

Ebix, Inc.

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Disclaimer

- My discussion of EBIX, Inc. is not meant to encourage or to discourage buying stock in the company. It is meant only to make an educational point about how to do research. Please do your own due diligence.

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- EBIX, Inc.
 - Sells insurance industry software products and professional services
 - To property/casualty insurers, brokerages, and individuals
 - EBIXExchange service acts as an online auction house between buyers and carriers paying a fee to EBIX
 - Provides agency management software
 - In Asia, Australia, Europe & N. America

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- Generates most of its Revenues in the Americas
- As of Dec. 2012 about 80% of revenues came from on-demand insurance exchanges
- Ebix has 1,903 employees

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- Go to SSG

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Ebix, Inc. History

- 1997- Delphi Information Systems—Robin Raina recruited to turn around
- 1999 – Raina pushed new platform for Delphi, Web portal called Ebix, Raina is made CEO
- 2002 – began outsourcing software production to India

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- 2002 to 2005 – went from \$11M loss on \$12M Sales to \$4.3M gain on \$24M Sales
- Multiple subsidiaries added around the world
- 2007 – Acquired 5 companies
- 2009 – Buying spree on \$62.5 M in acquisitions

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Behind the history

- 1999 – Raina drew on expertise of board then clashed over issues like compensation
- 2000 – Board wanted 5 year plan or even 1 year plan, and growth projections for acquisitions as well as for existing business for a given year, Raina ignored

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2002 – Raina shifted software production to India over objections of board, it was successful but not transparent to board
2003 – Accountant until then was KPMG, from Big Four,
2004 – New accountant, BDO.LLP
2006 – Old board replaced, four from Europe, began adding new subsidiaries, not always where they did business

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- 2007 - New accountant – Habif Arogeti & Wynne from Atlanta
- Spent \$90M on 5 companies in 20 months
- Dec. 2008 – Habif Arogeti & Wynne resigned
- 2009 – New accountant, Cherry Bekaert signed off on 2008 financial statements
- - \$62.5 buying spree on acquisitions

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- With Revenue of \$97M Raina kept control of accounting decisions (Raina met with controller and corporate VP of finance and HR but not with CFO. Then CFO compiled financial disclosures based on their decisions.
- Accountant has to rely on filings of foreign subsidiaries who are way behind or haven't filed at all

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- 2011 – Seeking Alpha blog calls Ebix a “house of cards”
- 2011 – Lawsuit by former executive claiming accounting irregularities
- 2011 – class action lawsuit
- 2012 – SEC probe over accounting practices
- Feb. 2013 – Short sellers attack
- May 1, 2013 – Papers filed for Goldman Sachs affiliate, Exchange Parent Corp., to buy EBIX

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- May 2013 – Microsoft sues over software use
- IRS looking into use of off-shore subsidiaries in low-tax countries
- May 2013 – U S Attorney in Atlanta announces a probe alleging intentional misconduct
- June 2013 – Goldman Sachs announces termination of agreement to buy EBIX, neither company to pay a termination fee!

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What could you have seen?

- How about these red flags?
- Four auditors in ten years, the first two mentioning “shortcomings in internal controls”, abrupt departure of third
- Large percentage of operations overseas. Accountant doesn’t audit overseas operations
- Where would you find these?
 - The Annual Report

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Where did this info come from?

- Morningstar—None
- Value Line – Page but nothing on history
- Hoovers – History only of growth and acquisitions
- Google – 12 articles or news notes.
- Bloomberg.com—articles on termination, then in-depth history of Raina and Ebix
- Ebix website – press release on termination

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Questions?

[16]

Thank you.

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