



# Ebix – Goodwill Hunting

The alchemy of creating profits

**Viceroy Research Group**

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“[Viceroy] are a Hit Squad” – Lesetja Kganyago – Governor of the South African Reserve Bank

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# Intro to EBIX

- What they do
  - EBIX is a technology provider to the insurance industry but has recently branched out into payment processing (incl Forex) and travel solutions
  - Has previously had run-ins with the SEC and IRS however no material developments were ever announced. Possible ongoing DOJ investigation.
- Background reading/ kudos
  - Previous short seller reports
    - Gotham City Research published 3 reports on EBIX, available on their website.
    - Copperfield Research published 2 reports on EBIX, available on Seeking Alpha
    - Shareholder lawsuit documents
- Segment data
  - EBIX only has one operating segment but does separate its businesses (external revenues, pre-tax profits, long lived assets, short term and cash) by geography.
  - Recent push into Asia and especially India, with satellite operations in Australia, Singapore, Dubai and the UAE.



# Summary Red Flags

- Change in business model (IT providers to insurance v. finance sector) without visible synergies or management experience.
- Accounting discrepancies suggests EBIX is booking external revenues on transactions between its subsidiaries: this occurred in 2014, 2015, 2016, 2017 across multiple geographies (UK, Singapore, India, Dubai, Mauritius).
- The company has a growing unbilled receivables balance:
  - 50% from by EBIX's India JV (Ebix Vayam Technologies) whose only customer is the JV partner (Vayam): it appears to have no other customers, and 446 days of receivables.
- Rapid change of company auditors, most recently the replacement of Cherry Bekaert with T.R. Chadha, an Indian auditor with no history of auditing a major US-listed entity.
- Unnecessarily intricate and opaque subsidiary structure, with very little insight provided to investors. Many assets are being held in opaque geographies and have been transferred with no disclosure or justification.
- The CEO has financially engineered an >US\$825m “poison pill” to prevent any takeover by mandating a large payout to himself in the case of such a takeover.

# Meet the CEO

EBIX's CEO, Robin Raina, displays what we at Viceroy refer to as "Petit syndrome":

- Company has never issued guidance, only "aspirational goals". Likely a pre-emptive legal defence.
- **Created a financial remuneration "poison pill" to protect short sellers in the event of a takeover (similar in function to MiMedx)** by mandating a large payout to himself adds 25-30% to the cost of acquiring Ebix.
  - First called ABA and SARA
  - Essentially a disaster for shareholders who can rule out a buyout unless the purchaser is willing to pay a massive premium, which is calculated at ~\$825m.
- The poison pill was subject to a shareholder lawsuit alleging directors were captive to Raina's wishes.
- Has surrounded himself with allegedly ineffective copy-paste yes-men directors and audit staff. Who is looking after shareholders interests?
- Material weakness in internal controls

in the event of an "Acquisition Event," Raina would receive a Bonus Amount determined by the "Spread" calculated by subtracting a "Base Price" from the "Net Proceeds Per Share" to be received in the transaction with respect to 20% of the outstanding Ebix common shares, less shares held by Raina. The Agreement also requires a "gross-up" payment that would reimburse Raina for all taxes resulting from the bonus, including taxes on the gross-up payment.

Comparison of SARA Cost to Other CICs			
(in millions)	CIC Payment	SARA Difference (in dollars) (in percent)	
SARA	\$ 667.00		
Ebix Peer Companies Median	\$ 9.40	\$ 657.60	7096%
ISS Peer Companies Median	\$ 6.70	\$ 660.30	9955%
Dages Peer Companies Median	\$ 2.10	\$ 664.90	31762%
Dages Peer Transactions Median	\$ 14.70	\$ 652.30	4537%
Top 10 Largest CICs other than Ebix Median	\$ 195.20	\$ 471.80	342%
Largest CIC in the U.S. other than Ebix	\$ 374.30	\$ 292.70	178%
Ebix's market capitalization at \$79.25 was \$2.493 billion. The median market capitalization for companies with the 10 largest CICs was \$18.306 billion.			

# Accounting Discrepancies in Roll-Up Structure

EBIX's acquisition spree has created numerous accounting discrepancies we believe are exaggerating group earnings.

Viceroy will explore two examples, however many more exist:

- Qatarlyst & TriSystems
  - Oakstone & Healthcare Magic
  - Peak
  - ...
- 
- At least 32 acquisitions since 2007: very little organic growth



# Example: Qatarlyst

- EBIX UK Limited purchases Qatarlyst on April 7, 2013 for cash \$5.03m and contingent consideration of \$9.43m
- Subsidiary filings show contingent consideration was only \$1.07m.

This leaves us with two governance problems:

1. For what purpose does the discrepancy exist?
2. **Who is in line for the ~\$8m earnout balance that EBIX has put on its books?**

What we believe actually happens:

**EBIX have no intention of paying this ~\$8m earnout contingency, which is essentially reversed and added to the bottom line.** This is the same issue highlighted in a lawsuit against EBIX for their Peak Performance Solutions.

(in thousands)	December 31,	
	2013	2012
<b>Fair value of total consideration transferred</b>		
Cash	\$ 5,025	\$ 56,112
Equity instruments	—	5,000
Contingent earn-out consideration arrangement	9,425	16,450
Secured promissory note issued	—	3,000
Total	\$ 14,450	\$ 80,562
<b>Fair value of assets acquired and liabilities assumed</b>		
Cash	\$ 285	\$ 1,049
Other current assets	485	5,213
Property, plant, and equipment	144	1,328
Other long term assets	507	331
Intangible assets	5,396	20,246
Deferred tax liability	(947)	(6,018)
Current and other liabilities	(2,556)	(7,586)
Put option liability	—	(1,377)
Net assets acquired, excludes goodwill	3,314	13,186
Goodwill	11,136	67,376
Total net assets acquired	\$ 14,450	\$ 80,562

In the previous financial year, the Company acquired 100% equity interest in Qatarlyst Limited, a company incorporated in the United Kingdom, for a consideration of **US\$5,025,468**, satisfied by internal cash resource. The Share Sale and Purchase Agreement also provided for contingent consideration of **US\$1,065,324** to be paid by the Company based on certain revenue targets to be met where the management has assessed and included in investment in subsidiary with the corresponding obligation recorded as contingent consideration in other payables.

# Example: TriSystems

- Ebix Purchase of TriSystems for a net US\$9.277m in cash resulting in US\$8.8m of goodwill recorded at Ebix Corporate.
- In 2014, Ebix UK Limited (formerly Qatarlyst) purchased Ebix Europe Limited (formerly Trisystems). Ebix Corporate's 2014 10-K showed increase of almost US\$8.58m in pre-tax income a 730.88% increase.
- Ebix Europe appears to have paid nothing for these assets and accordingly booked no goodwill.
- At the time Ebix Europe was the only Ebix subsidiary in Europe excluding Sweden, which is accounted for separately. This pre-tax income bump appears to be from the reversal of the contingent consideration balance.
- **This surge in income could not feasibly be from operations, as Ebix Europe reported only US\$1.004m of pre-tax income.**

EBIX EUROPE LIMITED (REGISTERED NUMBER: 03909745)			
STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2014			
	Notes	31/12/14 £'000	31/12/13 £'000
<b>CONTINUING OPERATIONS</b>			
Revenue		3,110	2,968
Cost of sales		(216)	(1)
<b>GROSS PROFIT</b>		<b>2,894</b>	<b>2,967</b>
Other operating income	3	518	162
Administrative expenses		(2,768)	(3,126)
<b>OPERATING PROFIT</b>		<b>644</b>	<b>3</b>
Finance costs	5	-	(15)
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>	6	<b>644</b>	<b>(12)</b>

2013

(dollar amounts in thousands)	United States	Canada	Latin America	Australia	Singapore	New Zealand	India	Europe (United Kingdom)	Sweden	Total
Pre-tax income	\$ 5,497	\$ 1,344	\$ 966	\$ 4,579	\$ 17,523	\$ 485	\$ 31,387	\$ 1,360	\$ 7,011	\$ 70,152

2014

(dollar amounts in thousands)	United States	Canada	Latin America	Australia	Singapore	New Zealand	India	Mauritius	Europe (United Kingdom)	Sweden	Total
Pre-tax income	\$ 8,807	\$ 115	\$ 1,590	\$ 5,091	\$ 16,015	\$ 1,000	\$ 28,194	\$ (370)	\$ 9,940	\$ 7,070	\$ 77,452

2015

(dollar amounts in thousands)	United States	Canada	Brazil	Australia	Singapore	New Zealand	India	Mauritius	United Kingdom	Sweden	Total
Pre-tax income	\$ 1,351	\$ (1,287)	\$ 1,323	\$ 4,057	\$ 13,177	\$ 568	\$ 58,670	\$ (672)	\$ 2,338	\$ 7,114	\$ 86,639



# Example: Oakstone & Healthcare Magic

- EBIX's Indian operations reported steady profits until 2015 when they increased US\$30.476m, a 108.09% increase yoy. This was not repeated the following year with profits of US\$40.444m for 2016.
- This appears to be due to the transfer of assets out of India, to Singapore.
- EBIX acquired HealthCare Magic and Oakstone Publishing for US\$37.7m in May and December of 2014, respectively. This created US\$34.388m of goodwill at EBIX Corporate.

<i>(dollar amounts in thousands)</i>	United States	Canada	Latin America	Australia	Singapore	New Zealand	India	Mauritius	Europe (United Kingdom)	Sweden	Total
Pre-tax income	\$ 8,807	\$ 115	\$ 1,590	\$ 5,091	\$ 16,015	\$ 1,000	\$28,194	\$ (370)	\$ 9,940	\$ 7,070	\$77,452
Statutory tax rate	35.0%	30.5%	34.0%	30.0%	10.0%	28.0%	—%	—%	24.0%	—%	

<i>(dollar amounts in thousands)</i>	United States	Canada	Brazil	Australia	Singapore	New Zealand	India	Mauritius	United Kingdom	Sweden	Total
Pre-tax income	\$ 1,351	\$(1,287)	\$ 1,323	\$ 4,057	\$ 13,177	\$ 568	\$58,670	\$ (672)	\$ 2,338	\$ 7,114	\$86,639
Statutory tax rate	35.0%	29.6%	34.0%	30.0%	17.0%	28.0%	34.6%	3.0%	20.0%	22.0%	

There were complications in transferring Oakstone assets to India from the USA. Indian courts allowed the transfer through amalgamation with Healthcare Magic.

The goodwill paid for these entities were amortized at a local level, which is allowed at an Indian GAAP level through business amalgamation, but not at the parent company level (IFRS).

Post amortization, these businesses were sold to EBIX's Singapore entity for ~\$30m, creating a profit at the Indian subsidiary level.

Given these entities had essentially no hard assets, we believe the gain on sale recorded by the Indian subsidiary has flowed through to EBIX's consolidated accounts given no other significant business changes in the segment.

# CCD's – Where is the cash coming from?

- EBIX's Indian subsidiaries have issued almost \$250m of compulsory convertible debentures to EBIX's Mauritius entity.
- EBIX's balance sheet and cashflow statement do not demonstrate that the business even has this cash balance to distribute.
- Where did this cash come from?
- Where has it been spent?
- If this cash was round tripped from India to Mauritius and back in order to fund Ebix Paytech, why?

It is noteworthy that EBIX's Paytech entity has been given freedom to distribute up to \$280m to any of its subsidiaries at its discretion. This is the entity which EBIX intends to IPO, which we believe is extremely dangerous.

Ebix Asia Holdings (Mauritius) CCD data			
Issuer	Date	INR (m)	USD (m)
Ebix Money Express	25-May-18	679.900	10.034
Ebix Paytech	01-Jun-18	12,098.289	180.631
Ebix Paytech	01-Jun-18	0*	0*
EbixCash World Money	20-Jun-18	1,292.807	18.994
EbixCash World Money	09-Jul-18	720.615	10.491
EbixCash World Money	04-Sep-18	353.550	4.945
Ebix Technologies	07-Sep-18	1,075.350	14.951
Ebix Technologies	04-Oct-18	424.650	5.761
EbixCash World Money	05-Oct-18	131.510	1.775
<b>Total</b>		<b>16,776.671</b>	<b>247.582</b>

\*amounts negligible

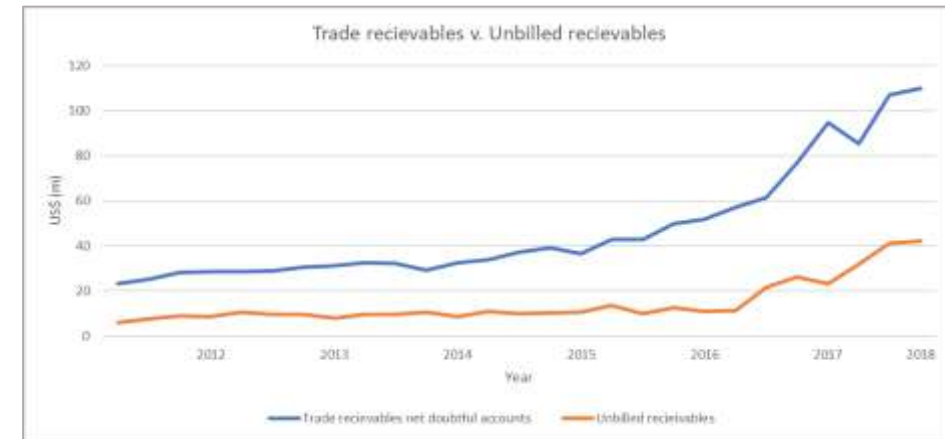
**"RESOLVED THAT** in pursuant to the provisions of Section 186(2), rule 13 of the Companies (Meetings of Board and its powers) Rules, 2014 and all other applicable provisions, if any, of the Companies Act, 2013 including any statutory modification, amendment or re-enactment thereof from time to time, the Company be and is hereby authorised to (i) give any loan to any person or other body corporate, (ii) give any

# Receivable Issues

Ebix's growing unbilled receivables balance is also concerning:

- Ebix Vayam Technologies is a 51% Ebix owned joint venture with Indian Vayam Technologies.
- For 2017 & 2018, 100% of Ebix Vayam's revenue has been transactions with Vayam Technologies with funding from Ebix.
- Despite this, Ebix Vayam has an extremely high receivables balance (443 days): Ebix is basically buying revenue at this point but does not seem to receive cash.
- Vayam's receivables represent 25% of Ebix's trade receivables balance.
- Ebix Vayam Technologies also pays out its borrowings from Ebix out of receivables at 8% interest.

We have no doubt there are other entities making up the rest of the unbilled receivables balance with such situations



Ebix Vayam		
	31-Mar-17	31-Mar-18
In USD		
Revenue from ops	8,906,194	11,919,768
Vayam technologies sale of goods	8,906,194	11,919,768
Trade receivables (unsecured, considered good)	10,391,671	14,463,573
Vayam technologies trade receivables	10,391,671	14,463,573
INR - USD exchange rate	0.015418	0.015352

# Auditor issues

- The company recently appointed T.R. Chadha its auditor however the firm appears never to have audited a US-listed entity.
- T.R. Chadha is also the auditor at Ebix India Software, and Ebix Vayam Technologies.
- Under previous auditors Cherry Bekaert, many subsidiary accounts were signed off years after parent company accounts.
  - Ebix India software 2014 account signed off February 2016
  - Ebix Singapore 2016 accounts signed off April 2018
  - In PCAOB's 2017 inspection report for Cherry Bekaert, it was found that for five different issuers Cherry Bekaert did not obtain sufficient evidence to issue an audit report and *"Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued."*
- Ebix's Swedish auditor claimed it could find no proof of ownership of several subsidiaries by Ebix's Swedish subsidiary – note this is an existing issue! (thanks Gotham)
- Given Cherry Bekaert's customer (MiMedx) history, we believe sanctions are not out of the question.

# Auditor issues

Year	Activity
1998	Arthur Anderson, former partner Robert Putnam charged with improper conduct for Ebix Financials. Did not investigate claim of false revenue
2004	KPMG resigns over disagreement with management regarding lack of authority, lack of understanding of the company's income, lack of contract review, inadequate documentation for transactions
2007	BDO resigns, expresses no opinion
2007	Miller Ray Houser & Stewart hired, merged with Habif, Arogeti and Wynne
2008	Cherry, Bekaert & Holland hired
2018	Cherry, Bekaert & Holland replaced with T.R. Chadha & Co. After negative backlash agree to keep Cherry Bekaert & Holland on for US Revenue and T.R. Chadha for global audit partner.



# Regulatory Issues

- Previously investigated by the IRS: paid settlement.
  - Settled 2008-2013 for US\$20.8m
- Previously investigated by the SEC through 2017: investigation findings not released.
- Possibly ongoing DOJ investigation.
- Increased regulatory scrutiny into payment processing operations, see Deutsche bank raids.
- Active debate in India between government and banks regarding regulation of payment systems which are now under heavy scrutiny.

MiMedx was also previously investigated, and used the closed investigations as a point of pride. This did not end well for them.

# Subsidiary Structure

Ebix has, relative to its size, the most complex subsidiary structure we have seen.

- The company only discloses a list of subsidiaries in SEC filings, not an explicit ownership structure showing which subsidiary holds which.
- Despite transferring a significant number of assets between different geographies with operating implications, no disclosure has been given regarding which assets are held where.
- The most recent full capture of the company's structure is from February 2018, as part of a credit amendment submitted as a series of unsearchable .jpg files.
- In recent years, Ebix has moved significant assets to Mauritius, Dubai and the UAE, all being held under a dormant UK entity, Ebix International Holdings.
- There are also questions as to how Ebix reports “pre-tax profit” by geography which makes up the income statement line, and “external revenues” which make up the top-line. Somehow revenue is being gained in one geography with the profits reported in another.
- Likely for purposes of tax minimisation.

Date: 04/12/2018  
Ref: DEF6/09871102

## Companies Act 2006 (Section 1000(3))

The Registrar of Companies gives notice that, unless cause is shown to the contrary, at the expiration of 2 months from the above date the name of

EBIX INTERNATIONAL HOLDINGS LIMITED

will be struck off the register and the company will be dissolved.

Upon dissolution all property and rights vested in, or held in trust for, the company are deemed to be bona vacantia, and accordingly will belong to the crown.

### ! Accounts overdue

Next accounts made up to **31 December 2017**  
due by **30 September 2018**

Last accounts made up to **31 December 2016**

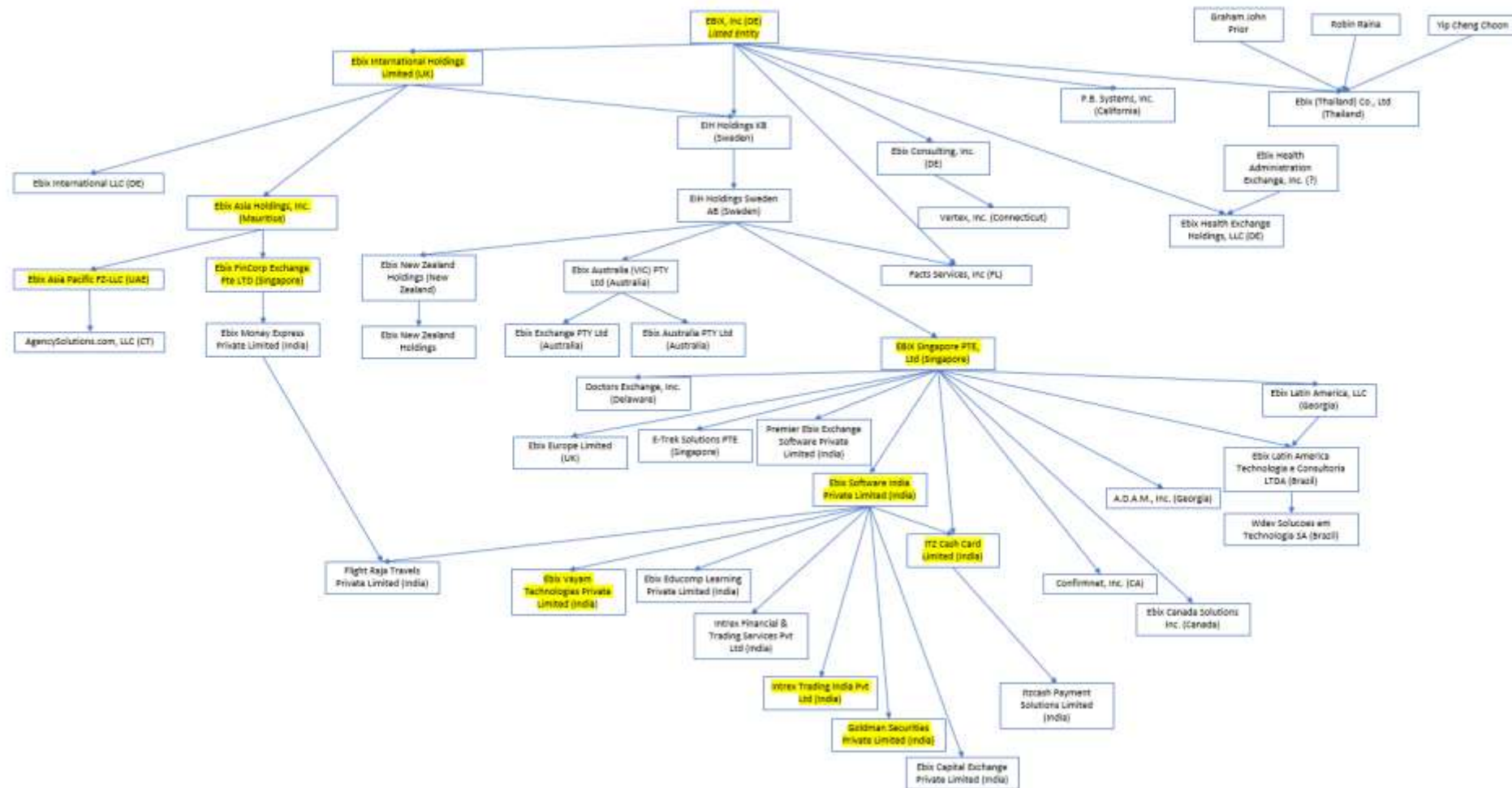
### ! Confirmation statement overdue

Next statement date **12 November 2018**  
due by **26 November 2018**

Last statement dated **12 November 2017**

# Subsidiary Structure

Ebix group structure as of February 21, 2018



# Devil's advocate – Risks to trade

- The short didn't work before, why would it work now?
  - Reduced risk of an acquisition v. 2013. Poison Pill more widely known about by stakeholders, with arguments being heard on January 31st.
  - Roll-up tech structures under increased scrutiny.
  - More visibility into foreign subsidiaries since accounts have been signed off.
  - Increased regulatory scrutiny into payment processing operations, see Deutsche bank raids.
  - Greater liquidity following stock split
- Cash generation and ownership
  - Indian EbixCash group issued more in CCD's to Mauritius subsidiary than the company could have in cash, even maxing-out line of credit.
- Ebix starts performing and paying down debt.
- Further buybacks by the company already announced.



# Q&A

