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EBIX

Back on May 22nd, we valued EBIX's 5 year value at $16/share, when it was trading at $19 and change, after Goldman Sachs' affiliate company offered $20/share in late April. We advised not to buy at this price, unless one was a growth investor. Since then, the stock has been cut in half, after the GS affiliate dropped out of the merger deal, with the stock trading at $10/share today. What happened to the value the market was pushing just a month prior?

EBIX has been involved in a SEC investigation related to possible misrepresentation in their accounting. The Co. acquired companies and grew their revenue, and they were unclear with their organic growth rate. Also, they might have been fudging the numbers for offshore subsidiaries related to taxes.

On a purely valuation basis, EBIX was an attractive investment proposition and may have warranted the $20/share. However, if the numbers are not reliable, then who knows what this Co. should be valued at.

In our May 22nd writeup, we mentioned we didn't like their acquisition driven growth, since it piled up a large goodwill balance, which is worthless. On a TBV basis, the Co. had very minimal downside support.

This example once again illustrates the peril of investing in companies where it is loaded on the back end, meaning the market value is derived mainly from future cash flows which may never materialize. Surely, the present day value of the TBV may not be reilaible as well – especially inventory, A/R and equipment costs, which could sell at a fraction of their face value. However, future cash flow may not even be positive, which is even more dilutive.