



Mossberg's Investor Digest

Idea Profile

NIC inc. (Nasdaq: EGOV)

DESCRIPTION:

Founded in 1992, NIC provides outsourced web portals to 21 states and hundreds of local governments in the United States. These portals provide online access to government information and the ability to complete transactions such as drivers license renewal, business license registration, and filing and reporting of other government documents. NIC hosts the portals and is paid a per transaction convenience fee by users.

KEY INVESTMENT CONSIDERATIONS:

Self-funding business model is attractive for governments – Instead of charging government to set up and run their web portals, EGOV's transaction based business model is free to the government, lowers government costs and enhances gov't revenue streams.

Governments are in desperate financial condition and outsourcing solutions is very appealing - No matter who wins the next presidential election, it's likely that federal taxes will increase. With increased tax payments at the federal level, combined with the weak economy and difficulties in the credit market, it is likely that state and local government entities will have fiscal difficulties and/or have a difficult time funding new projects. The recent vote of the City of Vallejo, CA to declare bankruptcy and the looming bankruptcy of Jefferson County, AL, which could be the largest in U.S. history, illustrate the point.

Dominant Competitor – Besides the in-house IT resources of each state, BearingPoint (NYSE: BE) is the only other major competitor providing the same type of services. Given that EGOV has won every competitive rebid in its history and has not lost a competitive bid in the past 7 to 8 years, it's likely they will be able to garner at least a fair share of states that are looking to outsource their web portals in the coming years. In addition, given EGOV's financial strength and impressive track record, its likely that the company will be able to take market share from competitors such as BE, which hasn't had a profitable quarter in 3 years and its stock has lost 90% of its value in the last year.

Focus on enhancing shareholder value – Since the original founders have taken back the leadership of the company, the company has abandoned a failed acquisition strategy and focused on its core business, which generates significant cash flow. The company has paid two special dividends of \$0.75 and \$0.25 during the past 18 months, and should generate approximately \$0.30 in free cash flow this year. In addition, EGOV will pay little or no tax for the next several years as a result of a loss carry forward generated by acquisitions made by the former management team.

Long term contracts with 100% retention history – Contracts typically have initial terms of 3-5 years with renewals for 7-10 years. In its history, customers have renewed every contract that has come up for extension.

Recurring revenue base with organic growth in the low- to mid-teens w/out any new state wins – 95% of the company's revenue is from recurring transactions. By driving usage and adding incremental services and applications beyond the scope of the original contracts, the company has been able to consistently generate 10% to 15% organic growth for the last several years.

CATALYSTS:

Large pipeline of new business – Growth opportunities for EGOV include 29 states, representing a combined population of 231 million people, that don't currently use EGOV's portals. Customer activity has been fairly strong recently with active RFPs from New Jersey (8.7 million people) and Georgia (9.4 million). Texas (23.5 million), which is currently being serviced by BearingPoint, is expected to put its web portal business back out for bid later this year. California (36.5 million) has issued an RFP, which is expected to be awarded in '09. It is also interesting to note that Pete Wilson, former governor of California, has been on the EGOV's board since July, 1999. New contract awards would likely lead to an increase in '09 EPS estimates, as they do not currently reflect any new contract awards.

VALUATION:

The stock trades at 38.3x TTM EPS, a reasonable multiple given its strong balance sheet, expected growth and ROE in excess of 20%. Assuming the company is able to reach its stated revenue goals and modest margin improvements, EGOV could earn \$0.35 to \$0.40 per share in 2010. Applying the current multiple, yields a stock price of approximately twice the current levels.

(Nasdaq: EGOV)	
Investment Data (as of 7/28/08)	
Recent Price	\$7.66
52-Week Range	5.83 - 8.94
Fiscal Year End	Dec
Dividend	NA
Shares Outstanding	62.3 MM
Average Trading Volume (3 mos)	209,000
Market Capitalization	477.4 MM
Cash	38.4 MM
Long Term Debt	N/A
Enterprise Value (EV)	430.8 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	\$0.89
TTM Revenue	89.8 B
P/ Revenue	5.2x
TTM EPS	0.20
P/ EPS	38.3x
TTM EBITDA	19.6 MM
EV/ TTM EBITDA	22.0x

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