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## Is Ebix a Buffett Stock?

<http://www.fool.com/investing/general/2012/03/01/is-ebix-a-buffett-stock.aspx>

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March 1, 2012

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 this series, we do just that.

Writing in a 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:

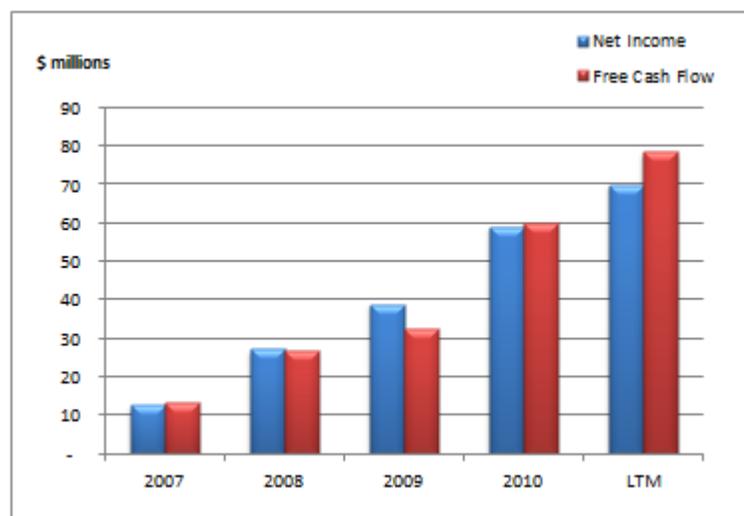
1. Consistent earnings power.
2. Good returns on equity with limited or no debt.
3. Management in place.
4. Simple, non-techno-mumbo-jumbo businesses.

Although the company may be too small for Buffett to actually invest in, 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: S&P Capital IQ.

Over the past five years, Ebix's earnings and free cash flow have grown dramatically.

### 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 is.

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

Ebix generates a high return on equity -- 27% over the past year, 32% on average over the past five years -- while employing a tiny debt-to-equity ratio of 9%.

### **3. Management**

CEO Robin Raina has been at the job since 1999. Prior to that, he was at a consulting firm before coming to Ebix to help run its sales. He also had a brief stint as chief operating officer.

Buffett also highlights the importance of honest and competent management. There have been some concerns raised about Ebix's accounting, and the company has defended itself. Though I don't personally consider the worries to be sufficiently serious (I own some shares of Ebix), Buffett would certainly need to feel comfortable with management.

### **4. Business**

Ebix is trying to disrupt the market for purchasing insurance with its broker data exchanges. While there are network effects involved, Buffett might be a bit wary about the model to the extent that Ebix needs to remain technologically superior to competitors (and potential competitors).

### **The Foolish conclusion**

So is Ebix a Buffett stock? It's an interesting question with a mixed answer. The economics of the business certainly have everything that Buffett could love: consistent or growing earnings and high returns on equity with limited debt. And it's certainly got tenured management. Buffett would still need to feel comfortable with management and with threats that could be posed by the potential for technological change in the industry.

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