



Earlier this year, the Public Company Accounting Oversight Board (PCAOB) wrote that it expects 40% of audits to contain one or more deficiencies, a third successive year of increases.¹ The past decade of readily available, cheap capital, succeeded by explosive COVID-era liquidity, has fostered a remarkable environment for growth and technological advancement. Yet, our collective exasperation to deploy capital has fuelled an Odyssean quest for hidden value and underappreciated narratives, even in companies that for thirty years have just barely skated by.

Ebix, Inc. (NASDAQ:EBIX) is near-and-dear to Safkhet Capital. When I first explored expanding our investment universe outside of healthcare, I carefully studied the activist short reports published in 2013 on Ebix;² it was my first cautionary tale of how even substantively accurate and credible short reports can be successfully evaded by smooth operators—few as smooth as longtime Ebix CEO, Robin Raina.

Despite his colorful appearance and penchant for self-promotion, we cannot deny that Mr. Raina's stewardship of Ebix, Inc. over the past two decades is the primary reason for Ebix's survival through multiple market cycles, short seller campaigns, and securities fraud investigations. Shareholders of Ebix tend to agree, ceding golden handcuff agreements to Raina that could make Jeff Skilling blush.³

No matter how deft Raina may be, he cannot perform a disappearing act upon this basic reality: a reliably strong indicator of future market losses, especially from fraud, is short selling activity.

Our firm has been short shares of Ebix, Inc. at various points since our firm's inception in 2018 and we continue to hold shares short today. We break from our usual protocol of avoiding public comment and seek to correct misinformation about recent events propagated by various parties and hope to also inform ordinary investors of basic facts, so they may make more informed investment decisions and mitigate potential losses. This is not a "short report" or "investment recommendation." This is a simple Public Service Announcement. We will not be sharing our analysis of Ebix, Inc. fundamentals; our short thesis is strictly established by a careful review of its filings in its many jurisdictions which could be recreated by the average financial analyst. Instead, we will share with you the chronology of our correspondence with various stakeholders, including the PCAOB, as well as provide citations from Ebix's own auditors regarding reporting deficiencies. The common-sense conclusion from this information, in our view, is that Ebix's financials—and the financials of all its subsidiaries—cannot be relied upon and a thorough independent, external investigation with regulatory oversight must be completed before any additional securities are issued.

¹ Foley, Stephen. "US Regulator Reports Rising Number of Flawed Audits." Financial Times, July 25, 2023, <https://www.ft.com/content/0b83aafa-bf98-4ccc-b4c6-3fb0b7fd2412>

² Gotham City Research, "Ebix: All Distraction, No Clarity." March 7, 2013.

<https://www.scribd.com/document/129079949/2013-03-07-Ebix-All-Distraction-No-Clarity-Final#>

³ Ebix, Inc.'s Stock Appreciation Right Award Agreement, April 10, 2018.

<https://www.sec.gov/Archives/edgar/data/814549/000081454918000013/saragreement.htm>

The PCAOB vs KG Somani

When EbixCash, Ebix, Inc.'s Indian subsidiary, filed its draft red herring prospectus on March 10, 2022, we knew we would need to be creative in our activism to stymie the company's efforts to access a new market—India—with heavy retail participation.⁴ Given the PCAOB's widely publicized new regulatory priority on auditing firms headquartered internationally⁵ and the relatively fewer tips the agency receives relative to the Securities and Exchange Commission (SEC), we felt that engaging with the PCAOB would be more fruitful due to less stretched resourcing and vested interest in investigating our concerns with EbixCash's auditor, KG Somani & Co.

On April 19, 2022, I sent a letter highlighting audit turnover, auditor comments, and the credentials of KG Somani. This was responded to promptly, with the PCAOB asking for permission to also share my information with the SEC, to investigate potential securities violations, which I had granted.

Our letter was not sent for the purposes of confirming possible fraud at Ebix. Identifying and prosecuting fraud is not within the scope of the PCAOB's mandate. The PCAOB is a professional standards body for audit firms. The relevant aspects of its scope here are “1) to inspect registered public accounting firms' audits and quality control systems,” and 2) “investigate and discipline registered public accounting firms and their associated persons for violations of specified laws, rules, or professional standards.”⁶ So, the PCAOB is not concerned with Ebix, it is concerned with Ebix's auditor, KG Somani.

What has been made public in the PCAOB's August 8th enforcement order against KG Somani should give all market enthusiasts cause for pause: much of the ‘paper trail’ associated with a critical audit year, 2020, following the resignation of Ebix's prior auditor, RSM, was created *only after* the audit opinion was provided and the annual reports were filed.⁷

We would like to remind you of the reasons for which RSM had dramatically resigned in 2021. RSM in its own words, disagreed with Ebix on its cash balances and prepaid card revenue, stating that Ebix did not provide the information necessary to complete the audit.⁸

RSM was not a rogue auditor. In 2019, D. Arumugam & Co, auditor for Ebix Fincorp Exchange Pte Ltd, parent of EbixCash's subsidiaries at the time, wrote that Ebix did not provide sufficient evidence

⁴ EbixCash Limited's Draft Red Herring Prospectus. Dated March 9, 2022, Filed March 10, 2022. https://www.sebi.gov.in/filings/public-issues/mar-2022/ebixcash-limited_56719.html

⁵ PCAOB Release No. 2023-002. “Amendments to Conform PCAOB Rule 6100 to the Consolidated Appropriations Act, 2023.” March 28, 2023. https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-050/pcaob-release-no.-2023-002---rule-6100-amendments.pdf?sfvrsn=c4c270d0_4

⁶ PCAOB's Website. <https://pcaobus.org/about>

⁷ PCAOB Release No. 105-2023-020, “Order Instituting Disciplinary Proceedings, Marking Findings, and Imposing Sanctions. In the Matter of K G Somani & Co. LLP and Anuj Somani.” August 8, 2023. https://assets.pcaobus.org/pcaob-dev/docs/default-source/enforcement/decisions/documents/105-2023-020-kgs.pdf?sfvrsn=295f74d0_4

⁸ RSM US LLP's Letter to the Securities and Exchange Commission, February 22, 2021. <https://www.sec.gov/Archives/edgar/data/814549/000119312521051571/d137737dex161.htm>

for it to even provide an audit opinion. They went on to cite questions on prepaid card, accounts receivable, and recommended impairments of subsidiaries in India.⁹

Some have argued that these are “historical issues.” However, in 2023, AAC Assurance PAC the auditor of Ebix Singapore Pte Ltd the current parent of EbixCash, provided a qualified opinion citing that impairment assessments in subsidiaries were not reasonably prepared and could not be relied upon.¹⁰

We do believe these issues are neither historical nor resolved. Here we are not only facing a consistency of allegations from short sellers or journalists—these are the concerns raised by multiple auditors, at various times, around the world. In our experience, this demonstrates a *culturally entrenched and systemic disregard* for financial reporting and governance norms. While we are not shareholders, we are enraged on their behalf.

We commend the PCAOB for its swift censure of KG Somani, an important first step in righting ship and protecting the interests of investors worldwide. Some have questioned why this enforcement only discusses the 2020 audit, but the order does not limit future investigations and additional sanctions. It is also important to note that the sanctions imposed against KG Somani are provided in certain cases where the PCAOB found the auditor’s conduct was intentional and contained “repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard,” suggesting reckless and repeated violations that most certainly are not limited to one year alone.¹¹

Understanding the limitations of the PCAOB’s scope, we also knew it was incumbent upon us to ensure that—beyond the US and the SEC—regulators were adequately informed of the lapses in reporting norms that auditors have witnessed and written extensively about.

Indian IPO and the Sound of Silence

After EbixCash filed the addendum to its draft red herring prospectus on June 1, 2023, confirming what we had already suspected and notified the PCAOB of, we retained counsel in India to explore our options to ensure that an IPO of EbixCash shares would only proceed after thorough, forensic, and independent examination of the issuer and its promoters.¹²

⁹ “Independent Auditor’s Report to the Member of Ebix Fincorp Exchange Pte. Ltd., incorporated in Singapore, for the financial period 12 October 2017 to 31 December 2018,.” D. Arumugam & Co., December 12, 2019.

¹⁰ “Independent Auditor’s Report to the Members of Ebix Singapore Pte Ltd for the financial year ended 31 December 2021.” AAA Assurance PAC, January 13, 2023.

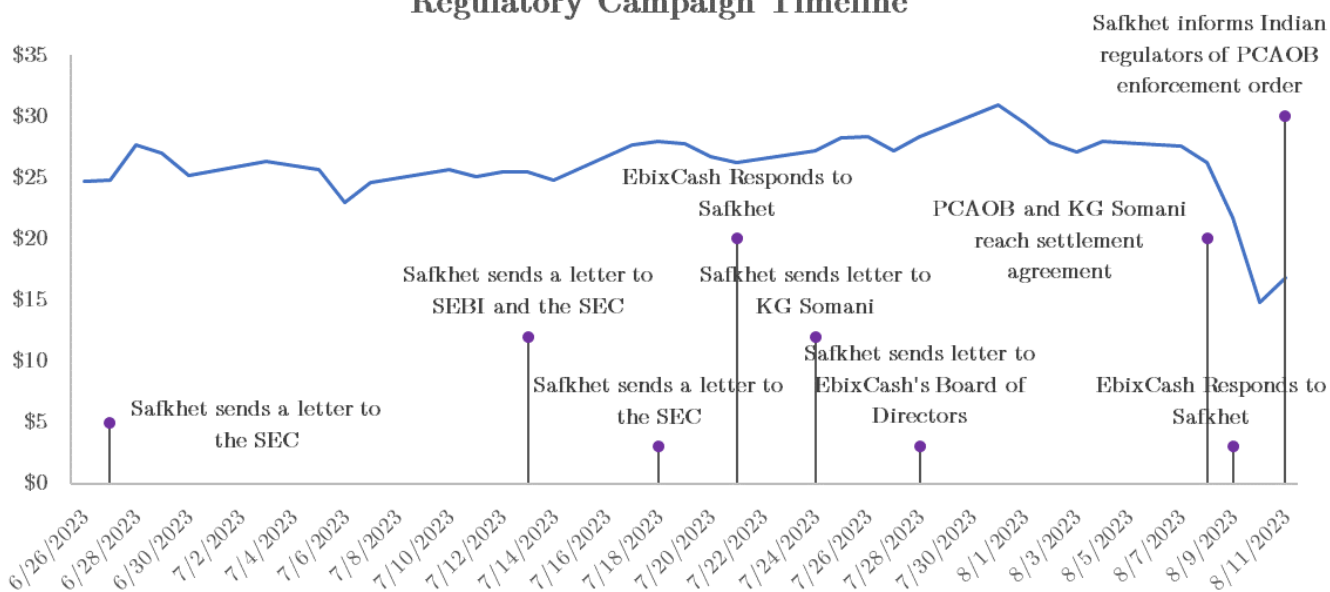
¹¹ PCAOB Release No. 105-2023-020, “Order Instituting Disciplinary Proceedings, Marking Findings, and Imposing Sanctions. In the Matter of K G Somani & Co. LLP and Anuj Somani.” August 8, 2023. https://assets.pcaobus.org/pcaob-dev/docs/default-source/enforcement/decisions/documents/105-2023-020-kgs.pdf?sfvrsn=295f74d0_4

¹² EbixCash Limited’s Addendum to DRHP, Dated June 1, 2023. https://www.sebi.gov.in/filings/public-issues/jun-2023/ebixcash-limited-addendum-to-drhp_72220.html

Part of this process included an extensive and ongoing engagement campaign with regulators, the company, and the company’s affiliates. Here we list all substantive correspondence, in reverse chronological order:

1. August 11th, 2023: We inform SEBI and the National Financial Reporting Association in India about the PCAOB enforcement order against KG Somani.
2. August 8th, 2023 (11:47 PM EST): EbixCash provides a response to our prior counter-response, shared with EbixCash bookrunners and SEBI.
3. August 8th, 2023: The PCAOB and KG Somani reach a settlement agreement.
4. July 28th, 2023: We send a letter to EbixCash independent directors summarizing our concerns about Ebix and reminding them of their fiduciary duty.
5. July 27th, 2023: We send a counter-response to EbixCash, including its bookrunners and SEBI.
6. July 24th, 2023: We send a letter to KG Somani, including current audit partners, and copy this letter to the Registrar of Companies, a division of the Ministry of Corporate Affairs in India, responsible for enforcement.
7. July 21st, 2023: EbixCash prepares its first response to our initial July 13th letter to SEBI.
8. July 18th, 2023: We send a note to the SEC on recent press releases issued by Ebix Inc.
9. July 13th, 2023: We send a letter to SEBI, notifying them of our objections to the EbixCash IPO.
10. July 13th, 2023: We send a follow-up note to the SEC, informing them of a court ordered monetary judgment against Ebix Inc and EbixCash.
11. June 27, 2023: We send a notice to the SEC, copying the PCAOB, updating our initial April 2022 concerns, considering the Reserve Bank of India’s judgment.

Ebix, Inc.'s Share Price and Regulatory Campaign Timeline



There has been some market chatter around the radio silence from the company and Mr. Raina over the past few weeks, including its last-minute decision to cancel its scheduled Q2 2023 earnings call.¹³ If the company was under a “gag order” or a “quiet period” associated with the issuance of any security, in any market, it most certainly would not be sending dozens of pages of responses to a short seller.

It has been all but a month since our active engagement in India and we intend to continue our efforts until we feel market integrity is adequately restored.

Shareholder Litigation – Scierter, what?

On July 18, 2023, Ebix, Inc. proudly announced that the class action securities lawsuit against Ebix was dismissed because the “plaintiff did not establish scierter (the validity of the allegations).”¹⁴

It is shameful that we must explain this at all, but scierter is in layman’s terms, the *intent to commit a crime*.¹⁵

Any true crime or detective drama enthusiast will know that demonstrating intent is what makes crimes so hard to prosecute! This is particularly true in cases of shareholder/derivative lawsuits and one of the main reasons for this is that shareholder plaintiffs rarely have the evidence necessary to sufficiently establish a company’s intent to commit fraud—because surprise! That information is usually material non-public information that neither shareholders, nor short sellers, would have access to.

There is an entire industry devoted to filing shareholder class actions, euphemistically referred to as “ambulance chasers.” Whether a company misses earnings, a short seller tweets, or auditors resign, you can be sure that there are law firms ready to file complaints.

You will be familiar with our involvement in the collapse of Valeant Pharmaceuticals; I was even called as a witness to that shareholder lawsuit, ironically by defense counsel. It has been over seven years, yet these cases have still not been fully settled or closed out in the courts. You may also remember the favorite of activist shorts, MiMedx. In this case, executives were *found guilty by jury*

¹³ “Ebix to Report Q2 Results Pre-Market August 9, 2023”, Released August 8, 2023.

<https://www.ebix.com/press-release/ebix-to-report-q2-results-pre-market-august-9-2023>

¹⁴ “Southern District Court of New York Dismisses Securities Suit Against Ebix,” July 18, 2023.

<https://www.ebix.com/press-release/southern-district-court-of-new-york-dismisses-securities-suit-against-ebix>

¹⁵ “Scierter” – Definition. Thomson Reuters Practical Law. [https://content.next.westlaw.com/practical-law/document/I3cd941a8061c11e598db8b09b4f043e0/Scierter?viewType=FullText&transitionType=Default&contextData=\(sc.Default\)#:~:text=A%20legal%20term%20that%20refers,to%20act%20despite%20this%20knowledge](https://content.next.westlaw.com/practical-law/document/I3cd941a8061c11e598db8b09b4f043e0/Scierter?viewType=FullText&transitionType=Default&contextData=(sc.Default)#:~:text=A%20legal%20term%20that%20refers,to%20act%20despite%20this%20knowledge).

of committing securities fraud in 2020.¹⁶ Yet, the shareholder class action was just recently dismissed a few weeks ago.¹⁷

No matter what snake oil is being sold, please remember that the dismissal of shareholder suits, especially on the basis of scienter, has absolutely no bearing on whether or not securities fraud has been committed.

Reflecting on the Past Five Years

We have always echoed Professor Chanos' thoughts on the "golden era of fraud," with a teeny modification—fraudulent actors are a constant, this is a function of our own natural fallibilities, but it's their opportunities and incentives that scale with market cycles.¹⁸

Ultimately capital markets are founded upon trust; a belief that your fellow market participants are acting fairly, that your issuers are reporting transparently and accurately, and that regulators are actively protecting your interests. And like all things human, markets are imperfect.

Rarely do investors have advance warning that calamity may be waiting around the bend. There is now a chance—for all financially vested parties—to take a pause and demand answers, oversight, and comparable informational transparency across the capital structure. This is the difference between a temporary pause and an irreversible, total investment loss.

We do not believe any reasonable investor can realistically value Ebix and its assets, we certainly cannot. This is simply because we listen to the numerous auditors, and to the PCAOB, and believe that these developments, viewed altogether, make it extraordinarily difficult to rely upon the financial reports released by the company.

¹⁶ "Former Chief Executive Officer and Chief Operating Officer of Publicly Traded Biopharmaceutical Company Found Guilty of Accounting Fraud." USAO-SDNY, November 19, 2020. <https://www.justice.gov/usao-sdny/pr/former-chief-executive-officer-and-chief-operating-officer-publicly-traded-0>

¹⁷ "Mimedx Announces Favorable Ruling in Putative Securities Class action Case." July 11, 2023. <https://www.globenewswire.com/en/news-release/2023/07/11/2702650/0/en/MIMEDX-Announces-Favorable-Ruling-in-Putative-Securities-Class-Action-Case.html>

¹⁸ Agnew, Harriet. "Jim Chanos: 'We are in the golden age of fraud.'" Financial Times, July 24, 2020. <https://www.ft.com/content/ccb46309-bba4-4fb7-b3fa-ecb17ea0e9cf>