



Ebix – The Taxman Cometh

Ebix's Mumbai office was "searched" by Indian tax authorities in Q3 2018. In other news, Robin Raina claims Ebix has never "been on the wrong side of any regulatory or tax authority".

DECEMBER 13, 2018 – Viceroy released its preliminary report on Ebix – titled Goodwill Hunting – on 11 December 2017, the contents of which we also discussed at the Kase Learning conference in New York on December 3, 2018.

This report will address the totally inadequate response Ebix issued on December 12, 2018, which was substantially an attempt at authority bias by CEO Robin Raina. Accordingly, we will also shine a light on the statements Raina decided to include in this press release, which we believe to be extremely misleading.

"In my 20 years as CEO of Ebix, the Company has an enviable record of never having been on the wrong side of any regulatory or tax authority. Also, the Company has till date a record of having no differences with any statutory or consolidated auditors across the world in the last two decades." Robin added, "We accept criticism with humility even when it comes from vested interests, while being proud of our unblemished record of 20 years. We have learnt from our past experiences that fundamentals finally always prevail over false rhetoric. Today we are more excited than ever about our future and we humbly intend to let time, cash and fundamentals to do the talking from here onwards."

Figure 1 Extract from Ebix press release – December 12, 2018¹

- Ebix acknowledged our report via a press release on December 12, 2018, however CEO Raina would rather issue a hollow press release than address the issues Viceroy have raised in our preceding report.
- Robin Raina claims Ebix has "never been on the wrong side of any regulatory or tax authority". This is inconsistent with:
 - **Ebix's Mumbai office being subject to an undisclosed "search" by Indian Tax Authorities for suspicion of tax evasion in late August 2018;**
 - Ebix currently subject to **a tax audit by the Australian Taxation office since at least 2016;**
 - Ebix historically settling an **IRS dispute for >\$20m;**
 - Ebix being subjected to a prolonged SEC investigation;
 - Ebix being subject to a **possible ongoing DOJ investigation;**
- Contrary to Raina's claims, it appears his conduct was subject to regulatory scrutiny even prior to his rise to CEO. Ebix's former auditor, Arthur Anderson, was charged by the SEC for improper conduct and fraud relating to the audit of Ebix's revenue recognition practices at a time where Raina was VP of Sales and Marketing and COO.
- Robin Raina claims Ebix has had "no difference with any statutory or consolidated auditors across the world in the last two decades". This is **objectively, and verifiably false, as we have already reported.**
- Ebix detracts attention to concerns raised through reinforcement of its commitment to stock buybacks, of which it has announced US\$330m since 2015 and only fulfilled US\$187.169m.
- Viceroy is writing to the Debt Providers shortly with these and other material concerns.

Viceroy's original report can be found here:

<https://viceroyresearch.org/2018/12/11/ebix-goodwill-hunting-2/>

Ebix's press release on December 12, 2018 can be found here: <https://www.ebix.com/press-release/ebix-ceo-decides-to-take-salary-in-ebix-stock-instead-of-cash-the-company-commencing-purchase-of-ebix-stock-under-100-million-usd-repurchase-commitment-over-the-next-6-to-12-months-period>

¹ <https://www.ebix.com/press-release/ebix-ceo-decides-to-take-salary-in-ebix-stock-instead-of-cash-the-company-commencing-purchase-of-ebix-stock-under-100-million-usd-repurchase-commitment-over-the-next-6-to-12-months-period>



Since publication, Viceroy has received immense amounts of data pertaining to Ebix from researchers and whistleblowers alike, submitted a preliminary report to regulators, and are preparing this data for wider distribution in the short term.

Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within EBIX or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroyresearch@gmail.com.

About Viceroy

Viceroy Research are an investigative financial research group. As global markets become increasingly opaque and complex – and traditional gatekeepers and safeguards often compromised – investors and shareholders are at greater risk than ever of being misled or uninformed by public companies and their promoters and sponsors. Our mission is to sift fact from fiction and encourage greater management accountability through transparency in reporting and disclosure by public companies and overall improve the quality of global capital markets.

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CEO response misleading

Ebix CEO Robin Raina has refused to address any of the concerns raised by Viceroy in our report dated December 11, 2018, and preceding presentation on December 3, 2018, choosing instead to “let time, cash and fundamentals to do the talking...”.

“In my 20 years as CEO of Ebix, the Company has an enviable record of never having been on the wrong side of any regulatory or tax authority. Also, the Company has till date a record of having no differences with any statutory or consolidated auditors across the world in the last two decades.” Robin added, “We accept criticism with humility even when it comes from vested interests, while being proud of our unblemished record of 20 years. We have learnt from our past experiences that fundamentals finally always prevail over false rhetoric. Today we are more excited than ever about our future and we humbly intend to let time, cash and fundamentals to do the talking from here onwards.”

Figure 2 Extract from Ebix 8K – December 12, 2018

This address is substantially an attempt by Raina to legitimize Ebix through authority bias – whereby the opinion of an authority figure (in this case: regulators and auditors) carries greater weight. This appeal to authority only works if it is not objectively, and verifiably wrong.

Tax Search in Mumbai -Viceroy call office “searches” a raid as generally the investigators have a belief information is being withheld or destroyed.

News of a more recent nature has been sent to Viceroy since publication of our report, which verifies that Ebix’s Mumbai office was “searched” by Indian Tax Authorities relating to possible Goods and Services Tax (GST) avoidance in the part of its payment processing business.

GST dept's service tax crackdown continues, searches payments firm EbixCash

The Goods and Services Tax (GST) department has conducted searches at the office of global payment company Ebix in Mumbai last week, the latest in a series of such actions on an issue on which industry and the department have a different interpretation of rules.

A senior GST official told Moneycontrol that the searches yielded information on transactions on which tax up to Rs 20 crore may have been evaded, noting that they related to EbixCash, the Indian subsidiary of Nasdaq-listed Ebix that was formerly known as ItzCash. Ebix acquired ItzCash for Rs 800 crore in May last year and renamed it EbixCash.

Ebix facilitates on-demand software and e-commerce services to the insurance, financial, and healthcare industries. EbixCash’s portfolio of services include money remittance (domestic and international), travel, prepaid and gift cards, and utility payments.

A mail to the company seeking comment went unanswered at the time of publishing this story.

Figures 3 & 4 Moneycontrol.com – “GST dept’s service tax crackdown continues, searches payments firm EbixCash”²

² <https://www.moneycontrol.com/news/business/companies/gst-depts-service-tax-crackdown-continues-searches-payments-firm-ebixcash-2912181.html>



We reiterate our opinion that the walls are closing in on Ebix. This “search” follows our previous announcement that Ebix was under audit by Australian tax authorities:

15. Contingent Liabilities

The group has provided financial guarantees in respect of leased premises amounting to \$199,000 (2016: 160,000) secured by lease deposits.

The Australian Taxation Office has undertaken an audit of the Group. At the date of the reports, no outcome has been finalised and the Directors are unable to make an assessment as to whether a material liability exists. Accordingly, no contingent liability has been recorded in the financial statements.

Figure 5 Ebix Australia (VIC) Pty Ltd annual report 2017

These “searches” and audits have gone unreported by Ebix, who only discloses the following in its 10-K’s:

We may have exposure to greater than anticipated tax liabilities.

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory tax rates and higher than anticipated in jurisdictions where we have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or due to changes in tax laws, regulations, and accounting principles concerning the accounting for income taxes in the domestic and foreign jurisdictions in which we conduct operations. We are subject to regular review and audit by both domestic and foreign tax authorities. Any adverse outcome of such a review or audit could have a negative effect on our operating results and financial condition. In addition, the determination of our worldwide provision for income taxes requires significant judgment, and there are some transactions for which the ultimate tax treatment is uncertain. Although we believe our estimates are reasonable and appropriate, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made. The tax rates in the foreign jurisdictions in which the Company conducts operations have a significant impact on the Company's financial results and could increase.

Figure 6 Ebix Australia (VIC) Pty Ltd annual report 2017

It is difficult to imagine that these regulator activities are in any way “routine” as part of a “regular review and audit” procedure.

Wrong side of regulators

The suggestion that Ebix has “never been on the wrong side” of tax agencies or regulators is verifiably wrong. The company has settled >\$20m of IRS disputes:

In January 2015, Ebix reached a resolution with the Internal Revenue Service with respect to the previously disclosed audit of Ebix’s income tax returns for the taxable years 2008 through 2012. The assessment resulted in a cash payment of \$20.5 million, including interest of \$1.6 million. This resolution includes all issues for the taxable years 2008 through 2012. In October 2015 Ebix reached a resolution with the Internal Revenue Service with respect to Ebix’s income tax return for the 2013 taxable year. The assessment resulted in a cash payment of \$336 thousand, including interest of \$16 thousand.

Figure 7 Ebix 2015 10-K

Ebix was also investigated by the SEC for ~5 years, is in the midst of legal proceedings with shareholders due to a ludicrous **poison pill** installed by the board of directors, and is rumored to be under active investigation by the DOJ – don’t take our word for it, analysts at Craig-Hallum even note this DOJ investigation as an investment risk, presumably because the company has not denied such rumors:

We believe an investment in EBIX involves the following risks:

- The company announced an investigation from the Department of Justice. Should the DOJ investigation be active and find negatively, shareholders

could be harmed. While all indications are that the investigation is not active, we have not absolute certainty in this respect.

Figures 8 & 9 Extract from Craig Hallum Ebix note – November 8, 2018



Differences with auditors

Raina's assertion that Ebix has had "no differences with any statutory or consolidated auditors across the world" is also verifiably wrong. This was well-documented in our preceding report and our presentation.

Contrary to Raina's claims, it appears his conduct was subject to regulatory scrutiny even prior to his rise to CEO. Ebix's former auditor, Arthur Andersen, was charged by the SEC for improper conduct and fraud relating to the audit of Ebix's revenue recognition practices at a time where Raina was VP of Sales and Marketing and COO.

5. Putnam served as the audit engagement partner for Andersen's audit of Ebix for the nine-month period ended December 31, 1998 ("1998 transition period").⁴ During his audit work for the company, Putnam received indications of possible fraud at Ebix including earnings management, high involvement in accounting decisions by non-financial management, commitments made to analysts, the expectation of possible equity funding, the desire to maintain a high stock price, Ebix's very aggressive accounting policies, and possible opinion shopping by Ebix among accounting firms, among others. In particular, Putnam became aware that Ebix's management had taken an extremely aggressive approach to recognizing revenue from the company's software sales.

Figure 10 SEC order making findings against Robert Putnam, CPA³

KPMG resigned over disagreement with management regarding lack of authority, lack of understanding of the company's income, lack of contract review, inadequate documentation for transactions. They were replaced 6 months later.

Item 9A. CONTROLS AND PROCEDURES

In connection with its 2003 year-end audit, the Company's independent certified public accountants at that time, KPMG LLP ("KPMG"), identified details of reportable conditions relating to the Company's internal control over financial reporting. According to KPMG, the communication of the reportable conditions was based on their professional judgment, taking into consideration audit differences that required adjustment to the Company's financial statements, as well as the underlying causes for such adjustments, and KPMG's observations about the Company's internal control processes, but did not arise from any particular transaction or event. On March 25, 2004, KPMG presented to the audit committee the details of the reportable conditions noted during the 2003 audit, which included (1) delegation of authority and what KPMG considered to be inadequate reviews by a person other than the preparer of accounting information, (2) the lack of a formalized contract review process to ensure proper revenue recognition, (3) the lack of a complete understanding of the Company's income tax positions and related accounts, (4) inadequate documentation for certain unusual transactions (including the basis for the Company's accounting conclusions), and (5) internal control matters (documented and testable control environment) under the Sarbanes-Oxley Act, Section 404 (together with applicable regulations, "SOX 404").

Figure 11 Ebix 2004 10-K/A

While we cannot document any disagreements between Ebix and Cherry Bekaert, Ebix's former auditor was subject of a scathing PCAOB inspection report published just weeks before its replacement and has left what is essentially a dumpster fire at its second-largest client, MiMedx⁴.

We do not consider the pace at which Ebix cycles through auditors at consolidated and subsidiary levels normal by any means.

Buybacks not fulfilled

Ebix has detracted from addressing any of Viceroy's criticisms with an announcement relating to its pre-existing share-buyback scheme. Like MiMedx, the buybacks are indeed 'timely' in nature.

| Share buybacks | | | | Repurchase of common stock | |
|----------------|----------------|------------------|--|----------------------------|----------------|
| Date | Amount (US\$m) | Period | | Year | Amount (US\$m) |
| 06-Feb-17 | 150 | not stated | | 2018 | 2.226 |
| 19-Aug-15 | 100 | not stated | | 2017 | 45.732 |
| 25-Aug-14 | 80 | "next 12 months" | | 2016 | 59.784 |
| | | | | 2015 | 81.653 |
| Total | 330 | | | | 187.169 |

Figure 12 Viceroy analysis of Ebix share buyback announcements v. repurchase of common stock

³ <https://www.sec.gov/litigation/admin/2008/33-8912.pdf>

⁴ <https://mimedx.gcs-web.com/static-files/bc42de99-872c-47c5-9a23-33eb7eccc964>



Since 2015, Ebix has announced share buybacks of over US\$350m but have only completed US\$187.169m of buybacks as of Q3 2018⁵. At the same time the company has heavily levered itself, with net debt/EBITDA levels rising from 0.8x to 3.5x.

Conclusion

Ebix's response to our report is factually inconsistent and wholly inadequate, addressing none of the concerns raised in our report. The share buyback announced appears to be a hollow measure taken only to reassure shareholders, as does the change in Raina's compensation scheme.

We reiterate our belief that Ebix carries a high investment risk and that investigations by regulatory authorities into the company are highly likely to be reopened. Our investigation into Ebix is ongoing.

Viceroy welcome public debate from Robin Raina on all these matters. The justifications so far are merely a distraction from the underlying issues of the company.

⁵ We have ignored the most recent share buyback announced and included that announced August 25, 2014, as it would substantially have taken place during the 2015 year.