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## Is Ebix a Buffett Stock?

<http://www.fool.com/investing/general/2011/05/29/is-ebix-a-buffett-stock.aspx>

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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:

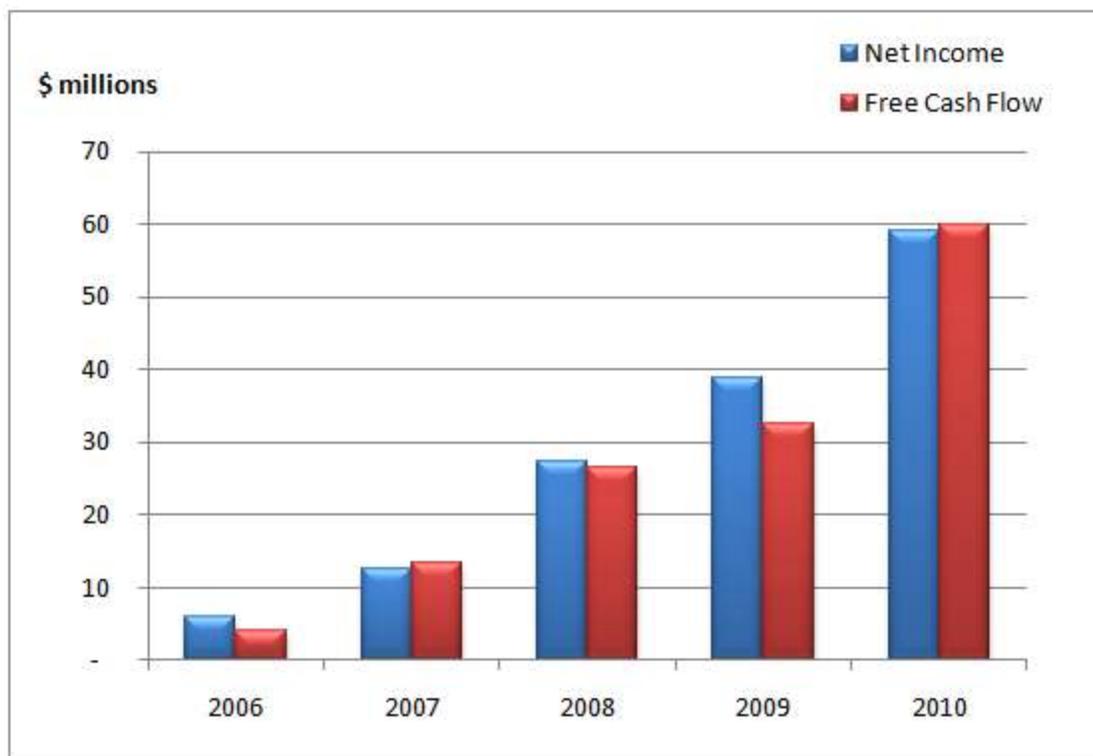
1. Consistent earnings power.
2. Good returns on equity with limited or no debt.
3. Management in place.
4. Simple, non-techno-mumbo-jumbo businesses.

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%
<b>Pegasystems</b> (Nasdaq: <a href="#">PEGA</a> )	0%	(2%)	5%
<b>Bottomline Techlogies</b> (Nasdaq: <a href="#">EPAY</a> )	0%	3%	(4%)
<b>Accelrys</b> (Nasdaq: <a href="#">ACCL</a> )	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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