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## Sometimes Bad News Is Good News: Ebix Entry

November 20, 2012 | [2 comments](#) by: Dustin Small | about: [EBIX](#)

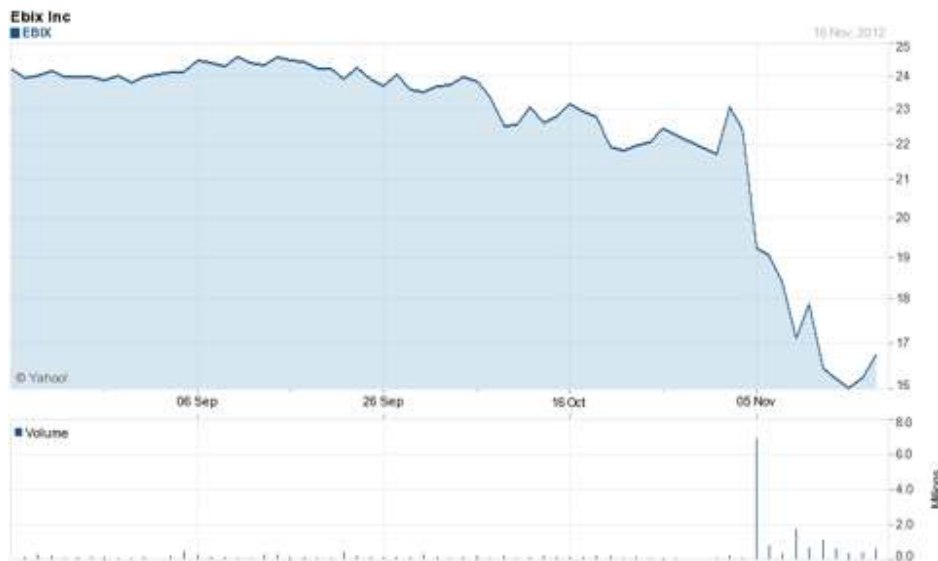
**Disclosure:** I am long [EBIX](#). (More...)

Back in September I wrote an [in depth article](#) where I examined **EBIX** ([EBIX](#)) with respect to investment quality and derived a valuation of \$26.87 per share. To improve returns on an investment, I always attempt to purchase stock at a discount to its current value. Based on that strategy, I targeted to initiate a position at between **\$18.81 to \$20.51** per share.

On November 5 Bloomberg published an [article](#) stating that EBIX is the target of an ongoing SEC probe into its accounting practices, citing four anonymous sources. The SEC has not confirmed nor denied these allegations, while EBIX's CEO Robin Raina [responded immediately](#) stating:

"The Ebix senior management team has not been advised of nor is it aware of any SEC investigation regarding the Company's previous filings. We stand behind the accuracy of our public filings. The Bloomberg article is inaccurate and misleading in many respects and we intend to evaluate all avenues of recourse."

As a result of this article, EBIX shares have dropped from around \$22 / share on November 5 to a recent low of around \$16 / share over the past week - a 27% drop. This is well under my target entry price, but is my original thesis that EBIX is a quality company still valid in light of the recent reports?



## Analysis

The question now becomes whether or not there is truth to these allegations. There are some that say that the report is completely false and that this is an attempt by short sellers to incite panic to profit on the resulting decline. There are obviously others who believe the reports and have closed their positions (hence the steep decline in share price). I believe, as is usually the case, that the truth probably lies somewhere in the middle.

EBIX reported earnings on November 8, with revenue reported to have increased 26% YoY, while net income grew 9%, however excluding a one-time gain in Q3 '11 net income grew 18% YoY. Management also announced a 50% dividend increase to \$0.075 per share for a yield of 1.8%.

I still feel that EBIX is a quality company and believe that even if there are some accounting discrepancies to be found, the sell-off has been overdone and this presents a buying opportunity. I initiated a position during the sell-off on November 5th, entering at \$18.81 and added to the position again on November 16th at \$16.23 per share.

For tracking purposes, let's assume the following (my actual trade sizes were different):

Date	# shares	Value
Nov. 5	1000	\$18,810
Nov. 16	1300	\$21,099
<b>TOTAL:</b>	2300	\$39,909

This represents an average cost per share of \$17.35 and based on Monday's (Nov. 19) trading price of \$16.81 I am currently showing a loss of \$1,242 or 3.2%.

If my theory is correct and EBIX does at some point in the future return to my valuation of \$26.87 per share, and assuming I do not add to or remove from the position in the meantime, we would achieve a profit of \$21,896 or 54%. Let's see how this plays out going forward.

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The author did show some good analysis skills in the previous article, but unfortunately he just picked a wrong target. As I commented in his previous article, it makes NO SENSE to analyze the data that could be faked by the company.

The bottom line is that, at this moment, anyone who decides to long ebix should first either wait for SEC's confirmation, or do your own homework to determine if the data was faked or not.

20 Nov, 01:27 PM Reply Like 0



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Wait for SEC confirmation? You'll wait forever. It is written SEC policy not to comment. Shorts and even the article writer would know that. However, it couldn't be 4 individuals from the SEC itself; their employment would be terminated for giving out such information. If anyone thinks that 4 individuals showed up at the same time at the door of the writer without being driven there in the short's limo, I would have to say that they are likely mistaken. It's more likely that the short handed the writer the so called information. The article states that the SEC has been investigating EBIX over the last year. About the time of the Copperfield Research so called report? If the SEC was truly investigating, they would have subpoenaed the business records by now. Also look at the timing of the publication of the Bloomberg article, Just before earnings. This was planned, planned, planned, that is, if you don't believe in coincidence. I only believe in planned coincidence and mathematical probability.

20 Nov, 03:07 PM Reply Like 1



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