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Ebix, Inc.: Likely to Beat Expectations [1 comment](#)

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October 21, 2009 | about: [EBIX](#)

Ebix Inc. ([EBIX](#)) has been an incredible investment this year. The shares began 2009 trading in the mid-20's before hitting a low of \$17.12 in the early days of March. Since that time, the stock has rallied 279% to its most recent close of \$64.91 and the stock could still have farther to go. Estimates for earnings continue to be ratcheted higher, and even yesterday after an incredible rally, the valuation still looks relatively attractive.

The software and services company has developed a strong business serving the needs of insurance companies across the United States. Their solutions cover a wide range of technology needed by groups and independent agents, and the expertise has allowed the company to carve out quite an attractive niche and grow market share. Now that the company has proven successful and grown into a market leader, Ebix has its sights set on a much larger target market.

On October 1, the company announced that they have agreed to purchase E-Z Data for the tidy sum of \$50.35 million. The terms require half of the payment to be in cash, and half in stock with Ebix essentially guaranteeing a floor price for the shares at a 10% discount should the shares lose value over the next two years. E-Z Data is one of the leaders in CRM solutions for insurance brokers and the acquisition helps to round out the technology offering that Ebix can sell to clients.

According to the press release, Ebix is expecting the deal to be immediately accretive and add significant value for shareholders over the years. The new product line will not only allow Ebix to offer new services to their existing clients, but actually allows Ebix to get their foot in the door serving banks, investment dealers, agents and financial advisors.

This is one of our most strategic acquisitions since this will provide us access to a majority of the life and annuity brokers' desktop in the United States. We have always had the vision to include CRM into the core fabric of the information exchanged in the insurance business. E-Z Data CRM when blended into our life and annuity exchanges provides the insurance industry with a giant leap forward, in terms of making end-to-end, enterprise-wide information exchange rather seamless for the majority of the industry. ~Robin Raina, Chairman, President and CEO

Ebix should have a good idea of a baseline for future revenue from this acquisition. E-Z Data has an existing revenue base that is primarily subscription based and 85% of all revenue is expected to be recurring. So even if Ebix does nothing to improve on the business, they should have an attractive business on their hands. Looking down the road as Ebix sells CRM solutions to existing clients, and internet based services to the new list of E-Z Data, there should be significant synergies driving earnings much higher.

Currently, analysts are expecting the company to earn \$2.93 per share in 2009, which represents 29% growth over last year. The company has been growing earnings steadily for years with earnings at \$0.07 in 2002. While the growth rate may decline a bit due to the magnitude of the company's current earnings, Ebix can still be considered an aggressive growth company and the stock should continue to trade with a healthy multiple.

In a decision that shows confidence in future growth, management recently announced that they will offer a 3 for 1 stock split which will bring the shares back down to roughly \$21 per share. The transaction is expected to take place at the end of November, so the stock could actually be significantly higher by that time. With a low debt level and positive cash flow, the company could easily look for additional strategic acquisitions and their financial stability is quite impressive. Its customer base is relatively healthy as most insurance companies are recovering from the turmoil of last year and the diversification into the financial industry will help as well.

Analysts are expecting earnings to come in at \$3.63 next year and Ebix may very well perform above expectations. Considering the expectations are correct, and using a conservative multiple of 25, we could still expect the stock to cross above \$90 in the next 6 to 12 months. Any further accretive acquisitions or growth surprises could lead to much larger gains. So while the stock may be extended, and it may make sense to watch for a pullback, the future looks bright for Ebix and its investors.



Disclosure: Author does not have a position in EBIX