

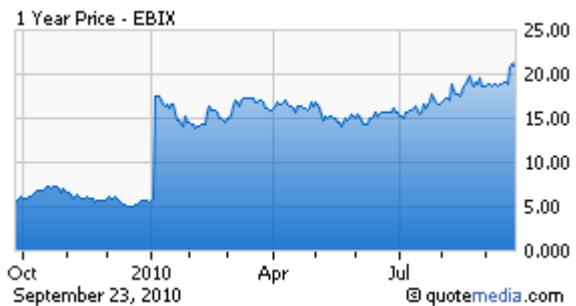
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Ebix Continues to Shine

by: Harry Long

September 24, 2010 | about: [EBIX](#)

In my "High Conviction" [interview](#) for SeekingAlpha on April 20th, I called Ebix "one of the great inefficiencies in this market." Since then, Ebix has posted stellar earnings and revenue growth. In addition, its stock has appreciated over 33% from \$16.30 a share on April 20th, to \$21.79 a share today on September 23rd, as of this writing.



On Monday, Ebix jumped 8.92% on very heavy volume, perhaps fueled in part by short covering (but one never really knows for sure).

In my April 20th interview, I estimated that Ebix would generate \$40-\$55 million in cash flow next year. In the next earnings release after my interview was published, Ebix said "The Company believes that at its present income rate, it expects to generate cash flows of approximately \$50 million over the next 12 months."

Since then, Ebix announced another strong quarter of growth, and later, the acquisition of A.D.A.M. Like Steve Jobs, I think Robin Raina is following in the time-honored tradition of under-promising and over-delivering. Robin is a shrewd guy, and as such, my instincts tell me that's his model. In an admittedly totally unscientific method of reviewing earnings, sales, cash flow, and acquisition trends, my best estimate (spelled "wild guess") for Ebix's cash flow in 2011 would be roughly \$60 million.

I understand that this is far above Ebix's own \$50 million guidance for the next 12 months. However, when I look at Robin Raina's history of strongly disliking (correctly so) giving guidance, he must be extremely sure that Ebix can easily hit \$50 million in the next 12 months to have put it in writing. And this was before Ebix's acquisition of A.D.A.M.

If my "guesstimate" of \$60 million in cash flow for fiscal year 2011 is correct, that puts Ebix's valuation at a bit over 12.5X forward 2011 cash flow, which is remarkably cheap for one of the fastest growing companies in the U.S. Realistically, Ebix should have a \$1 billion market cap if it delivers on my guesstimate and should sell at \$30 a share, which I think is a realistic price target for an exceptional record of performance, a dominant competitive position, and strong growth prospects.

Of course, the risk to my thesis is that Ebix does not continue to grow rapidly. As I've said before, "You buy a stock like this to make a lot of money as it grows. If it doesn't grow, you have to get rid of it." If revenue and earnings do not grow at least 10% from the previous year in any of the next 7 quarters, I would consider selling the stock.

As Yogi Berra said, "It's tough to make predictions, especially about the future." I know I'm sticking my neck out with my guesstimate of \$60 million in cash flow for 2011, but I am strangely comforted by the phenomenon that few others have been so positive about Ebix's prospects, even as Robin Raina has made a habit delivering great numbers to little fanfare (although recently, the tide seems to be turning). In the long run, if Robin keeps delivering, he and Ebix will get the recognition they deserve from the institutional community, and the stock price will reflect that recognition.

Disclosure: Long EBIX

