

Seeking Alpha α

Ebix Stands Out in the Insurance Software and Services Industry

by: ZenPrime

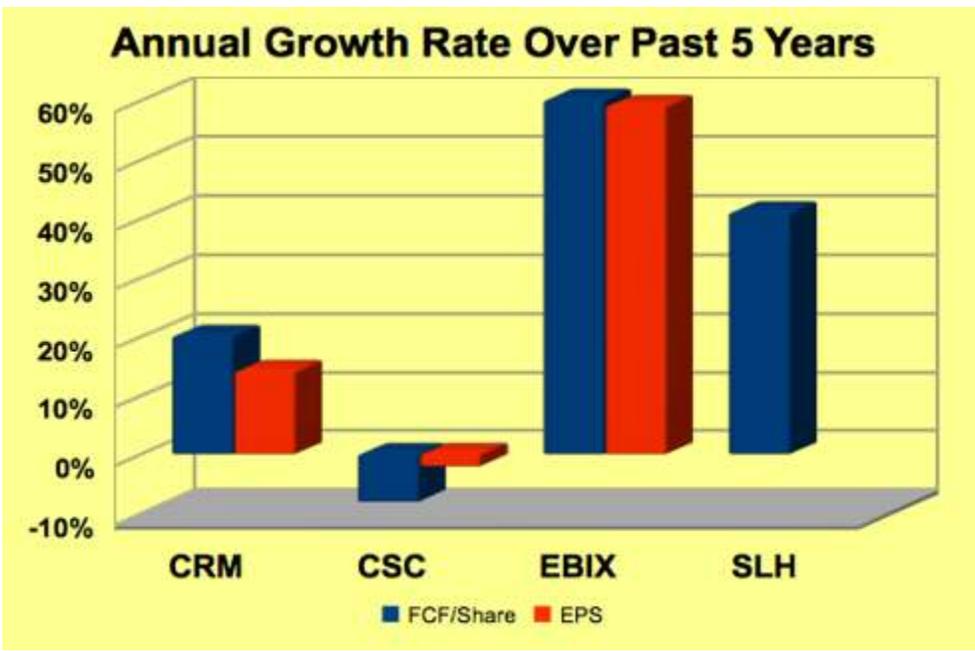
May 15, 2011 | about: [CRM](#), [CSC](#), [EBIX](#), [SLH](#)

We looked at several software and services companies relating to the insurance industry, and analyzed their fundamentals to see if we can identify any potential investment opportunities. The companies we investigated were Salesforce.com ([CRM](#)), [CSC](#), Ebix, Inc. ([EBIX](#)), and Solera Holdings, Inc. ([SLH](#)). Not all of the companies are fully invested in servicing the insurance industry and they span market caps, ranging from \$700M (EBIX) to \$17B (CRM). However, they all provide software or solutions to the insurance industry and we believe they have enough similarities to make an interesting comparison.

Using our software, we first calculated the intrinsic value of the companies using analysts' estimates of the next 5 year's growth rates with the following results:

Insurance									
	Intrinsic Value		Valuation Ratios		Investment Return		Debt & Liquidity Ratios		
	Company	Price	Average Intrinsic Value	Price/Intrinsic Value	Intrinsic Value EPS	Initial EPS Growth	Intrinsic Value DCF	Initial FCF Growth	Intrinsic Value Graham
1	CSC	44.66	68.83	64.9%	50.87	8.0%	44.01	8.0%	111.60
2	EBIX	19.78	30.46	64.9%	22.07	15.0%	19.11	15.0%	50.18
3	SLH	57.74	33.23	173.7%	17.14	18.0%	36.49	18.0%	46.07
4	CRM	134.91	21.77	619.7%	10.63	25.0%	30.96	25.0%	23.72

For reference, the annual growth rates for the past 5 years are shown below:



Note: FCF/Share growth rate for SLH is over last 4 years. EPS growth could not be calculated due to negative EPS 4 and 5 years ago.

The analysis shows that EBIX and CSC appear to be the companies trading at a large discount to their intrinsic value. CRM, on the other hand, appears to be trading at a huge premium to its intrinsic value.

Looking at the other valuation ratios, we get the following:

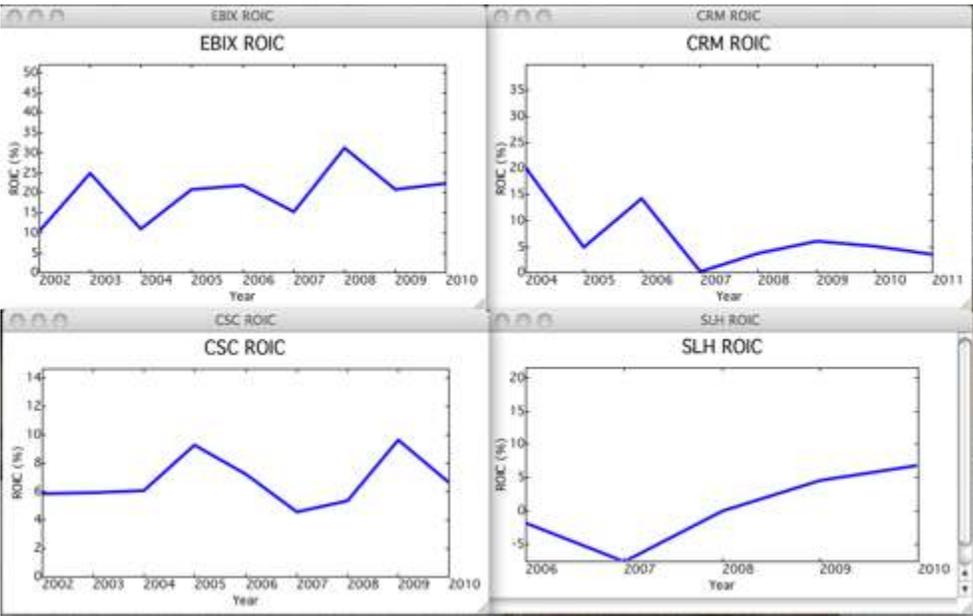
Insurance									
	Intrinsic Value	Valuation Ratios		Investment Return			Debt & Liquidity Ratios		
	Company	Price	Price/ Intrinsic Value	PE	PEG	EV EBITDA	Price Book	Price Sales	Price FCF
1	CSC	44.66	64.9%	8.40	1.06	3.41	0.98	0.43	9.65
2	EBIX	19.78	64.9%	13.10	0.87	13.31	3.34	5.84	15.13
3	SLH	57.74	173.7%	48.12	2.67	16.43	6.85	6.46	24.64
4	CRM	134.91	619.7%	287.04	11.48	67.77	14.44	11.12	101.74

CSC seems to be the value pick based on these metrics, with an EV/EBITDA much less than our value target of 7, selling for close to book value and having a PEG close to one. While the other metrics exclude us calling it a pure value stock, EBIX is notable as the one company in this bunch that is sporting a PEG less than 1.

We next looked at the analysis of investment return:

Insurance									
	Intrinsic Value	Valuation Ratios		Investment Return			Debt & Liquidity Ratios		
	Company	Price	Price/ Intrinsic Value	ROIC	ROIC Growth	ROE	ROE Growth	ROA	ROA Growth
1	CSC	44.66	64.9%	6.6%	3.0%	12.7%	6.4%	5.0%	6.4%
2	EBIX	19.78	64.9%	22.3%	26.1%	25.5%	26.7%	19.5%	37.2%
3	SLH	57.74	173.7%	7.0%	0.0%	16.7%	0.0%	6.2%	0.0%
4	CRM	134.91	619.7%	3.6%	0.0%	5.1%	-14.0%	2.1%	0.0%

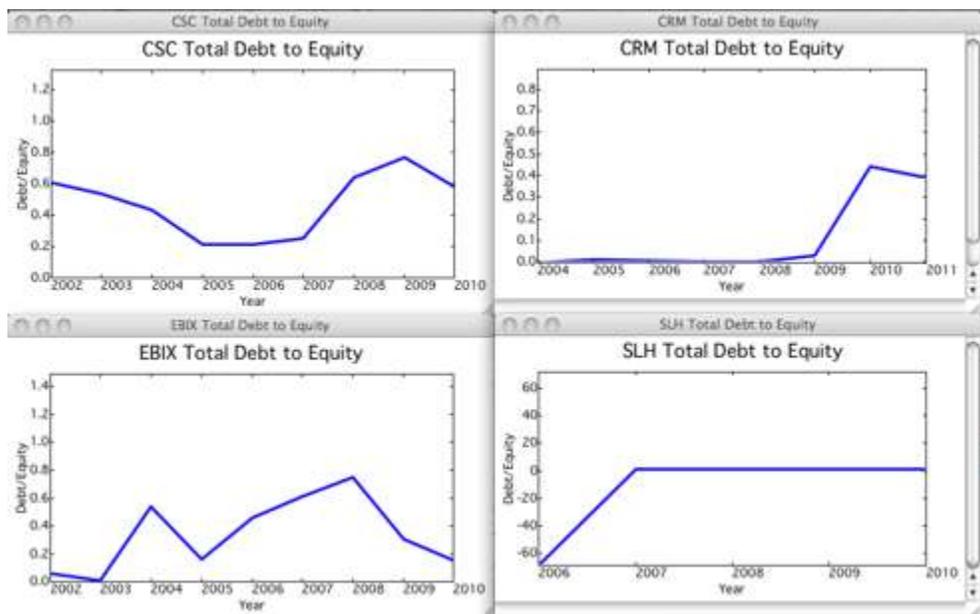
We like to see returns on invested capital above 15%. Higher returns on investment are an indicator that management is running the business efficiently. Of these stocks, only EBIX has ROIC above 15%. Looking at past history, EBIX is also the only one of the stocks to be consistently not only above 15%, but consistently in the double digits.



Finally, looking at the debt and liquidity analysis we get the following:

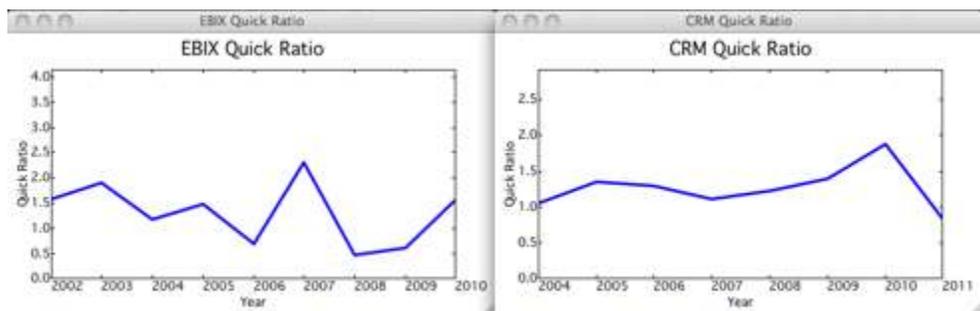
Insurance							
	Intrinsic Value	Valuation Ratios	Investment Return	Debt & Liquidity Ratios			
	Company	Price	Price/ Intrinsic Value	LT Debt/ Equity	Total Debt/ Equity	Current Ratio	Quick Ratio
1	CSC	44.66	64.9%	0.33	0.39	1.78	1.78
2	EBIX	19.78	64.9%	0.11	0.15	1.56	1.56
3	SLH	57.74	173.7%	0.94	0.95	3.39	3.39
4	CRM	134.91	619.7%	0.39	0.39	0.84	0.84

All companies in this group have relied to some extent or another on debt to finance their business.



EBIX is the one company in this group of stocks that has significantly reduced their debt load over the past several years.

For companies financing with debt, we hope to see current and quick ratios well above 1. CRM is the only company with current and quick ratio less than one and, looking at its history, the decline in these ratios seems to coincide with their increase in debt over the last couple of years. This stands in contrast to EBIX, which had less than optimal current and quick ratios the past few years but has significantly improved their situation by reducing their debt load.



Our analysis has focused solely on the fundamentals of these four stocks. Looking at these fundamentals, we believe that, while CSC appears to be the value stock of this group, EBIX is the company showing the best combination of high returns on invested capital, sound balance sheet, excellent growth history. On top of this, EBIX appears to be selling at a decent discount to its intrinsic value.

CRM on the other hand, appears to be priced at quite a premium given the state of its balance sheet and low returns on investment, and thus the least attractive of these four stock on a fundamental basis.

Disclosure: I am long EBIX.