

Seeking Alpha α

Ebix: Solid Management Setting Up for Fast Growth

by: Harry Long

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Ebix ([EBIX](#)) just had another outstanding quarter. Revenue was up 44% year-over-year, while diluted EPS was up 50%.

I am extremely impressed with Ebix's growth. With GDP growth extremely sluggish, it is rare to find a publicly traded U.S. company that can grow revenues, earnings, and cash flows at such a high rate. It is rarer still to find such a company trading at 15X earnings. As [I said](#) on April 20th, I think Ebix's valuation is one of the great inefficiencies in this market.

When examining Ebix and other companies in the knowledge-based economy, it is striking to see a clear growth trend persist which continues to separate technology firms. Hardware/manufacturing firms such as China's BYD, which has been arguably one of the great tech growth stories (as highlighted by Li Lu), have recently hit bumps in the road, while software (or IT) based firms such as Ebix, Baidu ([BIDU](#)), Intercontinental Exchange ([ICE](#)), Salesforce.com ([CRM](#)), Cognizant ([CTSH](#)), MercadoLibre ([MELI](#)), Priceline ([PCLN](#)), NetFlix ([NFLX](#)) et al have continued to grow at an enormous rate, with great consistency.

The trend has nothing to do with the quality of the technology or the management. All are first rate. BYD's Wang Chuan-Fu has been called another Thomas Edison. The trend is a continuation of the old observation that hardware-based firms, due to the vagaries of capital investment, manufacturing, inventory, etc tend not to achieve quite the rate of growth nor the consistency of cash flows of software based firms over long time periods. Simply put, the laws of physics itself make selling bits easier and more profitable than selling atoms, everything else being equal.

I would argue that the Microsoft/Oracle/Google paradigm still holds. For truly extraordinary potential gains, one should find a brilliant entrepreneur/manager who runs a software firm. Find him or her early, and get the business at a reasonable price. Hold said businesses until it stops growing rapidly. Then repeat. Ebix CEO Robin Raina may be such an entrepreneur/manager. He inherited a very tough situation at Ebix, and turned it into one of the premier growth stories of the last decade. The stock has massive growth, and a reasonable price. It is still relatively small at under \$700 million in market cap. More over, Raina has shown that he can grow Ebix organically and also grow successfully through acquisitions.

The major question is: can Ebix become a multi-billion dollar market cap software firm? When one examines Robin Raina's track record and his skill set, I believe the answer is yes.

Disclosure: Long EBIX, PCLN, MELI, BIDU, CTSH, ICE, NFLX, CRM