure: EBIX is the largest equity position in the personal portfolio of GuruFocus

founder Dr. Charlie Tian, who is the author for this article and [the article on June 21, 2013](#).

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**Mnakash** - 5 days ago

While I do still hold ebix, I was surprised to see the clip of their offices in India. My impressions from this clip on the management are not positive and may cause me to hurry and sell this stock as it approaches my estimate of intrinsic value (close to that concluded by the article headline).

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