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Is Ebix the Perfect Stock?

<http://www.fool.com/investing/high-growth/2011/06/06/is-ebix-the-perfect-stock.aspx>

Dan Caplinger
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Every investor would love to stumble upon the perfect stock. But will you ever really find a stock that provides *everything* you could possibly want?

One thing's for sure: You'll never discover truly great investments unless you actively look for them. Let's discuss the ideal qualities of a perfect stock, then decide if **Ebix** (Nasdaq: [EBIX](#)) fits the bill.

The quest for perfection

Stocks that look great based on one factor may prove horrible elsewhere, making due diligence a crucial part of your investing research. The best stocks excel in many different areas, including these important factors:

- **Growth.** Expanding businesses show healthy revenue growth. While past growth is no guarantee that revenue will keep rising, it's certainly a better sign than a stagnant top line.
- **Margins.** Higher sales mean nothing if a company can't produce profits from them. Strong margins ensure that company can turn revenue into profit.
- **Balance sheet.** At debt-laden companies, banks and bondholders compete with shareholders for management's attention. Companies with strong balance sheets don't have to worry about the distraction of debt.
- **Money-making opportunities.** Return on equity helps measure how well a company is finding opportunities to turn its resources into profitable business endeavors.
- **Valuation.** You can't afford to pay too much for even the best companies. By using normalized figures, you can see how a stock's simple earnings multiple fits into a longer-term context.
- **Dividends.** For tangible proof of profits, a check to shareholders every three months can't be beat. Companies with solid dividends and strong commitments to increasing payouts treat shareholders well.

With those factors in mind, let's take a closer look at Ebix.

Factor	What We Want to See	Actual	Pass or Fail?
Growth	5-year annual revenue growth > 15%	42.6%	Pass
	1-year revenue growth > 12%	29.5%	Pass
Margins	Gross margin > 35%	80.1%	Pass
	Net margin > 15%	43.9%	Pass
Balance sheet	Debt to equity < 50%	10.2%	Pass
	Current ratio > 1.3	1.77	Pass
Opportunities	Return on equity > 15%	23.6%	Pass
Valuation	Normalized P/E < 20	17.84	Pass
Dividends	Current yield > 2%	0%	Fail
	5-year dividend growth > 10%	0%	Fail
Total Score		8 out of 10	

Source: Capital IQ, a division of Standard & Poor's. Total score = number of passes.

With a score of eight, Ebix does as well as a nondividend-paying stock can do on this scale. Yet

despite its obvious financial strength, the shares have done an about-face recently after soaring for a long time.

In the rough and tumble world of insurance, Ebix has sought to be a [game changer](#). If you've ever shopped for insurance, you know how difficult it can be just to get a simple price quote. Your insurance broker has to talk with insurance carriers, which in turn move information between customer reps and underwriters to come up with a price. Meanwhile, once you get coverage, the company may need to get reinsurance to hedge its risk. All those players are a nightmare for those wanting quick answers.

In simple terms, Ebix's software solves that information bottleneck. Just as [broader-based enterprise software companies](#) such as **salesforce.com** (NYSE: [CRM](#)) and **VMware** (NYSE: [VMW](#)) and [cloud hosting company Rackspace](#) (NYSE: [RAX](#)) have revolutionized the way businesses handle information, Ebix gives the insurance industry a way to streamline its operations. And unlike **InsWeb**, which operates an online insurance marketplace, Ebix's products are used within established networks of insurance companies and brokers, ensuring that players throughout the industry see Ebix as a facilitator rather than a competitor.

But some people think that Ebix's story is too good to be true. In March, an anonymous team of stock researchers [bashed the company](#), calling into question its accounting practices, tax strategy, and management team. Since March, the stock has lost [more than 40%](#) of its value.

There's no doubt that Ebix has plenty of risk. But thanks to recent skepticism, shares now trade at a big discount to where they were just a few months ago. Ebix may not be perfect, but it's an attractive enough story to warrant closer attention.

Keep searching

No stock is a sure thing, but some stocks are a lot closer to perfect than others. By looking for the perfect stock, you'll go a long way toward improving your investing prowess and learning how to separate out the best investments from the rest.

[Click here](#) to add Ebix to My Watchlist, which can find all of our Foolish analysis on it and all your other stocks.

Finding the perfect stock is only one piece of a successful investment strategy. Get the big picture by taking a look at our [13 Steps to Investing Foolishly](#).

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