Ebix – Goodwill Hunting

Accounting irregularities, undisclosed tax investigations, auditor shuffling, poison pill to protect short sellers: welcome to Ebix.

DECEMBER 11, 2018 – Following on from our presentation of the same title, Viceroy are releasing our preliminary report on Ebix (NASDAQ:EBIX). Our investigation has uncovered accounting discrepancies dating as far back as 2008 to present day as well as several other red flags.

- Numerous accounting discrepancies in years 2013 to 2018 regarding the recognition of goodwill and acquisitions within the Ebix group. These discrepancies have largely gone unnoticed due to the delay in local filings being signed off and the multi-jurisdictional nature of these transactions.

- Over the course of our investigation we uncovered evidence of what we believe is a scheme to incorrectly book revenue and earnings. We believe this is done through the shuffling of assets from one subsidiary to another while improperly booking internal revenues, and contingent consideration “cookie jar” accounting.
  - We are limited by the recency of the available subsidiary filings. We believe this behavior continues to take place. Ebix’s acquisition spree in India further muddies the waters.

- Ebix announced a change in auditor to T.R. Chadha from Cherry Bekaert (of MiMedx fame) after reporting material weaknesses regarding purchase and income tax accounting, pursuant to appointing a big four accounting firm in Q1 2019.
  - T.R. Chadha has never audited a US-listed entity and was auditor of several Indian Ebix subsidiaries in which there appear to be several accounting discrepancies.
  - Cherry Bekaert was subject to a scathing PCAOB inspection just weeks before its replacement.

- Ebix’s subsidiary structure is excessively convoluted and opaque. The subsidiary structure includes holding companies in geographies where obtaining financials is near impossible. Many subsidiaries are held under a UK entity, Ebix International Holdings, which has only ever filed locally as a dormant company and recently received a warning of compulsory dissolution for failing to file accounts.

- Ebix’s joint venture with Vayam Technologies, Ebix Vayam, accounts for 25% of Ebix’s receivables and only customers are Vayam Technologies themselves. Vayam appears never to have settled its receivables and the entire JV is funded byEbix at an 8% interest rate, payable in receivables. This appears to be a scheme through which cash is injected in to make paper gains of margin plus 8%.

- Ebix CEO Robin Raina is entitled to a massive payout in the event of an acquisition at the expense of shareholders. This poison pill protects short-sellers from takeovers by attaching an unreasonable premium to the company. This arrangement and its predecessor are currently subject of ongoing shareholder litigation.

- The company’s debt-fueled acquisition binge in India was originally intended to create and list an Indian payments entity. This appears to have turned into an unfocused rollup, with more and more scattered businesses being added to the Ebix stable. Despite these additions, Ebix does not break out its revenues from these disparate income streams.

- Ebix’s has been subject to an undisclosed tax audit by the Australian Taxation Office since 2016, we believe due to the transfer of Telstra eBusiness Exchange assets to Ebix Singapore, and non-arm’s length transactions.

Due to the delay in availability of subsidiary accounts, and the rapidly expanding nature of the company’s operations we are unable to quantify a base downside. We believe it is highly likely given the progress of the shareholder litigation that regulatory authorities including the SEC open or reopen their investigations into the company. Accordingly, we believe that Ebix carries a high investment risk.
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.

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1. Short Thesis

We decided to dust off the Ebix story earlier this year after the company disclosed in its 2017 audit that it had **material weaknesses pertaining to internal controls** “over the valuation and accuracy of the accounting for income taxes and purchase accounting”.

![Ebix 2017 10-K](image)

Specifically, as it relates to income taxes, we did not design and maintain controls over the analysis and assessment of estimates involving complex multistate-apportionment factors, tax rate computations, tax contingencies and deferred tax asset valuation allowances, and income tax effects related to business acquisitions or disposals. Specifically, as it relates to purchase accounting, we did not design and maintain controls over the analysis and assessment of estimates involving growth rates, valuation methodology, timeliness and documentation. These material weaknesses did not result in any revision of the Company’s annual financial statements for any period. These material weaknesses could have resulted in a material misstatement of account balances.

The core focus of our investigation was on M&A-related activity including goodwill, intangibles, earnouts as well as geographical information. **From there we turned our attention to the international subsidiaries: for being a relatively small company, Ebix's corporate structure is very complex.** There are numerous subsidiaries with multiple layers that morph over time, and where intangible assets are continuously transferred. We believe subsidiary filings obscure the financial issues within the company.

Strangely most *subsidiary audits are not signed off until long after – sometimes years* - Cherry Bekaert signed off on Ebix’s audits, that are meant to consolidate the subsidiary filings.

For example, the Ebix Singapore subsidiary’s 2016 audit does not appear to get signed off on until April 10, 2018 with the 2014 audit not finalized on until September 2016 – almost two years after the fact. As a result, for some companies the most recent filings available are from 2016.

Although we have thus far been unable to obtain the audited financials for two of the more recent important subsidiaries/regions, Ebix Asia Pacific (Dubai) and Ebix Asia Holdings (Mauritius), we have seen enough at this point to raise serious concerns on the accounting transactions between these subsidiaries as well as between Ebix and these subsidiaries.
The company has many red flags including:

- Excessively convoluted and opaque corporate structure with numerous layered international subsidiaries combined with significant discrepancies in intra-group transactions;
- Numerous accounting discrepancies dating from 20013 to 2016 regarding transactions between subsidiaries;
- Receivables largely accounted for by a joint-venture, whose sole customer is the other joint venture partner. The JV appears to have no appreciable cash inflows, leading us to believe this may be a scheme to purchase revenues;
- CEO has in place an anti-takeover “poison pill” which entitles him to a massive payout in the event of an acquisition, creating a significant premium for any would-be acquirer. The predecessor to this policy may have already prevented one acquisition;
- Ebix’s Australian subsidiary has been subject to a tax audit since 2015, with no disclosure of this to investors;
- Ebix’s Indian acquisitions have become more and more scattered and now appear to be a simple debt-fueled roll-up;
- Recently announced change in auditor to Indian auditor with no experience auditing a US-listed entity and was also auditor for the subsidiaries at which we found accounting discrepancies. Cherry Bekaert’s departure after discovery of significant weaknesses mirrors the departure of KPMG in similar circumstances in 2004;
- International subsidiary audits signed off well after the US parent auditor signed off on the financials;
- The existence of prior SEC and IRS investigations. Due to the length of the SEC investigation into the company and progress of shareholder litigation into the company, it is highly likely that this investigation is reopened.

2. Subsidiary Structure

Ebix’s subsidiary structure is extremely convoluted relative to the size of the entire operation. While the company does list the name and location of its subsidiaries in attachments to its 10-K filings, a full description of the company’s structure was only made public through a credit amendment appended to the 2017 10-K. This was not in the form of a text file, or within the accounts, but several hundred image files essentially making it impossible to find through regular web searches.

For ease of access we have included the organizational structure as of February 2, 2018, in Annexure A.

The pace of the company’s acquisitions and shuffling of assets makes the utility of this chart limited, however we believe this clearly illustrates the convolution and complexity in which Ebix has managed to engineer profits.

The company also accounts for different geographical segments in an uncommon manner. Quarterly reports break down “external revenues” which sum to form the top-line revenue number.

Annual reports include pre-tax profit by geography, which sum to the income before income tax line item on the income statement.
External revenues are accounted for largely by where the company delivers its services.

**Note 14. Geographic Information**

The Company operates with one reportable segment whose results are regularly reviewed by the Company’s CEO, its chief operating decision maker as to operating performance and the allocation of resources. External customer revenues in the tables below were attributed to a particular country based on whether the customer had a direct contract with the Company which was executed in that particular country for the sale of the Company’s products/services with an Ebix subsidiary located in that country.

3. Goodwill hunting

While unconventional, we believe in this case it makes sense for us to describe the archetypes of the discrepancies at Ebix before going into concrete examples.

Parts of this process were uncovered by previous short seller reports – or shareholder law suits – however we believe they only uncovered half the equation, and that these gimmicks may have been employed as far back as 2009. The method uses the opacity of subsidiary accounts and goodwill accounting to artificially inflate pre-tax profits at various international subsidiaries.

**Example A: Goodwill play**

A subsidiary is transferred from Ebix Holding Company A to Holding Company B at a premium to book value. The gain on sale recognized by Company A appears to flow through to Ebix’s consolidated pre-tax profit.

This situation has most notably, to us, arisen due to unusual accounting treatment in foreign jurisdictions, for which Ebix’s auditors appear to pay no consideration.

We began looking into these gimmicks due to large, one-off jumps in pre-tax profits in certain Ebix segments after intellectual property assets were sold.

**Example B: Contingent Consideration play**

Ebix announces the acquisition of Company A for part consideration in cash and $Xm in contingent consideration based on an earn-out agreement.

Contingent consideration never expected to be paid out, and in some instances does not appear to exist at all within filings of acquiring holding companies. Ebix later reverses this contingency and books this as earnings.
4. Main Findings

2009: Telstra eBusiness Exchange transfer leaves cash black hole

Telstra eBusiness Services insurance exchange was purchased on January 2, 2008 through Ebix Australia (VIC) Pty Ltd. Ebix’s 2008 10-K reports a purchase price of US$43.8m (AU$50m), which correlates with Australian filings of the same value:

Effective January 2, 2008 Ebix completed the acquisition of Telstra eBusiness Services Pty Limited ("Telstra"), a premier insurance exchange located in Melbourne, Australia. The purchase price was $43.8 million and was financed with a combination of available cash reserves, proceeds from the issuance of convertible debt, proceeds from the sales of unregistered shares of the Company’s common stock, and funding from the Company’s revolving line of credit.

Figure 5 Ebix 2008 10-K

7. Non-Current Investments

| Investment in subsidiaries | 55,758,000 | - | 5,758,000 |

Figure 6 Ebix Australia (VIC) Pty Ltd 2008 Annual Report

Ebix then transferred these assets to Singapore the following year.

5. Intangible assets (Continued)

Additions during the financial year

(i) Transfer of intangible assets arising from the acquisition of Telstra eBusiness Services

On 2 January 2008, Ebix, Inc., which is the ultimate holding company of the Company, acquired the entire interest in Telstra eBusiness Services ("Telstra"), an insurance exchange located in Melbourne, Australia. Accordingly, Telstra became a wholly-owned subsidiary of Ebix, Inc. During the financial year ended 31 December 2008, Ebix, Inc. completed its purchase price allocation and the valuation of the respective acquired intangible assets with the assistance of independent third-party valuation experts. As a result, Ebix, Inc. recognised the fair value of the intangible assets identified from the business combination separately from goodwill. Within the intangible assets are indefinite-life intangibles for which the contractual/territorial relationships that exist with the property and casualty insurance carriers in Australia. These contractual/territorial rights are perpetual in nature and, therefore, the useful lives are considered indefinite.

On 1 October 2009, the following intangible assets have been transferred to the Company at their respective carrying values:

<table>
<thead>
<tr>
<th>2009</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractual/territorial relationships (Indefinite-life)</td>
<td>21,652,920</td>
</tr>
<tr>
<td>Developed technology (remaining useful lives of 2 years)</td>
<td>310,107</td>
</tr>
<tr>
<td>Customer relationships (remaining useful lives of 19 years)</td>
<td>3,352,591</td>
</tr>
<tr>
<td>Goodwill</td>
<td>51,392,326</td>
</tr>
</tbody>
</table>

Figure 7 Ebix Singapore 2009 Annual Report

There was no cash consideration for this transfer: Ebix Australia appears to only recognize an AUD47.484m (US$33.143m) reduction in related-party payables.

10 Trade and Other Payables

<table>
<thead>
<tr>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade creditors and accruals</td>
<td>121,435</td>
</tr>
<tr>
<td>Withholding Tax payable</td>
<td>-</td>
</tr>
<tr>
<td>Annual leave provision</td>
<td>71,115</td>
</tr>
<tr>
<td>Unearned revenue</td>
<td>755,644</td>
</tr>
<tr>
<td>Goods and services tax payable</td>
<td>124,425</td>
</tr>
<tr>
<td>Amounts payable to related entities</td>
<td>2,156,203</td>
</tr>
<tr>
<td></td>
<td><strong>3,258,822</strong></td>
</tr>
</tbody>
</table>

Figure 8 Ebix Australia 2009 Trade Payables
But Ebix Singapore did recognize a cash expense of SG$76.108m for the purchase adjusting the “purchase of intangible assets” line item for other assets acquired during the year, and specifically notes that this was indeed a cash transaction:

<table>
<thead>
<tr>
<th>Cash flows from Investing activities</th>
<th>(79,011)</th>
<th>(16,125)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of plant and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of Intangible assets (Note 5)</td>
<td>(78,012,135)</td>
<td></td>
</tr>
<tr>
<td>Investment in a subsidiary</td>
<td>(1,220,793)</td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>-</td>
<td>217,592</td>
</tr>
<tr>
<td>Net cash (used in)/from investing activities</td>
<td>(79,261,939)</td>
<td>101,457</td>
</tr>
</tbody>
</table>

During the financial year, the Company purchased intangible assets of $82,946,894 of which $78,012,135 were made by way of cash and the remaining by loan from a related company.

Figures 9 & 10 Ebix Singapore annual report 2009 extracts

There is no accounting for this cash in Australia, and the cash appears to have tripped from an Ebix related party to the Singapore entity.

<table>
<thead>
<tr>
<th>Cash flows from financing activity</th>
<th>81,581,458</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from loan from a related company, representing cash from financing activity</td>
<td></td>
<td>-</td>
</tr>
</tbody>
</table>

Figures 11 & 12 Ebix Singapore annual report 2009 extracts

Note that Ebix Singapore is not the parent company of Ebix Australia (VIC) Pty Ltd, but they do share a Swedish parent company, EIH Holdings. As pointed out previously by other researchers, EIH Holdings auditor, BDO Sweden resigned due to an inability to confirm which subsidiaries and assets EIH Holdings owned.

We believe this transaction is one reason that the Australian Tax Office has been undertaking an audit of Ebix Australia (VIC) Pty Ltd since 2016.

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 13 Ebix Australia (VIC) Pty Ltd annual report 2017

This is one of what we believe to be numerous investigations into Ebix by international financial regulators, which have not been disclosed to shareholders.

There is no record of where this SG$78m went, or even if this cash existed at all. In fact, Ebix’s consolidated statement of cash flows and balance sheet in 2009 suggest that the businesses did not even have this amount of cash to distribute internally.

These issues should not exist under oversight from a reliable auditor. As far as audit risk goes, cash transactions are quite simple to verify, and difficult to fabricate – the transactions should literally exist on a bank statement.
Overall, Ebix’s Australian division appears to be in disarray. BDO quit as Ebix’s Australian auditor around the same time as they issued a complaint against its immediate parent company in Sweden, a creditor applied to wind up the business due to unpaid bills in 2009, assets appear to be transferred out of Australia with no tax consequences or cash consideration, and Ebix’s reported Australian revenues and sales do not reconcile since at least 2013 by a factor of up to 2x. These discrepancies have continued despite being highlighted by numerous research reports in the past.

We will continue to update investors on these issues in ongoing reports.

2013: Qatarlyst acquisition creates US$8m profit through fake earn-out reversal

On April 7, 2013 Ebix established its second UK subsidiary, Ebix UK Limited, with the purchase of Qatarlyst: a money-losing company previously receiving funding from Qatar Insurance Services LLC (QIS) an offshoot of the Qatari government.

Per UK filings at the time of the transaction, there were 27.829m shares issued at GBP1 each (US$42.056m) transferred between QIS and the Singapore subsidiary, consisting of the original 12.203m shares issued under QIS ownership and an additional 15.626m shares issued April 2, 2013 to converting the assumed debt of Qatarlyst to equity.

<table>
<thead>
<tr>
<th>Class of shares (E.g. Ordinary/Preference etc.)</th>
<th>Currency</th>
<th>Number of shares allotted</th>
<th>Nominal value of each share</th>
<th>Amount paid (including share premium) on each share</th>
<th>Amount (if any) unpaid (including share premium) on each share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary</td>
<td>Pound Sterling</td>
<td>15,626,304</td>
<td>£1.00</td>
<td>£1.00</td>
<td>None</td>
</tr>
</tbody>
</table>

Figure 14 Qatarlyst Return of allotment of shares form dated April 2, 2013

A full list of shareholders for the company are shown below

Shareholding 1: 0 ORDINARY shares held as at the date of this return
27829220 shares transferred on 2013-04-05

Name: QATAR INSURANCE SERVICES LLC

Shareholding 2: 27829220 ORDINARY shares held as at the date of this return

Name: EBIX SINGAPORE PTE LIMITED

Figure 15 CompaniesHouse UK Annual Return dated January 14, 2014

Per the 2014 Ebix Singapore financials, Ebix Singapore only paid US$5.025m in cash along with a contingent consideration of US$1.065m to acquire a 100% equity interest in Qatarlyst.

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1 All Qatarlyst filings are available at: [https://beta.companieshouse.gov.uk/company/03909745/](https://beta.companieshouse.gov.uk/company/03909745/)
Ebix’s consolidated accounts, however, show a contingent earn-out consideration arrangement of US$9.425m, not US$1.065m. Note the US$8.36m difference between these figures, it appears later as pre-tax profit.

### Figures 16 & 17 Ebix Singapore annual report 2013

<table>
<thead>
<tr>
<th>Investing activities</th>
<th>December 31, 2013</th>
<th>December 31, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of plant and equipment</td>
<td>$(52,014)</td>
<td>$(18,855)</td>
</tr>
<tr>
<td>Purchase of intangible assets (Note 5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from changes in equity interest in a subsidiary (Note 6)</td>
<td>15,455,665</td>
<td>30,368,016</td>
</tr>
<tr>
<td>Dividend Income received</td>
<td>1,790,434</td>
<td></td>
</tr>
<tr>
<td>Due to related companies</td>
<td>$(777,815)</td>
<td></td>
</tr>
<tr>
<td>Investments in subsidiaries</td>
<td>$(15,025,468)</td>
<td>$(12,999,215)</td>
</tr>
<tr>
<td>Contingent consideration</td>
<td>$(4,751,192)</td>
<td>$(1,018,372)</td>
</tr>
<tr>
<td>Net cash from investing activities</td>
<td>$4,809,176</td>
<td>$15,274,864</td>
</tr>
</tbody>
</table>

#### 6. Investment in subsidiaries (Continued)

During the financial year, the Company had on 4 April 2013 entered into a Share Sale and Purchase Agreement with a third party to acquire 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 resources. The Share Sale and Purchase Agreement also provided for contingent consideration to be paid by the Company based on certain revenue targets to be met. As management expects the targets to be met, the contingent consideration of US$1,065,324 was also included in investment in subsidiary with the corresponding obligation recorded as contingent consideration in other payables.

Figure 18 Ebix 2013 10-K Summary of acquisitions

Note: Qatarlyst was the only acquisition made by Ebix in the year ended December 2013.

### 2014: Merger of Qatarlyst and Trisystems

Just over a year later in August 2014, Ebix’s Qatarlyst and Trisystems UK subsidiaries merged when Ebix UK Limited (formerly Qatarlyst) subsidiary purchased Ebix Europe Limited (formerly Trisystems). Ebix UK Limited changed its name to Ebix Europe Limited to hold these assets.

Ebix’s 2014 10-K showed the Europe region reported an increase of almost US$8.58m in pre-tax income from US$1.36m in 2013 US$9.94m, a 730.88% increase.
At the time, Ebix Europe was the only Ebix subsidiary in Europe excluding Sweden, which was accounted for separately. This pre-tax income increase correlates with the ~US$8m difference in contingent consideration reported by Ebix when it acquired Qatarlyst in 2012.

This surge in income could not feasibly be from operations, as Ebix Europe reported only US$1.004m of pre-tax income. Ebix also stated the earn-out was to be based on Qatarlyst’s performance in 2014, 2015 and 2016.

Not surprisingly, the audited pre-tax income for the Europe/UK region fell back down to US$2.338m in 2015 and has remained at that level ever since.

We believe that Ebix fabricated an excess of $8m in contingent consideration to create a ‘cookie jar’ through which it could then reverse and book profits. Local accounts suggest this goodwill never existed.

This discrepancy was accompanied by a spate of auditor resignations.

KPMG resigned as Qatarlyst’s auditor as of June 26, 2014 – just before the conclusion of Ebix’s merger of the two UK subsidiaries and before it had completed the 2013 audit. KPMG had essentially never completed an audit of Qatarlyst under Ebix’s ownership. Ebix appointed a small audit firm that previously handled TriSystems audits:


Finally, Ebix brought in another small audit firm, Carter Backer Winter LLP, who signed off on the 2014 audit on October 28, 2015 and has remained at least through the last filing which was the 2016 audit.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2012</td>
<td>Trisystems changes name to EBIX Europe.</td>
</tr>
<tr>
<td>April 2013</td>
<td>Qatarlyst acquired by EBIX Singapore for US$5.025 in cash and US$1.065 in contingent consideration. Loans from QIS to Qatarlyst converted to 15.627 shares of GBP1 each.</td>
</tr>
<tr>
<td>May 2013</td>
<td>Qatarlyst changes name to EBIX UK.</td>
</tr>
<tr>
<td>December 2013</td>
<td>EBIX corporate discloses US$11.136m of goodwill acquired in Qatarlyst purchase, US$9.425m contingent consideration. EBIX corporate reports Europe pre-tax income as US$1.360</td>
</tr>
<tr>
<td>June 2014</td>
<td>KPMG resign as auditors of EBIX UK.</td>
</tr>
<tr>
<td>August 2014</td>
<td>EBIX UK acquires EBIX Europe and changes name to EBIX Europe.</td>
</tr>
<tr>
<td>December 2014</td>
<td>EBIX corporate reports Europe pre-tax income as US$9.940, a US$8.754m increase. EBIX UK reports pre-tax income of US$1.003m.</td>
</tr>
<tr>
<td>August 2015</td>
<td>Ashkar and Company resign as auditors.</td>
</tr>
</tbody>
</table>

Figure 23 Timeline of Ebix’s UK operations

Previous shareholder litigation against Ebix, which has since settled, found an identical cookie jar accounting scheme relating to the acquisition of Peak Performance Solutions.

2015: Oakstone and Healthcare Magic (India, Singapore)

Ebix’s Indian operations reported steady profits until 2015 when they increased to US$58.67m from US$28.194m, a 108.09% increase. This was not repeated the following year with profits of US$40.444m for 2016, a similar situation to the Ebix Europe merger.

Lacking a clear explanation for this drastic increase in what was previously a stable segment, we further investigated the company’s Indian operations.

Ebix Software India Private Limited (Ebix Software India) is a subsidiary of Ebix Singapore and up to the acquisition of the EbixCash component entities was Ebix’s main presence in India. The company’s mandate is somewhat vague, but it appears to mostly deal in IT services, software development and online health services.

4 http://securities.stanford.edu/filings-documents/1047/EBIX00_01/2012928_r01o_11CV02400.pdf
Within Ebix’s financials it is categorized as part of the India segment however the majority of its revenue is derived from transactions with its holding company, Ebix Singapore.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>For the period Jan’14 to Mar’15</th>
<th>For the year ended Dec 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from Operations</td>
<td>3,293,955,207</td>
<td>2,584,016,369</td>
</tr>
<tr>
<td>Remuneration</td>
<td>N.A.</td>
<td>31,22,220</td>
</tr>
<tr>
<td>Reimbursement of Expenses</td>
<td>N.A.</td>
<td>13,22,121</td>
</tr>
<tr>
<td>Advance Received</td>
<td>93,79,500</td>
<td>N.A.</td>
</tr>
<tr>
<td>Outstandig Balances</td>
<td>2,034,384,438</td>
<td>2,250,652,777</td>
</tr>
</tbody>
</table>

Figures 25 & 26 Ebix Software India annual report 2015

More concerning to us is the transactions of intangible assets between Ebix Software India, Ebix and Ebix Singapore which we believe resulted in US$30m of incorrectly recognized revenue in 2015.

Oakstone and Healthcare Magic

In 2014 Ebix acquired HealthCare Magic Private Limited (HealthCare Magic) in Q2 and Oakstone Publishing, LLC (Oakstone) in Q4. These two acquisitions created US$34.388m of goodwill at Ebix.

Ebix Software India’s auditor shuffle

For reasons unknown, Ebix Software India extended its reporting period to 15 months from 12 months for the period ending March 31, 2015 sometime prior to September 2014. Note that at this point the 2015 audit had not yet been signed off.

Ebix Software India’s auditor shuffle

For reasons unknown, Ebix Software India extended its reporting period to 15 months from 12 months for the period ending March 31, 2015 sometime prior to September 2014. Note that at this point the 2015 audit had not yet been signed off.

An Ebix press release dated September 4, 2014 announced the appointment of Ernst & Young Indian affiliate S.R. Batliboi & Associates LLP as auditors for Ebix Software India5. However, S.R. Batliboi & Associates resigned as auditor on June 8, 2015, and were replaced with local auditor T.R. Chadha & Co. before they could complete the 2015 audit. T.R. Chadha & Co. still hold the position and have recently been appointed Ebix’s worldwide auditor.

5 https://www.ebix.com/PressRelease/PressReleasebyID/312
Most relevant is that the audit for the 15 month period ended March 31, 2015 was not signed off by T.R. Chadha until February 6, 2016.\(^6\)

As such it was not until February 4, 2016 that High Court of Allahabad approved the transfer of HealthCare Magic and Oakstone assets from the US to India effective from the original acquisition dates. The 2015 audit was conducted as though these assets had been under Ebix Software India since their acquisitions in Q2 and Q4 of 2014.

Pursuant to the scheme of amalgamation (the scheme) of Rx HEALTHCARE MAGIC PRIVATE LIMITED, UNIFIED HEALTH SOLUTION PRIVATE LIMITED (Wholly owned subsidiary of Rx HEALTHCARE MAGIC PRIVATE LIMITED) and OAKSTONE PUBLISHING LLC (USA) with EBIX SOFTWARE INDIA PRIVATE LIMITED under sections 391 to 394 of ‘The Companies Act, 1956’ sanctioned by the Hon’ble High Court of Allahabad on 05th January 2016, the assets and liabilities of RX HEALTHCARE MAGIC PRIVATE LIMITED, UNIFIED HEALTH SOLUTION PRIVATE LIMITED and OAKSTONE PUBLISHING LLC (USA) were transferred to and vested in the Company from the appointed date i.e. 01st May, 2014 for RX HEALTHCARE MAGIC PRIVATE LIMITED and UNIFIED HEALTH SOLUTION PRIVATE LIMITED and 01st Dec. 2014 for OAKSTONE PUBLISHING LLC (USA). Accordingly, the scheme has been given effect to in these accounts as on these appointed dates. The Scheme was made effective upon filing of the certified copy of the order of the High Court of Allahabad sanctioning the Scheme with the Registrar of Companies, Kanpur on 06th February 2016.

Figure 29 Ebix Software India Annual Report 2014

**Related party sale of $0 assets**

Through the Oakstone & HealthCare Magic amalgamation, Ebix Software India was entitled amortize the goodwill associated with amalgamation under Indian GAAP\(^7\). This goodwill amounted to US$37.146m, roughly what was recorded by Ebix when these deals closed in their respective quarters of Q2 and Q4 2014.

Ebix Software India started amortizing like it was going out of style, with US$17.774m amortized as of March 31, 2015 and the remaining US$24.595m amortizing in the 15-month period ending March 31, 2016.\(^8\)

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\(^6\) Ebix Software India Audited Financial Statements 2015 – Independent Auditor’s Report


\(^8\) Ebix Software India has overlapping 15-month audit periods for unknown reasons.

\(^9\) We have added these results as a table for ease of understanding.

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Viceroy Research Group

vicereyorresearch.org
We believe these ~US$0 assets were purchased by Ebix Singapore, and created a large pre-tax gain on sale at the Indian subsidiary level. This intra-group transaction appears to have bumped Ebix’s consolidated pre-tax profits by ~US$28m in 2015, and accounts for the massive one-off bump in pre-tax profits in that year.

![Figures 32 & 33 2014 & 2015 Ebix geographical pre-tax income](image)

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.

Interestingly, there was no disclosure by Ebix or its subsidiaries that Oakstone had been transferred to Singapore. So how do we know? Because as part of a group restructuring exercise in 2016, Ebix Singapore sold IP to Ebix’s newly formed Dubai entity.

![Figures 34 & 35 Ebix Singapore 2015 & 2016 Annual Report](image)

Hidden within hundreds of unsearchable JPG files lodged with the SEC, we find that Oakstone was one of the IP assets sold to Dubai, and we now have a paper trail showing these assets must have been sold to Singapore.

**We find peculiar, unexplained non-cash movements in Singapore’s accounts over the same year for this ~US$30m transaction.**

**2016: Dubai**

Ebix’s Dubai subsidiary, Ebix Asia Pacific FZ LLC (Ebix Dubai), was incorporated in 2016 and reported US$42.397m of profit in its first year: the sector had not previously reported any profits nor assets.

Ebix Dubai’s holding structure is unconventional for a company that holds so many of Ebix’s total assets. Its immediate parent company is Mauritius-domiciled Ebix Asia Holdings, Inc., who is in turn held by Ebix International Holdings Limited, a UK company. Ebix International Holdings Limited is in turn owned by Ebix.

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Ebix International Holdings was briefly mentioned in Ebix’s 2015 10-K.

However according to UK filings, Ebix International Holdings’ 2017 accounts are overdue, and the company is in the process of being compulsorily stricken off for lack of filings. Its last filings for 2016 were classified as “Accounts for a dormant company”. It appears to have conducted a capital raise on November 27, 2017 but had no other significant activities.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Mar 2018</td>
<td><strong>Statement of capital following an allotment of shares on 27 November 2017</strong></td>
</tr>
<tr>
<td>21 Nov 2017</td>
<td><strong>Confirmation statement made on 12 November 2017 with no updates</strong></td>
</tr>
<tr>
<td>10 Aug 2017</td>
<td><strong>Accounts for a dormant company made up to 31 December 2016</strong></td>
</tr>
</tbody>
</table>

**Companies Act 2006 (Section 100(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.

Returning to Ebix Dubai: it appears to have been formed due to an asset transfer from Ebix Singapore around the middle of 2016 as per Ebix Singapore’s financials.

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11 [https://beta.companieshouse.gov.uk/company/09871102](https://beta.companieshouse.gov.uk/company/09871102)
Ebix’s 2016 financials reported US$54.142m of assets in Dubai, up from $0 a year before. As reported in the 2016 Singapore audit, the company took a US$30.264 million impairment charge on the transfer and disposal of these assets to Dubai. So, the amount of goodwill and intangible assets transferred was in the vicinity of $84.820m.

Readers will note that the disclosure as to what was actually transferred is quite light on details: there are no obvious disclosures in either Ebix Singapore or Ebix as to what was transferred.

There is, however, a credit agreement amendment dated February 21, 2018 showing the ownership of copyrights and trademarks by each of Ebix’s subsidiaries.

It appears as though Ebix Singapore transferred to Ebix Dubai the assets of:

- EbixAdvantage and EbixASP from the renamed Telstra subsidiary acquired in 2008.
- Fintech
- Planetsoft Holdings Inc.
- Oakstone Publishing

Ebix’s 10Qs, the Singapore geographic asset balance dropped from US$68.718m in Q2 2016 to $34.008m in Q2 and to US$17.505m in Q3 2016. At the same time, the Dubai geographic assets ballooned from zero in Q1 to US$37.943m in Q2 and to US$54.333m in Q3.

As noted earlier, the Dubai geographic pre-tax income was reported at US$42.397m in 2016 from US$0 in 2015. The Singapore geographic pre-tax profits dropped to US$1.218m in 2016 from US$13.177m in 2015.
However, in the 2016 Ebix Singapore subsidiary’s audited financials, it reported a pre-tax loss of US$27.581m due to taking the US$30.264m loss on this asset transfer and disposal.

Despite this goodwill loss occurring at the subsidiary level, Ebix did not disclose any reduction in goodwill for the period ending 2016 associated with these assets. We believe this transaction essentially ‘corrects’ Singapore’s books.

We are also skeptical as to whether Ebix Dubai ever paid for these assets considering for this disposal Ebix Singapore received US$54.422m and then turned around and loaned it out to a related company, which could conceivably be the Dubai subsidiary.

An obvious implication of these significant non-cash transactions is, as already highlighted by numerous short sellers, that Ebix Singapore – which had substantial IP tax benefits – was acquiring significant amounts of IP from high tax jurisdictions, without any transfer of cash. You can’t have your cake and eat it too.

These transactions do not appear to be arm’s length.
5. Other red flags

5.1. Management & financial control issues

Robin Raina’s “poison pill” anti-takeover compensation

Ebix’s CEO Robin Raina is subject to possibly the most generous compensation scheme we at Viceroy have ever seen for a company of comparable size. The company has in place an anti-takeover “poison pill” agreement which entitles Raina to a massive payout in the event of an acquisition of 50% of the shares outstanding or more.

The Stock Appreciation Rights Agreement (SARA) replaces the Acquisition Bonus Agreement (ABA), its controversial predecessor over which legal action between the company and stockholders is still ongoing. Despite claims that Raina himself asked for the re-evaluation leading to the SARA replacing the ABA, the terms of SARA actually appear more beneficial for him.

The SARA, effective April 10, 2018 states:

- Raina received 5,953,975 stock appreciation rights (SARs), which in the case of an acquisition, entitle Raina to a cash payment equal to the excess of the net proceeds per share received for the acquisition over the base price of US$7.95 per share.
- Annually, the board shall determine if the sum of the Ebix SARs and shares held by Raina is less than 20% of the number of SARs and shares outstanding. If so, Raina is granted enough new SARs to eliminate this shortfall.
- The company will also pay any taxes incurred by Raina due to the exercise of the SARs in the case of an acquisition.

This mechanism essentially acts as an anti-takeover device by imposing a huge cost to the company in the event of a takeover. A back of the envelope simulation if company were to be taken over for market value on the day of the SARA at a share price of US$75.75 per share results in a total payable to Raina of US$553m including taxes.

\[
\text{SARA Analysis} \\
\begin{array}{ll}
\text{USD} \\
\hline
\text{Share price} & 50.00 \\
\text{Base price} & 7.95 \\
\text{Difference} & 42.05 \\
\text{SARs owned by Raina} & 5,953,975 \\
\text{SAR payout} & 250,364,649 \\
\text{Personal Income Tax rate} & 37\% \\
\text{Tax payable} & 92,634,920 \\
\text{Total Payable to Raina} & 342,999,569 \\
\text{Shares outstanding} & 31,490,673 \\
\text{Share price} & 75.75 \\
\text{Purchase price} & 2,385,418,480 \\
\text{SAR premium} & 14.38\% \\
\end{array}
\]

\[
\text{Figure 49 Viceroy SARA cost estimate}
\]

Obviously, we have made some assumptions with the calculation above but we do so to illustrate the effectiveness of this “poison pill”. An evaluation of the previous ABA was performed by consultants Korn Ferry to determine the amount payable to Raina under the ABA in the event of a takeover.
The SAR premium increases as the proceeds per share do, such that the more expensive the company, the more Raina benefits as a portion of the acquisition price.

The ABA has played a role in preventing acquisitions in the past: documents from the ongoing stockholder litigation show that Raina was unwilling to give up his bonus. An exchange between Raina and the Carlyle Group show negotiations based around US$20 per share but requested Raina cap his change of control bonus at US$24m. For reference, on January 29, 2013, Ebix shares were trading between US$16.56 to US$16.74 per share.

214. On January 29, 2013, Brooke Coburn (“Coburn”) of Carlyle wrote to Raina:

Beyond the question of value, there are a number of other important deal issues being discussed on the call. If we can get to $20/share we would need you, as our partner, to agree to several things going forward. A number of these may be difficult for you, and perhaps they are deal breakers, but in the spirit of candid I wanted to lay everything out now so we have everything on the table:

* * *

3. I suspect this would be the hardest issue for you: we would like to cap your change of control bonus at closing at approximately $24MM (the 280(a) limit). . .

215. Later that day, Raina responded to Coburn, writing “Let me first address your deal breaker points, that for sure are completely unacceptable to me—

1. Giving up on the Chairman role. 2. Limiting my change of control bonus.”

We believe the Goldman acquisition that fell through in mid-2009 only got as far as it did due to Raina’s waiving of his acquisition bonus under the ABA.

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12 CONSOLIDATED C.A. No. 8526-VCS
The existence of the ABA and SARA are a major red flag as:

1. It can be, and has been, used to allow the CEO to show preference in acquiring entities by waiving or not waiving its terms.
2. It effectively prevents an acquisition due to attaching a huge premium to any acquisition thereby artificially inflating Ebix’s purchase price.
3. Allegations made in legal filings suggest Ebix’s directors and compensation committee may be less independent than required.

Auditor issues
On October 5, 2018, Ebix a change of worldwide audit partner to T.R. Chadha and Co taking over from Cherry Bekaert as an interim measure announcing their intention to appoint a big 4 firm in Q1 2019. Cherry Bekaert will continue to be retained as the US component auditor reporting to T.R. Chadha.

Note that Ebix had reported material weaknesses over financial controls in their 2017 10-K, specifically regarding income taxes and purchase accounting. This echoes the situation in 2004 when then-auditor KPMG “identified certain significant deficiencies relating to the Company’s internal control over financial reporting”.

Cherry Bekaert also audited MiMedx, a company we have previously reported on and who are now restating financial statements as far back as 2012. The 2017 Public Company Accounting Oversight Board inspection report into Cherry Bekaert is scathing:

Those familiar with our work will know Cherry Bekaert were also long time auditors of another Marietta based company, MiMedx, until August 2017, where they were replaced by EY just one week prior to their PCAOB inspection. EY subsequently refused to sign off on accounts, retrospectively advised that accounts could not be relied upon from at least 2012 onwards, and has most recently quit on the apparent basis that internal controls to verify MiMedx’s financials “do not exist”, making us wonder how Cherry Bekaert was able to audit the accounts in the first place.

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13 https://www.sec.gov/Archives/edgar/data/814549/000081454918000035/form8kaccountantchange.htm
Cherry Bekaert have acted as Ebix’s auditor since 2008\(^{17}\), and the facts presented in this report should further call into question the integrity of these audits. That the firm is remaining as Ebix’s US audit partner should not be welcomed as a sign of integrity.

T.R. Chadha has a less than stellar track record in our book, considering they were the auditor for Ebix Software India for the Oakstone transaction and Ebix Vayam Technologies, the revenue-purchasing JV. This firm will now be auditing Ebix operations worldwide. Further, T.R. Chadha has no experience auditing a US-listed entity that we can find.

We believe both audit firms, T.R. Chadha and Co and Cherry Bekaert, have significant strikes against their records.

The change of auditor in the face of discovery of reporting and control deficiencies or weaknesses is not a new phenomenon. This also occurred when KPMG identified internal control issues at Ebix in 2003 and were replaced by BDO Seidman.

5.2. Receivables

Vayam joint venture

Ebix announced the formation and mandate of a joint venture with Vayam Technologies Limited (Vayam) in their Q1 2016 10-Q.

This company, Ebix Vayam Technologies Limited (Ebix Vayam) appears to exist solely to allow Ebix to buy revenues: the company appears to have only ever done business with Vayam Technologies itself since inception. The company is funded largely through loans from Ebix which are repayable out of the receivables account which stands at 446 days as of March 31, 2018.
There were no revenues reported in 2016. The company shares its address with Ebix Software India.

Further, 79% of the revenue from Vayam is held in accounts receivables. We question whether these sales actually took place.

Ebix Vayam Technologies Limited appears to have a strangely disparate set of operations. Ebix’s webpage for Ebix Vayam only contains its policy on e-waste with a number belonging to an e-waste recycling agency.\(^\text{18}\)


Another press release names specifically the public sector entities to be surveyed: Bharat Electronics Limited, ITI Ltd and the Electronics Corporation of India. Vayam did actually complete the census however it appears to have done so sometime in 2015, a year before Ebix Vayam had even formed. While the concluding date for the census does not appear to be published anywhere, it appears as though the entire work was mostly complete by 2015\(^\text{20}\).

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\(^\text{18}\) https://www.ebix.com/ebixvayam
\(^\text{19}\) https://www.ebix.com/PressRelease/PressReleasebyID/378
5.3. Indian expansion story: an old-fashioned roll-up

Those following the story will be aware that Ebix has recently branched out into various other areas to offset the falling margins in their native industry. The spread and pace of these acquisitions is ridiculous. The following is a slide from Ebix’s investor presentation dated December 3, 2018.

To date, the company has branched out into:

- Foreign exchange kiosks (Centrum)
- Inward remittance in India (Wall Street Finance, Youfirst Money Express, Paul Merchants, Transcorp)
- B2B trucking logistics (Routier)
- Consumer travel (Mercury Travels)
- Corporate event and travel management (Leisure Corp)
- Prepaid Cards (ItzCash Card)
- Asset and wealth management software solutions (Miles Software)
- Lending software solutions (Indus Software Technologies)

This list was officially outdated 3 days later by the announcement of the acquisition of AHA taxis²¹.

AHA taxis is a network of on-demand inter-city taxis. The business supposedly takes advantage of finding drivers who have just made a one-way intercity trip looking for fares on the way back. Local filings show the business is loss-making and heavily cash flow negative: the business appears to have no assets and simply connects clients to drivers. Contrary to the most recent EBix Press release. We’ll publish more on this shortly.

The AHA taxis app on the google app store has only 10,000 downloads, with reviews beginning in February 2017. Prosight Partners also advised Via Media Health in 2014 leading to Ebix’s acquisition of the business in 2015 based on a testimonial on their website.

We highlight AHA Taxis as it is representative of the increasingly scattered nature of Ebix’s Indian acquisitions. Similar to our findings on ProSiebenSat.1, we believe the company is taking on debt to acquire these businesses at a reckless pace. One interesting effect is that depending on which pro forma estimates are used, Ebix’s Indian organic growth appears low.

In essence, this is the quintessential roll-up strategy with these purchases being funded through raising debt. While the establishment of a remittance entity may have been the original intention, Ebix’s acquisitions have been becoming more disparate: it was simple to see how an additional MTSS structure could synergise into Ebix’s existing Indian portfolio but we struggle to see how B2B trucking logistics and inter-city taxi services fit in.

The company has long floated the idea of listing these entities as a combined EbixCash entity on the BSE. Below is a list of Ebix’s acquisitions in India.

<table>
<thead>
<tr>
<th>Date</th>
<th>Acquisition</th>
<th>Consideration (USDm)</th>
<th>Contingent Consideration (USDm)</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>06-Dec-18</td>
<td>70% stake in AHA Taxis</td>
<td>not finalised</td>
<td>not finalised</td>
<td>On-demand inter-city taxi service</td>
</tr>
<tr>
<td>22-Oct-18</td>
<td>Business Travels Group</td>
<td>not finalised</td>
<td>not finalised</td>
<td>none found</td>
</tr>
<tr>
<td>01-Aug-18</td>
<td>Miles Software</td>
<td>18.30</td>
<td>8.30</td>
<td>“provider of on-demand software on wealth and asset management to banks, asset</td>
</tr>
<tr>
<td>01-Jul-18</td>
<td>Leisure Corp</td>
<td>2.10</td>
<td>not finalised</td>
<td>“The Company’s core competency is to provide a customized range of services from</td>
</tr>
<tr>
<td>01-Jul-18</td>
<td>Mercury Travels</td>
<td>13.20</td>
<td>not finalised</td>
<td>Travel and forex</td>
</tr>
<tr>
<td>01-Jul-18</td>
<td>Indus Software Technologies</td>
<td>22.90</td>
<td>5.00</td>
<td>“global provider of enterprise lending software solutions to financial institutions,</td>
</tr>
<tr>
<td>01-Apr-18</td>
<td>CentrumDirect Limited</td>
<td>179.50</td>
<td>not finalised</td>
<td>“a leader in India’s foreign exchange and outward remittance markets”</td>
</tr>
<tr>
<td>01-Apr-18</td>
<td>Smartclass Educational Services</td>
<td>8.60</td>
<td>not finalised</td>
<td>“leading e-learning Company engaged in the business of education services, development</td>
</tr>
<tr>
<td>01-Feb-18</td>
<td>MTSS of Transcorp International</td>
<td>7.25</td>
<td>0.00</td>
<td>MTSS</td>
</tr>
<tr>
<td>01-Nov-17</td>
<td>Via.com</td>
<td>78.80</td>
<td>2.30</td>
<td>“recognized leader in the travel space in India and an Omnichannel online travel and assisted e-commerce exchange”</td>
</tr>
<tr>
<td>01-Nov-17</td>
<td>MTSS of Paul Merchants</td>
<td>37.40</td>
<td>0.00</td>
<td>MTSS</td>
</tr>
<tr>
<td>18-Aug-17</td>
<td>MTSS of YouFirst Money Express</td>
<td>10.20</td>
<td>0.00</td>
<td>MTSS</td>
</tr>
<tr>
<td>17-Aug-17</td>
<td>MTSS of Wall Street Finance Limited</td>
<td>7.25</td>
<td>0.00</td>
<td>MTSS</td>
</tr>
<tr>
<td>01-Jul-17</td>
<td>beBetter Health</td>
<td>1.00</td>
<td>2.00</td>
<td>“a technology enabled corporate wellness provider that provides end-to-end wellness solutions”</td>
</tr>
<tr>
<td>01-Apr-17</td>
<td>80% stake in ItzCash Card</td>
<td>76.30</td>
<td>44.00</td>
<td>“India’s leading payment solutions exchange”</td>
</tr>
</tbody>
</table>

Figure 62 Viceroy analysis of Ebix acquisitions

6. Conclusion

We believe Ebix represents a serious investment risk and see significant downside to its shares. Based on what we have found so far, we are unable to quantify this downside. Viceroy’s investigation into Ebix continues: what has been presented is simply the most complete of our research thus far. The sheer volume and breadth of subsidiary filings, as well as the delay in the signing off and filing of accounts will take more time to process.

Viceroy are in the process of obtaining further filings and completing a more extensive analysis on Ebix’s numerous acquisitions.