Ebix Posts Strong First-Quarter Results, Market Acts Crazy

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Shubh Datta
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Atlanta-based software and e-commerce solutions provider **Ebix** (Nasdaq: EBIX) reported its first-quarter earnings on May 10, posting a 24% rise in its net income. However, in spite of positive results, the company's stock plunged. Why, Fools, why?

Figuring it out
Ebix's revenues in this quarter increased almost 27% to $40.1 million from $31.6 million in the prior-year quarter. This is due to the strong performances it has been seeing in its exchanges division, which has profited from increases in the health insurance and life and annuity sectors.

The current-quarter revenue figures also included revenues resulting from the acquisition of health information provider A.D.A.M. earlier this year. This deal helped Ebix establish itself as a health information exchange, a key growth area for the company.

Although net income for the quarter went up by almost 24%, the net income margin barely changed. This figure, in fact, fell slightly to 38% from 39%. That's not necessarily due to deficient cost controls; costs associated with acquisitions were largely to blame for rising expenses.

These figures thumped Street estimates, so it was shocking to see the market's negative reaction to the earnings. In fact, calling it a negative reaction doesn't nearly capture the bearishness surrounding the stock after earnings; Ebix's shares closed 8.7% lower after dropping as much as 12% during the intraday trading. It looks like, despite continued efforts to explain its accounting and other reporting, the company has been unable to shake concerns surrounding it following a short report posted on Seeking Alpha.

But as Benjamin Graham is famous for noting, in the short-term, the market is a voting machine. In the long-term, it is a weighing machine. With results like these, my suspicion is that fundamentals will bear out, and the stock will climb. Time will tell.

Share repurchases
Last month, perhaps in recognition of its favorable valuation, Ebix announced plans of repurchasing close to $45 million worth of shares, as opposed to its original plans to buy $15 million. The rationale behind this buyback probably stems from the fact that Ebix's P/E ratio is only 12, way below the industry P/E that approaches 40, according to Yahoo! Finance. With Ebix always on the hunt for acquisitions, the company must feel its stock is a pretty good buy if it's utilizing cash to buy back shares instead of keeping it as "dry powder."

The Foolish bottom line
Ebix performed really well at the start of the year, and its exchange business looks to be on good footing throughout the rest of the year. As it starts to make its presence felt in the growing health insurance sector, through deals such as that with A.D.A.M., it should continue reaping benefits from expanding its footprint into new frontiers of the insurance market. How Ebix will restore the faith of investors remains to be seen.