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Ebix Looks To Acquisitions, Alliances; Google Hovers

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When Ebix CEO Robin Raina said the maker of software for the insurance and other industries was "pursuing a number of key acquisition opportunities," that was also a call to arms to some competitors.

And, since March, potential rivals include Google (NASDAQ: GOOGL), as competition heats up in this niche.

After staying defensive the past few years, Ebix (NASDAQ: EBIX) is "very much on the offensive at this point," Jeff Van Rhee, an analyst at Craig-Hallum Capital Group, told IBD.

Ebix got a boost in May, when it won a contract to partner with Accenture (NYSE: ACN) to provide insurance placement software for a group of large U.K. insurers,

including Aon, Lloyd's of London, and Marsh and Willis.

Those U.K. rivals, in a rare show of cooperation, became part of a new electronic insurance placing utility called Placing Platform. The system is intended to increase efficiency in the London market, lower placement costs and make the market more accessible to international clients.

It's a twofold win for Ebix, giving it not just a likely lucrative contract, but also an inside track to doing more business in London's multibillion-dollar insurance market. Revenue from the contract is expected to start being reflected in Q1 2016, but the companies have not revealed details.

Insurance Software Middleman

Ebix plays an intermediary role among agents, brokers and financial advisors and carriers. For example, a wealth advisor can take information from a potential client seeking an annuity and input that into Ebix's customer relationship management product. The software populates the fields in the application with pertinent information and the form is sent to various carriers, to be returned with quotes and other information to help customers choose. An agent or broker can bind a policy, or put it into force, within the Ebix platform.

In Ebix's Aug. 7 earnings release, CEO Raina said "momentum is on our side" thanks to new contracts and partnerships.

"We are also pursuing a number of key acquisition opportunities that are expected to be quite accretive for our shareholders," Raina said then. "We also believe that we can increase our reach and top line revenue growth substantially by forging strong strategic alliances with reputed advisory and consulting companies who will market and sell our products to their large client base."

Ebix to date has mostly provided software through direct sales, not partnerships.

Asked for comment on possible acquisitions or partnerships, Ebix spokesman Aaron Tikkoo told IBD via email that the firm is pursuing acquisitions in the U.S. and Asia and "is in advanced discussions with a few targets."

Expects Big Partnership

Van Rhee says it's not unusual for a company like Ebix to telegraph such moves. He expects Ebix will partner with a large firm to enter a new market.

"I see some strategic relationships that could be needle movers," Van Rhee said. "I suspect we'll see them sign some noteworthy distribution relationships with a tier-one systems integrator."

A string of acquisitions in the insurance software niche already was in the works when Google officially entered the U.S. auto insurance market in March with its Google Compare. The site lets auto insurance customers do cost and coverage comparisons online. The move had been expected.

Others have moved as well.

In April, Ebix competitor Vertafore partnered with Microsoft (NASDAQ: MSFT) to give its customers the ability to tap into Microsoft's customer relationship management platform.

In June, Bothell, Wash.-based Vertafore acquired agency management software firm QQ Solutions.

Another Ebix competitor is University Park, Ill.-based Applied Systems. Privately held Applied in June acquired Lincoln, Neb.-based Semcat, a provider of comparative rating technology.

Applied has since announced expanded contracts with German financial services firm Allianz and several mutual insurance firms.

While not a direct competitor at present with Ebix, Google has moved into the insurance distribution channel by partnering with existing operators like Compare.com and CoverHound. Google has also teamed with New York-based insurance software provider Bolt Solutions.

The partnership with Compare.com gives Google Compare users access to some of Compare.com's carrier partners, through the Google Compare site. Compare.com is compensated by carriers for policies initiated via its site.

Google 'Disruptive'

Google has a similar arrangement with CoverHound, which offers online quotes for insurers including Hartford, Progressive, Travelers and 21st Century.

No financial terms for these Google partnerships were disclosed. Google spokesman Joe Osborne declined to comment on the company's plans in the insurance market.

These deals made Google a consumer-to-carrier go-between. And in May, Google added to its market presence when it announced that it was offering consumers the ability to reach a local insurance agent to get help with a policy.

Google has followed a pattern similar to its efforts with Google Compare in the U.K., where since 2012 it has provided auto and travel insurance quotes, as well as mortgage quotes.

"Google's entry into the auto insurance space was very disruptive in the U.K.," Van Rhee said. "It's still early in the U.S., but it's clearly a competitive move in the insurance sector."

Van Rhee, though, maintains his buy rating on Ebix stock, with a 40 price target.

"I think it's underappreciated in terms of the current valuation," he said.

Ebix, though, has endured some rough seas.

Shareholders sued Ebix in 2011, accusing company executives of padding Q4 2009 revenue. In 2014, the company agreed to pay \$6.5 million to settle this suit.

In 2012, news surfaced that the IRS was looking into Ebix's income tax returns for 2008 through 2012 amid speculation that Ebix was booking U.S. revenues to low-tax foreign subsidiaries. Later that year, the U.S. Securities and Exchange Commission launched a related investigation into the company's accounting practices. The IRS found no money laundering issues in the 2012 matter and Ebix announced in January that it had resolved the audit with an assessment resulting in a roughly \$1.4 million impact on its net income for 4Q 2014. That apparently ended the SEC probe into the firm's accounting practices, though the SEC made no official announcement.


In May 2014, Ebix had to terminate an agreement to be acquired by a unit of Goldman Sachs (NYSE: GS) for \$820 million, after being notified by the U.S. Attorney's Office for the Northern District of Georgia that it had opened an investigation into allegations of intentional misconduct in pending shareholder class-action lawsuits.

These issues put the firm in the cross hairs of short-sellers. A year ago, Ebix was near the top of the S&P 1500's most-shortened stocks.

But its problems have mostly been resolved, and short interest has fallen from 13.07 million shares at the start of the year to roughly 9.8 million as of mid-August, according to Nasdaq.

With the air cleared, Ebix made four acquisitions last year, all for undisclosed sums.

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