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Ebix: Insurance for your portfolio

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Few sectors have been spared by the recent bear market, and technology is no exception. With the Dow Jones Technology Index down 16% year-to-date, **Ebix, Inc.** (NasdaqGS:[EBIX](#) - [News](#)) has been one of the rare bright spots in 2008 in an otherwise discouraging industry.

Formerly started as Delphi Information Systems in 1976, the company, which changed its name in 2003, provides application software products for the insurance and financial service industries. It consists of a few hundred financial and technology consultants that work with clients to create systems that are customized for their clients' e-commerce needs. Ebix designs products such as carrier systems, agency systems and exchanges.

The Atlanta-based small cap has experienced explosive growth and has been a remarkable success for its shareholders. Now at market cap \$276 million, Ebix has seen its shares climb about 85% over the past 52 weeks and more than 1,000% over the past five years. This success has not gone unnoticed. In just the past month, the company was selected to join the Russell 2000 index and also was named one of the 100 fastest growing small public companies in the United States by *Fortune Small Business* magazine.

In May, company management reported a blow-out first quarter in which EPS reached the highest level in the organization's 32-year history. Diluted EPS for the quarter surged 129.5% on a year-over-year basis and quarterly revenue rose by 84.5%. A major contributor to this growth was the company's recent acquisition of Telstra eBusiness that occurred in January of this year. Going forward, Ebix expects Telstra to continue to fuel top-line and bottom-line growth at Ebix.

Other positive developments for Ebix during the quarter included operating margins improving to 34% versus 22% in the year-ago quarter, and a 36.4% improvement in revenue versus the company's fourth-quarter results.

The momentum that Ebix has generated has caught the eye of Jim Oberweis, editor of *The Oberweis Report*, and manager of multiple mutual funds. He originally recommended buying the stock in his March newsletter at \$76. On Friday, shares of Ebix had closed at \$87.15. They have traded as high as \$99 per share as recently as early May.

Oberweis is expecting the company to finish 2008 with EPS of \$5. Should this forecast materialize, it would represent a staggering 38.5% climb over the company's 2007 EPS. Oberweis is then looking for Ebix to grow its EPS by another 30% in 2009.

Ebix has a seasoned management team in place that is extremely confident in the direction that the business is headed. CEO Robin Raina has been with the company for a little over a decade and has been in the position of CEO since 1999. His bullish sentiment toward the future of Ebix has been backed with cash and action. The company used \$43 million in cash to fund the acquisition of Telestra and still had \$13.6 million on hand at the end of the first quarter. Last month, Ebix reaffirmed its \$5 million share repurchase plan and also announced that it might expand the buyback plan to a total of \$10 million.

In terms of risks to Ebix, a trend to keep in mind is the company's declining support revenue and its ability to develop new revenue streams. The company's support revenue relates to the support services it provides in connection with its legacy software products. In 2007, support revenue decreased by 22%. Fortunately, support revenue only accounted for 7.2% of total company revenue in 2007 and management appears to be successfully navigating through this transition phase. A few years back, the management team made a strategic decision to cease its reliance upon support revenue and focus its efforts on more current technology and services.

In light of its addition to the Russell 2000 and the recognition that Ebix received from Forbes, this decision, along with a host of other sound, strategic decisions that the company has made are paying off in a big way. No one likes being sold insurance, but this may be one time investors should sit through the spiel.