Understanding Ebix's Growth Strategy

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Disclosure: I am long [EBIX].

Ebix ([EBIX]) may grab the title as the most misunderstood stock in the Nasdaq, and EBIX's Robin Raina the least understood CEO. A host of negative articles (Seeking Alpha's [Copper field research], [Barrons], and others) have caused a considerable drop in the stock price.

Let me focus more on the EBIX's growth strategy. The critics major complaints are:

1. EBIX is nothing more than a rollup with slash/burn strategy; and
2. EBIX has little or no organic growth.

I took some time to compile and analyze all EBIX's acquisitions between 2006 and 2011. The numbers paint a different picture. Between the years 2006 and 2011, EBIX has acquired 17 companies (as publicly reported) spending $277 million. Most of the acquisitions have been done using cash flow from operations. Very little debt was used. The debts are mostly short term bank debt and are repaid within a few quarters. Any additional share issuance for acquisitions have been more than compensated by share buybacks.

The screen shot below gives the cash spent on acquisitions. The revenues of companies acquired are not available for all acquisitions. An assumption is made to account for the revenues (shown in grey fill, revenues = amount spent on acquiring/2.5)

Note: The numbers are in 1000s and are from the SEC filings of EBIX:

Cash flows from investing activities:	2012	2011	2010	2009	2008	2007	2006	2005	Revenues at time of acquisition
ADAM		69,529							28,000
MCN		381	2,931						1,270
Trades Monitor			2,749						1,100
Connective Technologies			1,337						1,300
USIX			7,131						250
e-Trek			1,011						404
IDS				1,000		11,253			110
Health Connect Systems		17,945							5,800
Periculum			6	200	1,067				509
Acclamation				85	21,388				9,300
Confirmnet		184	2,975	3,279	7,294				4,500
Facts services		12	11	6,215					2,495
Peak Performance				7,894					3,500
EZ Data				50,000					8,000
Telstra					42,968				14,381
Infinity					500	2,870	3,049		2,568
Finetre						15	12,042		4,823
Planet soft	40,000								
Trisystems	?								
Fintechnix	5,430								
Total revenues from acquisitions									88,310
Total amount spent on acquiring		88,051	18,151	68,673	73,217	14,138	15,091		277,321

What is remarkable is that EBIX spent $277 million to acquire 17 companies, getting $88 million revenue. With 40% post tax margin, assuming zero growth and no synergy, we get a 13% earnings yield (roughly same as the cash flow yield). All this increase in revenue has been without diluting the common stock holders. Take a look at this table:

Year		2011	2010	2009	2008	2007	2006	2005
Revenue/diluted share count		4.13	3.39	2.57	2.36	1.36	1.04	0.86
Diluted share count (adj for splits) in '000		40,889	39,018	38,014	31,608	31,608	28,233	28,089

Let's come to the synergy/organic growth part to understand the value addition by EBIX's management team.

	numbers in 1000's
Base 2005 revenues	$24,100
Total revenues from acquisitions (06 to 11)	$88,310
Revenue for 2011	$ 168,969
Synergy + growth	$56,559

In many of the quarterly conference calls, CEO Raina talks about up-sell/cross-sell opportunities. The proof of that is in the $56MM value addition. This accounts for up-sell/cross-sell, organic growth etc. EBIX has shown a 7 times jump in revenue over 6 years. If this isn't impressive, then I don't know what is.

And wait, it gets even better. Most of the companies that EBIX acquired had little or no profit. We've bunch of fat cat CEO's and expensive VPs adding little value at the acquired companies. Raina cuts the fat, streamlines the organization and brings in an unheard of 40% post tax margin. The cash flow from operations mirrors the net income, there by showing that there's no funky accounting going on.

EBIX doesn't fit in the traditional mold of a software company. The typical software firm pursues a growth strategy, diluting stock with little or no free/operating cash flow to show for. One needs to have a different mindset to understand EBIX. The best analogy is Teledyne. It took Wall Street a decade to understand Teledyne's CEO Terry Singleton's actions. But in the end, the shareholders enjoyed 20% returns (compounded) over two decades.

When Robin Raina became a CEO a decade back, the EBIX (formerly Delphi Information Systems) was a leaking row boat. Now after a decade, it resembles a cruising *USS Constitution*. In a decade from now, it'll look like the *QE2*.

I recently read "The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success". Robin Raina has the attributes of the CEO's mentioned in this book.

Those attributes are:

- Having a strategy and sticking to it
- Buying back stock when it is cheap
- Acquiring companies at the right price
- Ignoring Wall Street and analysts
- Having significant ownership and acting in the best interest of the shareholders

The future of EBIX is bright, and the patient investor who ignores the market noise will be rewarded.

Sources: All the data shown in the article are compiled from SEC filings of EBIX, here and here. Dun & Bradstreet data was used for getting revenues of acquired companies.