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NIC Inc.

Date: Jan. 28, 2015
Ticker: NASDAQ: EGOV

Market Price (as of 1/27): $16.97
Target Price: $17.67 (+4.1%)

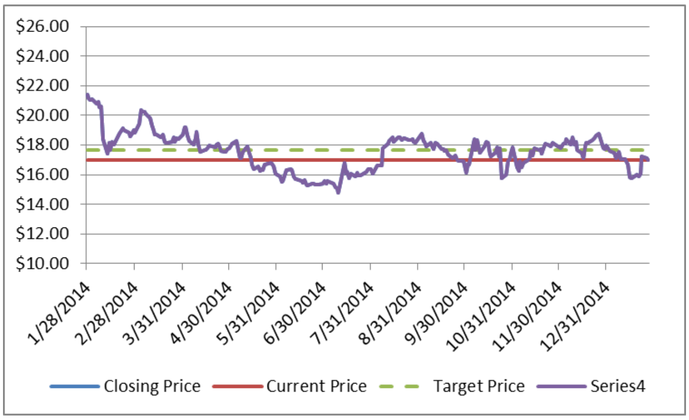
Recommendation: SELL
Industry/Sector: Software/Technology

NIC Inc. (EGOV) has outperformed the S&P 500 with an annualized total return of roughly 18% over the past 5 years (see Table 1). However, EGOV's performance has suffered recently, with particularly steep declines beginning in February of 2014 with the release of 4Q 2013 financials and the announced loss of the Arizona enterprise contract, the second of three state enterprise contracts lost since August 2012. With NIC's stable state revenue base looking increasingly vulnerable, the stock price has trended downward for a full year. In addition to issues with contract retention, we believe the "low hanging fruit" at the state level has been largely picked. The number of available states not contracted by EGOV is diminishing, and EGOV has yet to make significant strides towards a business strategy incorporating Federal agencies. In order for EGOV's stock price to realize significant returns moving forward, management will need to identify new value adding opportunities beyond the state government market, which to this point has not been a major priority.

Highlights

- **SELL Recommendation:** At EGOV's current trading price expected revenue growth is already valued into the stock price.
- **New State Growth:** The rate of new state acquisitions will begin to decline as the number of non-contracted states declines. EGOV has contracted with 29 states for enterprise services. With over half of the states already acquired, and assuming that EGOV will not succeed in winning business in all 50 states, the historical rate of new state acquisition is unsustainable.
- **Same State Growth:** As state acquisitions slow, revenue growth will become more heavily dependent on same state growth. This, too, will likely slow as contracts become more mature and opportunities for new product offerings decline.
- **Non-State Growth Opportunities:** Other possible non-state revenue sources include expansion of Federal government services, international opportunities, and strategic acquisitions. However, these are largely untested waters in which EGOV has no firm prospects at this time.
- **Risks:** We view the limited availability of state enterprise contracts and uncertainty of unproven alternative revenue sources to be a substantial risk for EGOV. Additionally, EGOV has lost three enterprise-level state contracts since August of 2012 due to disagreements over funding arrangements, raising questions over the continued viability of EGOV's transaction-based self-funding model.

Figure 1 EGOV Daily Stock Price



Source: Yahoo Finance Historical Pricing

Table 1

Annualized Total Return*		
Period	EGOV	SPX
1 year	-22.3%	16.3%
3 year	13.0%	18.0%
5 year	17.9%	15.5%
*As of 1/27/14		

Source: Bloomberg

Table 2

Market Profile	
52 Week Price Range	14.55-22.03
Average Daily Volume	244,703
Sharpe Ratio (3 Years)	0.34
Shares Outstanding	65.30M
Market Capitalization (Millions)	$1,108
ROE 2014 (Est.)	28.65%
P/BV	8.71
P/E	29.01

Source: Bloomberg

Table 3

Valuation		
	Est. Price	Weight
DCF	18.67	50%
Relative Valuation	16.59	25%
Buyout	16.73	25%
Total	**17.67**	100%

Source: Internal estimates

Business Description

EGOV is an eGovernment service provider headquartered in Olathe, KS. The company was founded in 1992 as the Kansas Information Consortium, with a single exclusive contract to provide telnet access to the state of Kansas. By 1998, five additional states signed exclusive contracts with Kansas Information Consortium, at which point, the company consolidated to become the National Information Consortium. EGOV filed for an IPO in 1999, becoming the first publicly traded eGovernment company.

EGOV provides two primary lines of business: eGovernment Portal Services and Other Software and Services. Between the two, the eGovernment Portal Services provide approximately 98 percent of annual revenue, while Other Software and Services makes up the remaining 2 percent. Currently, EGOV provides enterprise-wide portal services to 29 state governments.

Winning an enterprise-level state contract "gets us a seat at the table," in the words of CFO Steve Kovzan. While this is true, it does not guarantee stable cash flow from that state for services. Rather, revenues are generated from the individual state agencies, which are free to choose whether or not to utilize EGOV as their service provider. EGOV typically builds the foundation of a new contract around driver history records (DHR), which are purchased by certain third party data brokers and insurance companies looking to assess risk and set premiums. From there, EGOV focuses on steadily adding integrated government services (IGS) such as business applications, vehicle registrations and various licensing services. Some IGS generate revenue, but not all (the latter are essentially subsidized by the revenue from DHR).

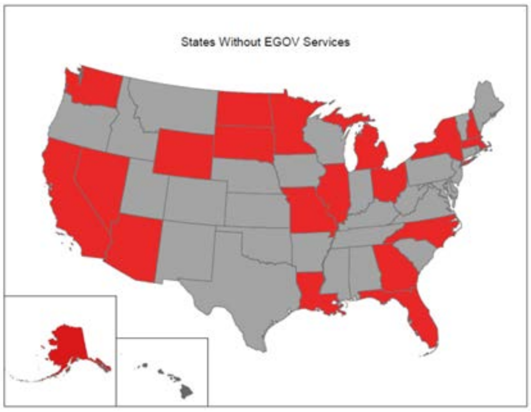
EGOV's transactions-based, self-funding model for project revenue generation has been a significant competitive advantage in attracting business from state governments. Under this model, states are not required to cover any of the upfront costs associated with the services being provided. Instead, EGOV collects a predetermined portion of the revenue generated from each transaction once the service is operational. Compared to the time and materials or fixed fee approaches that are common amongst technology service providers, the self-funding model does not require state governments to earmark appropriated tax dollars, freeing up room in their typically tight budgets. The risk is also minimal from EGOV's perspective, as upfront investment for the projects it undertakes is fairly modest ($500K - $1M), and the payback period is typically around twelve months (for more on EGOV's sensitivity to state revenue, reference Appendix 9 at the end of this report). Despite the obvious advantages of EGOV's self-funding model, some states are choosing to stick to more traditional cost structures, or foregoing third parties altogether to build and maintain solutions in-house.

In addition, EGOV conveniently establishes wholly-owned subsidiaries within each state for which it builds solutions, offering states a more specialized partner to suit their needs (for a list of subsidiaries as the end of 2013, reference Appendix 10 at the end of this report).

Industry Overview and Competitive Positioning

EGOV operates within the software and technology industry sector. Per EGOV's 2013 Annual Report, the US has seen significant increases over the past three years in the percentage of transactions conducted online, increasing on average 16.2 percent annually. In addition, mobile transactions (sales from phones and tablets) have increased by 82.6, 70.0 and 37.2 percent annually in 2012, 2013 and 2014, respectively. This data suggests that consumers desire the convenience of online transactions, and trust that their payments will be made securely with very low risk of a breach of personal information.

Figure 2



*Louisiana to begin EGOV contract in 2015
Source: Company website

Table 4

10 Oldest EGOV Contracts	
State	**Contract Age (Years)**
Kansas	23
Nebraska	20
Indiana	20
Iowa	18
Arkansas	18
Maine	16
Utah	16
Idaho	15
Hawaii	15
Tennessee	15

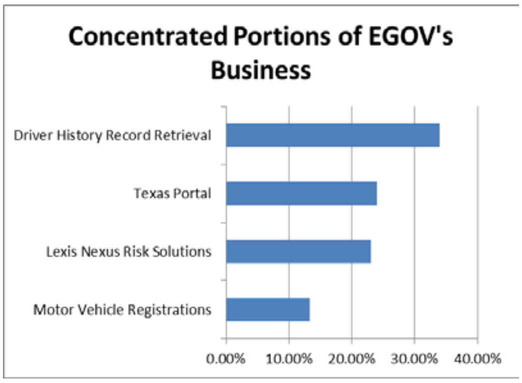
Source: EGOV 3Q 2014 10-Q

Table 5

Upcoming EGOV Contract Expirations	
State	**Date**
New Jersey	2/28/2015*
Alabama	2/28/2015
Oklahoma	3/31/2015*
Delaware	3/31/2015**
Idaho	6/30/2015*
Kentucky	8/31/2015*
Montana	12/31/2015
Mississippi	12/31/2015
Hawaii	1/03/2016
Nebraska	1/31/2016*

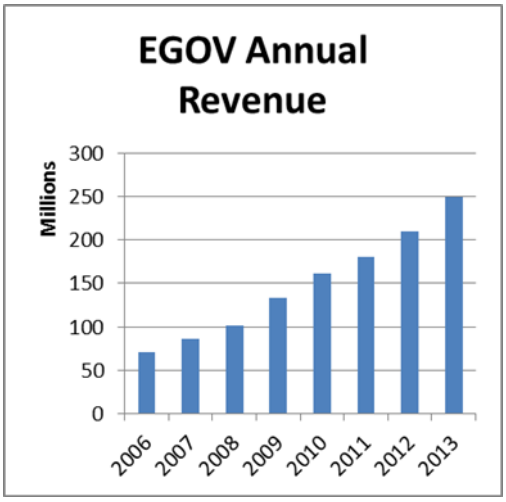
*States without renewal options
**Delaware will not be renewing
Source: EGOV 3Q 2014 10-Q

Figure 3



Source EGOV 2014 3Q 10-Q

Figure 4



Source: Bloomberg

EGOV is uniquely positioned within the state eGovernment portal industry. Currently, EGOV is the only third party service providing enterprise state portal services within the US. This makes EGOV's primary competition at the state level the internal departments designing, developing, and operating eGovernment services within the remaining 21 states for which EGOV does not provide enterprise services. While EGOV does not currently have any other third party competition at the enterprise level, the company must submit competitive bids to individual agencies within the state in order to win business. Competition at the agency level is primarily local, specialized service providers. In speaking with EGOV management, they view their primary competitive advantages as their self-funding model, personalized approach to delivering solutions, and their long-standing relationships with various state agencies, all of which improve their ability to win competitive bids.

Currently, EGOV has only one Federal contract for eGovernment services with the Federal Motor Carrier Safety Administration (FMCSA) to develop and manage the Pre-Employment Screening Program (PSP). Federal competitive landscape is quite different than that of the state-level eGovernment services. EGOV has mentioned plans to expand into the Federal space by leveraging their existing relationship with the FMCSA, though the viability and timing of such an expansion is unclear.

Investment Risks

Failure to Meet Growth Expectations

For investors, the primary risk with EGOV is that the company falls short of growth expectations. With the recent downward pressure on the stock price, we feel that the market is currently pricing in a reasonable amount of growth, hence sell recommendation. It appears the market has tapered its growth expectations significantly relative to EGOV's historical trajectory, and for good reason. We believe that the tailwinds EGOV has enjoyed for the past two decades are losing steam and the road ahead will be much more challenging. Our rationale is fleshed out in the discussion below on EGOV's primary business risks.

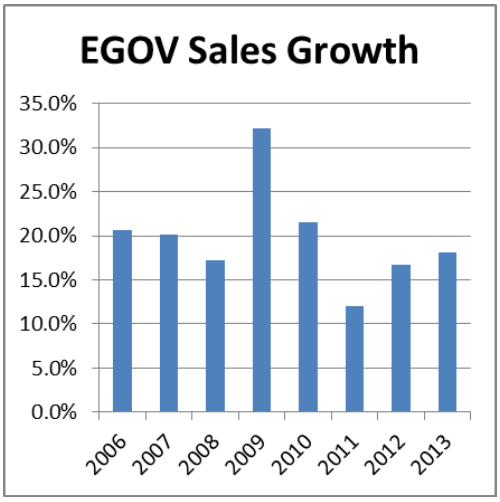
Limited New State Business and Uncertain Non-State Market Opportunities

EGOV's most significant business risk is undoubtedly the concentrated nature of its customer base. This is compounded by the fact that its customer base subjects it to political risk that a larger, more diversified software services firm would be shielded from. The company has firmly established its niche as the "storefront for online state government," but in doing so has limited the number of enterprise level contracts it can win (and given certain states' reluctance to hand over control of their online platforms to third parties, it is unlikely to ever maximize that potential). In order to break through the self-imposed cap on new business, EGOV will need a catalyst outside of the state arena (e.g., Federal, international), which stands as relatively unproven territory for the company with only one contract to date with the FMCSA. Company management has noted that it is in discussions with other Federal agencies, but the process is slow moving and any predictions of future Federal business is highly speculative. Similarly, the company has no concrete plans for international expansion in the near- to mid-term.

Same State Growth and Contract Retention/Renewal Risk

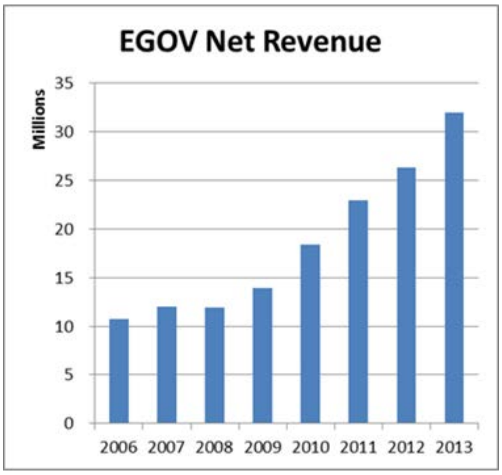
Winning new business (state or otherwise) is not the only growth strategy for EGOV. In fact, the company considers this secondary to the steady addition of IGS for states with existing contracts. Of course, long-term same state growth is dependent on states opting to renew their contracts and accept additional services. This is complicated by the fact that state governments are required by law to rebid a contract once they run out of renewal options. The company's once flawless retention record has taken a hit over the past 24 months with the expiration of its enterprise level contracts with Arizona in March 2014 and Virginia in August 2012 (although it does continue to provide services

Figure 5



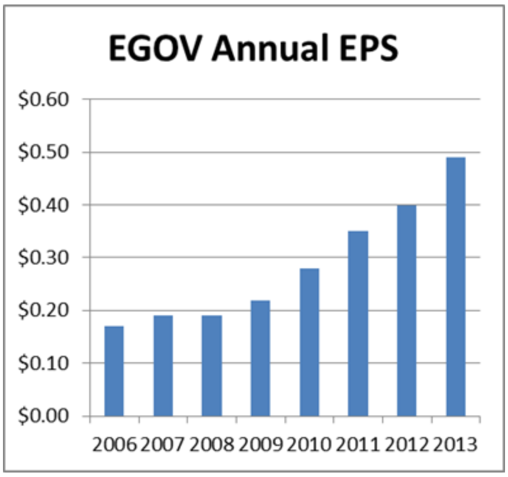
Source: Bloomberg

Figure 6



Source: Bloomberg

Figure 7



Source: Bloomberg

to the Virginia Supreme Court and Department of Game and Inland Fisheries). EGOV elected not to rebid on the Arizona contract because of the state's preference to outsource future IT projects on a time and materials basis. It did rebid for multiple Virginia contracts after the state elected to decentralize its IT services to the agency level. Additionally, EGOV's contract with Delaware will expire in March 2015. Because Delaware was unable to use DHR as an initial funding source (a major hindrance to EGOV's self-funding model), it opted to finance its contract with a single agency paying a flat annual fee. Unfortunately, this unique and risky model exposed EGOV to appropriated tax dollars, which ultimately proved to be an unsustainable source of funding.

It is unlikely that these events are enough to derail the company by themselves, but they clearly demonstrate the risky political environment in which EGOV operates. It is easy to imagine other states decentralizing their IT operations or requesting unique contractual terms that stray from EGOV's primary value proposition of the transactions-based self-funding model. Alternatively, they also typically have the choice to assume control of their online operations with what amounts to a free and perpetual license (a clause commonly required by government entities contracting with third parties). Reputation and referrals are crucial for winning and keeping government business, and EGOV must protect itself from any potential "contagion" effect from lost contracts. Imagine the impact of a much larger customer following the lead of Virginia, Arizona or Delaware. For example, the state of Texas alone accounts for approximately 22% of EGOV's revenue and has a contract up for rebid in 2016.

Financial Analysis

Table 6: Ratio Analysis

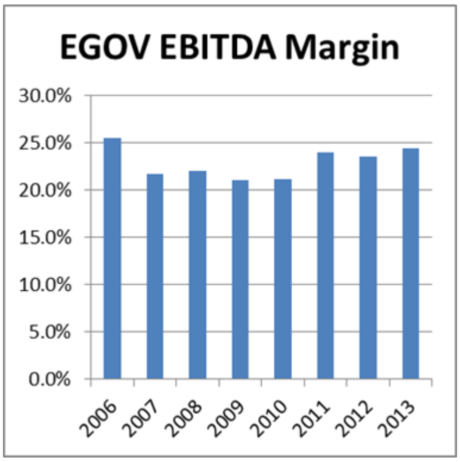
	EGOV			MMS	ACN
Ratios	2011	2012	2013	2013	2013
Profitability					
Sales Growth	12.0%	16.7%	18.1%	25.2%	4.9%
Gross Margin	39.9%	39.1%	42.9%	30.9%	30.4%
EBITDA Margin	24.0%	23.5%	26.5%	15.8%	15.5%
EBIT Margin	21.3%	20.5%	23.2%	13.1%	13.4%
Net Income Margin	12.7%	12.5%	12.9%	8.9%	9.2%
ROA	15.9%	18.1%	17.8%	13.6%	16.4%
ROE	35.3%	33.4%	34.8%	22.0%	51.3%
ROIC	35.3%	33.4%	34.8%	22.0%	51.1%
Liquidity					
Current Ratio	1.72	2.04	1.95	1.87	1.46
Cash Ratio	1.00	0.99	1.17	0.53	0.60
Shareholder's Equity					
Diluted EPS	0.35	0.40	0.49	1.68	4.52
EPS Growth	25%	14%	23%	-23%	-8%

Source: Company financial statements

Historical Growth

EGOV has historically experienced significant revenue/income growth as state governments have increasingly seen the need to enhance their online presence.

Figure 8



Source: Bloomberg

Table 7: Revenue Simulation

Scenario	Prob.	5-yr CAGR	Est. Price
Worst Case	10%	-2.9%	$7.10 (-55.4%)
Bad Case	20%	2.9%	$12.17 (-23.5%)
Base Case	40%	6.8%	$17.30 (8.7%)
Good Case	20%	13.7%	$25.45 (+60.0%)
Best Case	10%	18.8%	$33.65 (+111.5%)
Simulation	***N/A***	***13%***	***$18.67 (17.4%)***

Source: Internal estimates

Table 8: WACC Components

Cost of Debt	N/A	Capital structure assumed to remain the same
Risk-free Rate	2.17%	10-yr Treasury as of 12/31
Beta	1.03	10-yr beta relative to S&P 500 as of 12/31
Market Risk Premium	6.30%	Midpoint between Ibbotson equity risk premiums over long-term government bonds and T-bills over period 1926-2010 (in order to align with timing of risk-free proxy)
Cost of Equity	8.68%	CAPM
WACC	***8.68%***	Assumes constant capital structure (i.e., no debt)

Source: Internal estimates

High Margins

Historically, EGOV has been very efficient in managing their costs, as demonstrated by their high relative EBITDA/EBIT margins.

High Profitability

Net margin, ROA, ROE, and ROIC have consistently been excellent relative to its closest peer firm Maximus, Inc. (MMS). NIC has shown the ability to effectively and reliably turn profits and utilize assets and investments in a non-wasteful manner. In addition, NIC has managed to grow net income at a high level relative to its peers. These ratios speak to EGOV's historical success in maintaining profitability as it has carved out its niche in eGovernment at the state level.

Capital Structure

EGOV has no long-term debt, and has made no indication of altering its capital structure in the foreseeable future.

Investment Summary

Fairly Valued

Despite impressive historical performance, we are issuing a SELL recommendation for EGOV with a target price of $17.67, based on the aggregated results of discounted cash flow (DCF), relative valuation, and precedent transactions analyses. Our target indicates little to no upside relative to EGOV's current trading price, so we believe that investors' money could be put to better use elsewhere. By our estimates, EGOV has returned to a more appropriate trading price after trading at a premium in the recent past. This is likely attributable to tapered expectations resulting from EGOV's first ever losses of enterprise contracts (two within the previous two years, with Delaware to be the third in March 2015), and ever decreasing new growth opportunities in the state arena. We believe EGOV's current price better reflects a realistic outlook of revenue growth for the company.

Valuation

Discounted Cash Flow Analysis

Summary *(all values expressed in millions except per share):*

Enterprise Value	$1,125
Plus: Cash & Equivalents	94
Less: Debt	0
Equity Value	1,219
/ Diluted Shares Outstanding	65
Imputed Price	**$18.67**
Market Price (as of 1/27/14)	$16.97
Projected Upside	10.0%
Recommendation	***SELL***

Note: In addition to the following summary, the entire DCF analysis and key assumptions can be found in Appendix 4 at the conclusion of this report.

Given that EGOV's intrinsic value is disproportionately dependent on its ability to sustain revenue growth, primarily from its state business, we elected to conduct a discounted cash flow (DCF) analysis that incorporates our revenue forecasts for the company over the next ten years. The investment risks noted in the prior section lead us to believe that simply relying on historical growth trends to project into the future is overly optimistic. In order to capture the effects of these risks becoming reality, as well as potential optionality from better than expected growth (through additional state acquisitions or elsewhere), we forecasted revenue using a simulation based on five scenarios, ranging from worst case to best case. The assigned probabilities and imputed growth and price for each of these scenarios are summarized in Table 7. Using a weighted average cost of capital (WACC) of 8.68% (see Table 8), we estimate an intrinsic value of $18.67, approximately 10.0% above the adjusted closing price as of 1/27/14. Given that there appear to be no significant growth opportunities in EGOV's foreseeable future, we recommend a *SELL*.

Table 9: Current Prices

Company	Price 1/27/15
EGOV	$16.97
MMS	$56.72
ACN	$86.16

Table 10: EGOV EV/Sales

Valuation: EV/Sales		
Range		Median
FMV		
$9.36	$10.40	$9.88
1 yr Price Target		
$10.07	$11.21	$10.64

Source: Appendix 5

Table 11: EGOV EV/EBITDA

Valuation: EV/EBITDA		
Range		Median
FMV		
$14.81	$16.37	$15.59
1 yr Price Target		
$16.21	$17.84	$17.03

Source: Appendix 5

Relative Valuation

Table 12: EGOV Relative Valuation

Relative Valuation Conclusion		
Metric	Price Target	Weight
EV/Sales	$10.64	0.10
EV/EBITDA	$17.03	0.30
EV/EBIT	$18.12	0.30
P/E	$16.59	0.30

Target Price	$16.59
Downside	-2.27%
Recomendation	Sell

Assumptions

- Relative valuation utilizes market multiples to assess the valuation of a company relative to peer firms within its industry. Where applicable, our relative valuation employed consensus expectations for EGOV. Peers were chosen based on similarities in business model, financials, and market growth expectations and risk assessments. Key metrics were then used to impute EGOV's intrinsic value.
- Closest Peer Firms: Maximus, Inc. (MMS), Accenture (CAN)
- Details on the universe of peer firms, including those ultimately excluded for valuation purposes, can be found in Appendix 6 at the end of this report.

Table 13: Comparable Analysis

Company	EV/Sales 2014*	EV/EBITDA 2014 *	EV/EBIT 2014*	P/E 2014*	P/B 2014*
EGOV	3.4	12.4	14.3	26.1	10.1
MMS	2.1	12.8	15.5	26.3	6.6
ACN	1.6	10.2	11.7	18.7	10.5

Source: Thompson ONE, 10-Q *Using Price as of 1/21/15; 12/31/14 (E)

Multiples

- EV/Sales – Although EGOV is not a pure growth play, investors do take EGOV's strong past and future growth expectations into account when valuing this company. EGOV's closest peer, MMS, has seen similar historical growth, yet is trading at a discount based on EV/Sales. Although investors may warrant the premium for this metric due to the fact that superior margins allow for other metrics to move closer to parity, this may subject them to significant downside risk if this premium proves unwarranted (which we believe to be the case).

Table 14: EGOV EV/EBIT

Valuation: EV/EBIT		
Range		Median
FMV		
$15.17	$17.60	$16.38
1 yr Price Target		
$17.04	$19.20	$18.12

Source: Appendix 5

Table 15: EGOV P/E

Valuation: P/E		
Range		Median
FMV		
$13.73	$16.25	$14.99
1 yr Price Target		
$15.30	$17.88	$16.59

Source: Appendix 5

- EV/EBITDA and EV/EBIT – EGOV's superior margins in contrast to MMS cause these metrics to be similar. Because EGOV is not a pure growth play, these metrics are particularly important. MMS and ACN are more capital asset intensive due to more "hands on" consulting work. Because of its exclusion of non-cash expenses associated with capital assets, EBITDA is a useful metric for comparing firms with different capital structures.
- P/E – EGOV and MMS have a long history of stable income growth. MMS' higher P/E can be explained by higher future growth expectations for net income. ACN, on the other hand, is at a more mature stage in terms of revenue and net income growth, and therefore may serve as a better gauge for EGOV's future growth expectations. If EGOV were to see a decline in earnings growth to a more normalized level, ACN's P/E implies a fair value around $13.75, or -19% from EGOV's current price of $16.97. We believe EGOV is quickly approaching the mature stage in its life cycle, due to the growth barriers discussed previously.

Precedent Transaction Analysis

Precedent Transaction Conclusion		
Metric	Price Target	Weight
EV/NI	$22.56	0.33
EV/Sales	$15.15	0.333
EV/EBITDA	$15.25	0.333

Target Price	$17.65
Upside	4.01%
Recomendation	Sell

Assumptions:
Precedent transactions analysis assumes that past M&A activity can be used as a market-produced proxy for valuing a company. Benchmark deals are typically selected based on economic cycles, business model, and financials. The pertinent valuation multiples can then imply a valuation for EGOV. Due to the extrinsic nature of this method, consensus figures are utilized when applicable. As the summary above indicates, our precedent transactions analysis yields a target price of $17.65, which is on par with the current market price and further supports our sell recommendation.

Note:
- Details describing suitable valuation multiples for EGOV can be found prior section on Relative Valuation.
- Details on the deals analyzed and model assumptions can be found in Appendix 7 at the end of this report.

Buyout Scenario

Although it is purely speculative at this time, we believe it worthwhile to also discuss EGOV's attractiveness as a target for acquisition. Because EGOV has no immediate competitors on the state level, they are the primary obstacle to any software services firms interested in entering this space. A hypothetical acquirer would most likely be a large company operating to some degree in the government space (e.g., IBM) that is looking to expand into the state space. This company would need to perceive potential synergies and future growth possibilities, which EGOV offers in the form of its longstanding relationships with states.

Aside from a strategic acquisition, EGOV also fits the criteria of a typical leveraged buy-out (LBO) candidate (i.e., relatively stable cash flows, plenty of debt capacity, high operating leverage, and established market position). Taking on debt would provide EGOV access to additional (and relatively cheap) capital to pursue additional growth. The effective concentration of ownership and repayment obligations would also motivate management to pursue only the most attractive growth opportunities. Again, this is pure speculation, as EGOV's management and shareholders have shown no indication that they are entertaining, or would entertain, such a proposition.

In the event of a buyout, research from Goldman Sachs puts the median premium paid in 2014 at 26%, though historical premiums tend to fall in the range of 25% - 50%. Based on this range and EGOV's current market price, the company could realistically command an all-in price between $21.25 and $25.46 per share.

Conclusion

We believe that the market has already priced in reasonable same state and new state growth, so without a major catalyst outside of its core business, investors are unlikely to see material returns. At this time, we are not confident in the company's ability to find that catalyst. However, the accuracy of our assessment is subject to the quality of our assumptions and the viability of our overall narrative for EGOV. Of course, EGOV could prove us wrong by growing its state business beyond our expectations and/or landing significant Federal business, at which point we would have to revisit our valuation. Similarly, the quality of the competitors we have chosen as the benchmark for our relative valuation puts our model at risk. Given that EGOV has no pure comps, perhaps it is reasonable to assume that they will continue to experience above average growth and profitability. However, we believe that even with their command over the state government market, the company is not immune to broader industry trends.

Appendix 1 – NIC Inc. Balance Sheet

NIC Inc (EGOV US) - Balance Sheet

In Millions of USD except Per Share 12 Months Ending	FY 2004 2004-12-31	FY 2005 2005-12-31	FY 2006 2006-12-31	FY 2007 2007-12-31	FY 2008 2008-12-31	FY 2009 2009-12-31	FY 2010 2010-12-31	FY 2011 2011-12-31	FY 2012 2012-12-31	FY 2013 2013-12-31
Assets										
+ Cash & Near Cash Items	30.8	36.9	36.7	38.2	60.4	68.6	51.7	61.6	62.4	74.2
+ Short-Term Investments	0.0	20.5	45.0	17.6	0.0	0.0	0.0	0.0	0.0	0.0
+ Accounts & Notes Receivable	17.6	22.3	28.7	28.1	37.5	39.0	42.1	49.3	55.3	52.8
+ Inventories	3.4	2.2	1.1	0.7	0.4	0.0	0.0	0.0	0.0	0.0
+ Other Current Assets	4.7	2.1	2.4	8.9	6.6	4.1	6.8	23.1	10.2	35.6
Total Current Assets	**56.5**	**83.9**	**113.9**	**93.6**	**104.8**	**111.7**	**100.5**	**134.1**	**127.8**	**162.7**
+ LT Investments & LT Receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Net Fixed Assets	2.6	3.3	3.8	6.1	6.6	6.4	6.8	8.9	16.0	15.2
+ Gross Fixed Assets	*11.6*	*13.8*	*13.2*	*15.0*	*17.5*	*20.3*	*22.3*	*26.4*	*37.5*	*42.3*
- Accumulated Depreciation	*9.0*	*10.5*	*9.4*	*8.9*	*10.8*	*13.8*	*15.6*	*17.6*	*21.4*	*27.1*
+ Other Long-Term Assets	33.9	30.6	22.4	11.7	8.0	5.5	4.1	1.4	1.3	2.2
Total Long-Term Assets	**36.5**	**33.9**	**26.2**	**17.8**	**14.6**	**11.9**	**10.8**	**10.3**	**17.3**	**17.3**
Total Assets	**93.1**	**117.8**	**140.1**	**111.4**	**119.4**	**123.6**	**111.4**	**144.4**	**145.1**	**180.0**
Liabilities & Shareholders' Equity										
+ Accounts Payable	14.4	24.5	34.2	36.5	41.8	42.9	41.6	45.0	43.7	39.1
+ Short-Term Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Short-Term Liabilities	6.4	8.2	6.7	7.3	9.5	13.6	15.2	32.8	19.2	44.2
Total Current Liabilities	**20.8**	**32.7**	**40.9**	**43.8**	**51.3**	**56.4**	**56.8**	**77.9**	**62.8**	**83.3**
+ Long-Term Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Long-Term Liabilities	0.0	0.0	0.0	0.7	0.9	0.6	1.3	1.4	3.4	4.8
Total Long-Term Liabilities	**0.0**	**0.0**	**0.0**	**0.7**	**0.9**	**0.6**	**1.3**	**1.4**	**3.4**	**4.8**
Total Liabilities	**20.8**	**32.7**	**40.9**	**44.5**	**52.2**	**57.0**	**58.1**	**79.3**	**66.2**	**88.0**
+ Total Preferred Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Share Capital & APIC	200.9	207.4	210.2	165.9	154.2	139.6	107.9	96.8	84.3	88.4
+ Retained Earnings & Other Equity	-128.7	-122.3	-111.0	-99.1	-87.0	-73.0	-54.7	-31.7	-5.4	3.5
Total Equity	**72.3**	**85.2**	**99.3**	**66.9**	**67.2**	**66.6**	**53.3**	**65.1**	**78.9**	**91.9**
Total Liabilities & Equity	**93.1**	**117.8**	**140.1**	**111.4**	**119.4**	**123.6**	**111.4**	**144.4**	**145.1**	**180.0**

Appendix 2 – NIC Inc. Income Statement

NIC Inc (EGOV US) - Income Statement

In Millions of USD except Per Share 12 Months Ending	FY 2007 2007-12-31	FY 2008 2008-12-31	FY 2009 2009-12-31	FY 2010 2010-12-31	FY 2011 2011-12-31	FY 2012 2012-12-31	FY 2013 2013-12-31
Revenue	**85.8**	**100.6**	**132.9**	**161.5**	**180.9**	**210.2**	**249.3**
- Cost of Revenue	45.5	55.8	79.2	99.5	108.8	127.6	147.4
Gross Profit	**40.2**	**44.8**	**53.7**	**62.0**	**72.1**	**82.6**	**101.9**
+ Other Operating Revenue	--	--	0.0	0.0	0.0	0.0	0.0
- Operating Expenses	24.1	26.2	31.6	32.6	33.6	39.4	49.3
Operating Income	**16.1**	**18.6**	**22.0**	**29.4**	**38.5**	**43.2**	**52.6**
- Interest Expense	0.0	0.0	--	--	--	--	--
- Net Non-Operating Losses (Gains)	-2.2	-0.6	-0.1	0.0	0.0	0.0	0.1
Pretax Income	**18.4**	**19.3**	**22.1**	**29.4**	**38.5**	**43.2**	**52.6**
- Income Tax Expense	6.4	7.3	8.1	11.0	15.5	16.8	20.5
Annual Tax Rate	*35%*	*38%*	*37%*	*38%*	*40%*	*39%*	*39%*
Income Before XO Items	**12.0**	**11.9**	**13.9**	**18.4**	**22.9**	**26.3**	**32.0**
Net Income	**12.0**	**11.9**	**13.9**	**18.4**	**22.9**	**26.3**	**32.0**
Net Inc Avail to Common Shareholders	**12.0**	**11.9**	**13.9**	**18.4**	**22.9**	**26.3**	**32.0**
Abnormal Losses (Gains)	-0.3	--	-0.5	2.4	-0.3	0.5	9.1
Tax Effect on Abnormal Items	0.1	--	-0.6	-0.8	0.1	-0.2	-3.3
Normalized Income	**11.7**	**11.9**	**12.9**	**19.9**	**22.7**	**26.7**	**37.9**
Basic EPS Before Abnormal Items	**0.18**	**0.19**	**0.20**	**0.31**	**0.36**	**0.41**	**0.58**
Basic EPS Before XO Items	**0.19**	**0.19**	**0.22**	**0.28**	**0.35**	**0.40**	**0.49**
Basic EPS	**0.19**	**0.19**	**0.22**	**0.28**	**0.35**	**0.40**	**0.49**
Basic Weighted Avg Shares	61.8	62.5	63.0	63.5	64.0	64.5	64.9
Diluted EPS Before Abnormal Items	**0.18**	**0.19**	**0.20**	**0.30**	**0.35**	**0.41**	**0.58**
Diluted EPS Before XO Items	**0.19**	**0.19**	**0.22**	**0.28**	**0.35**	**0.40**	**0.49**
Diluted EPS	**0.19**	**0.19**	**0.22**	**0.28**	**0.35**	**0.40**	**0.49**
Diluted Weighted Avg Shares	62.5	62.8	63.1	63.6	64.2	64.6	65.0

Appendix 3 – NIC Inc. Cash Flow Statement

NIC Inc (EGOV US) - Cash Flow Statement

In Millions of USD except Per Share 12 Months Ending	FY 2005 2005-12-31	FY 2006 2006-12-31	FY 2007 2007-12-31	FY 2008 2008-12-31	FY 2009 2009-12-31	FY 2010 2010-12-31	FY 2011 2011-12-31	FY 2012 2012-12-31	FY 2013 2013-12-31
Cash From Operating Activities									
+ Net Income	6.4	10.7	12.0	11.9	13.9	18.4	22.9	26.3	32.0
+ Depreciation & Amortization	1.6	2.0	2.5	3.6	8.2	4.7	4.9	6.5	8.3
+ Other Non-Cash Adjustments	5.4	7.9	7.0	9.1	6.2	5.7	5.6	4.5	9.1
+ Changes in Non-Cash Capital	7.8	5.0	3.2	-1.9	2.2	-6.8	-2.9	-9.0	-8.6
Cash From Operations	**21.2**	**25.7**	**24.6**	**22.7**	**30.5**	**22.0**	**30.6**	**28.4**	**40.9**
Cash From Investing Activities									
+ Disposal of Fixed Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Capital Expenditures	-2.3	-2.6	-4.9	-3.9	-3.4	-4.1	-6.1	-12.8	-6.7
+ Increase in Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Decrease in Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Investing Activities	-20.5	-24.7	27.3	16.9	-2.0	-0.5	-0.5	-0.7	-1.5
Cash From Investing Activities	**-22.8**	**-27.3**	**22.5**	**13.0**	**-5.3**	**-4.6**	**-6.6**	**-13.5**	**-8.2**
Cash from Financing Activities									
+ Dividends Paid	0.0	0.0	-46.7	-15.7	-19.2	-35.5	-16.2	-16.3	0.0
+ Change in Short-Term Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Increase in Long-Term Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Decrease In Long-Term Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Increase in Capital Stocks	4.8	1.4	1.1	2.1	2.2	1.1	2.2	2.2	2.2
+ Decrease in Capital Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Other Financing Activities	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-23.0
Cash from Financing Activities	**7.8**	**1.4**	**-45.6**	**-13.6**	**-16.9**	**-34.4**	**-14.1**	**-14.2**	**-20.8**
Net Changes in Cash	**6.1**	**-0.2**	**1.5**	**22.1**	**8.3**	**-16.9**	**10.0**	**0.7**	**11.9**

Appendix 4 – NIC Inc. Discounted Cash Flow Model, Assumptions and Sensitivity Analysis

Free Cash to the Firm	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Growth Rate	*17%*	*22%*	*10%*	*4%*	*11%*	*11%*	*9%*	*8%*	*7%*	*4%*	*5%*	*5%*
Revenue	249	275	303	315	350	388	424	460	493	514	537	566
EBIT Margin	*21%*	*21%*	*21%*	*21%*	*22%*	*22%*	*22%*	*23%*	*23%*	*23%*	*23%*	*23%*
EBIT	53	58	64	66	75	83	91	103	111	116	121	127
EBIT Growth	*12%*	*10%*	*10%*	*4%*	*14%*	*11%*	*9%*	*14%*	*7%*	*4%*	*5%*	*5%*
Interest	0	0	0	0	0	0	0	0	0	0	0	0
Pre-Tax Earnings	53	58	64	66	75	83	91	103	111	116	121	127
Tax	21	23	25	26	29	33	36	40	43	45	47	50
Net Income	26	32	39	40	46	51	56	63	68	70	74	78
Net Income Growth	*15%*	*22%*	*21%*	*4%*	*14%*	*11%*	*9%*	*14%*	*7%*	*4%*	*5%*	*5%*
S/O (Basic)	65	65	65	65	65	65	65	65	65	65	65	65
EPS	0.41	0.49	0.60	0.62	0.71	0.78	0.85	0.97	1.04	1.08	1.13	1.19
Tax Rate	39.0%	39.0%	39%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%
EBIT*(1-tax rate)	32	35	39	40	46	51	56	63	68	70	74	78
Add Back: Depr. & Amort	8	10	11	12	13	14	16	17	18	19	20	21
Working Capital	65	79	83	85	90	95	99	103	107	109	112	115
Less: Changes in Working Capital	(9)	(14)	(4)	(2)	(5)	(5)	(4)	(4)	(4)	(2)	(2)	(3)
Operating Cash Flow to Firm	32	31	46	50	54	60	67	76	82	87	91	95
Capital Expenditures	(14)	(9)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Free Cash Flow to Firm	18	22	37	41	43	48	54	62	67	71	74	78
PV of Cash Flows		0	34	34	34	35	35	37	37	37	35	34

Present Value of FCF	352	
Terminal EBITDA	148	
Exit Multiple	12.0x	
Terminal Value	1,777	
Discount Factor	0.43	
Present Value of Terminal Value	773	*69%*
Enterprise Value	1,125	
Less: Debt	0	
Plus: Cash	94	
Equity Value	1,219	
Dil Shares Outstanding	65	
Present Value Per Share	**$18.67**	
Buy Under	$15.56	
Upside / (Downside)	10.0%	
Recommendation	***Sell***	
Terminal Year FCF	78	
WACC	8.7%	
Terminal Value	1,777	
Implied Perpetuity Growth Rate	**4.1%**	

WACC	8.68%	
Cost of Equity	8.68%	CAPM
Risk-free rate	2.17%	10-Year Treasury yield as of 12/31/2014.
10-Year Beta	1.03	S&P 500 used as market index.
MRP	6.30%	Midpoint between Ibbotson equity risk premiums over long-term government bonds and T-bills over period 1926-2010
Cost of Debt	N/A	Assume constant capital structure (i.e., no debt)

Appendix 4 – NIC Inc. Discounted Cash Flow Model, Assumptions and Sensitivity Analysis (continued)

Key Assumptions:

1. Revenue Simulation
   Forecasting revenue for EGOV presents some interesting and paradoxical challenges. On one hand, their current to near-term revenue base is well established and predictable because the vast majority (90%) of their revenue is recurring due to the long-term, transactional nature of their contracts. On the other, there is the potential for tremendous variability when looking further to the future, as there is greater possibility for EGOV to gain new business and/or lose existing relationships. Based on conversations with company management and state government contacts, it is our opinion that EGOV's ability to sustain or exceed recent revenue growth will be challenged more by its success in winning new business than by losing or failing to grow existing business, though the latter is certainly a possibility, as we learned with the loss of Arizona, Virginia and Delaware. Our reasoning is as follows:
   - There are a limited number of states remaining from which to solicit new business. Currently, EGOV provides services to approximately 60% of states, and this number will all but surely increase. However, by the company's own admission, and our conversations with states, EGOV is unlikely to expand their services to all 50 states. While the self-funding model is an enticing proposition, it won't be enough to convince all states to hand over control of their online platforms, particularly those who already have robust systems in place.
   - Outside of state government, EGOV is a relatively unknown name. Expanding to Federal government has and will continue to be significantly more challenging, as the company faces heightened political sensitivity and competition in this space, in addition to potential capacity issues. Additionally, international growth is too speculative, as EGOV has no actionable international growth plan at this time, though they have alluded to interest in doing so at some point.
   - Historically, EGOV has placed far greater emphasis on organic growth than M&A. Given the noted constraints on state growth, they may be forced to alter their approach, which could present new operational challenges for the company.

In order to encompass a fairly broad realm of possibilities into our revenue model, we established five scenarios with assigned probabilities around which to run a simulation. Assumptions for the five scenarios are as follows:

<u>Base Case</u>

- EGOV's revenue base stays relatively stable, with the bulk of growth coming from existing states.
- The FMCSA contract was estimated at $9.5 million annually (based on management guidance), and remaining revenue was divided between states based on population in order to have a starting point for estimating same state growth over the forecasting period. Based on conversations with company management, annual same state revenue growth was modeled in three stages based on the age of a contract:
  - 0-3 years = 59% (based on the assumption that the company brings in $0.50 per capita in the first year from driver history records then grows to $2.00 per capita with the addition of new services)
  - 4-10 years = 10% (in alignment with the historical average same state growth rate)
  - > 10 years = 3% (assumed perpetual growth rate in line with historical GDP growth)

<u>Worst Case</u>

- EGOV experiences a significant loss of business. For our analysis, we assumed that EGOV will fail to renew approximately half of its contracts that come up for rebid per year. This is intentionally drastic, but not impossible if more states try to move away from the transactions-based self-funding model, experience an adverse data security event, etc.
- Remaining contracts are weighted similarly and exhibit the same three-staged growth as described above.

<u>Bad Case</u>

- Midpoint between base and worst case (i.e., EGOV experiences more lost business than new business, but not to such an extreme).

<u>Best Case</u>

- EGOV adds states at a faster than anticipated rate of 2-3 per year, or realizes a comparable amount of revenue from alternative sources, (e.g., Federal, international, acquisitions).
- New contracts bring in $0.50 per capita in the first year from DHR, then exhibit three-staged growth as outlined for the base case.
- Existing contracts accounted for using the same methodology described in the base case.

<u>Good Case</u>

- Midpoint between base and best case (i.e., EGOV gains more new business than lost business, but not to such an extreme).

With these scenarios and corresponding probabilities we ran a simulation of 10,000 random trials in order to calculate mean revenue for each year over the forecasting period, which was then fed into our DCF model to arrive at the price of $18.67 shown previously.
As seen in Table 9, EGOV's fair value is highly sensitive even to relatively small changes in revenue growth, thus making it a critical assumption to this valuation. Clearly, our simulation does not encompass the entire universe of conceivable possibilities, only those that our analysts believe to be within reason.

2. WACC Estimation

We have estimated EGOV's WACC to be 8.68%, based on the inputs shown in Table 10. Obviously, the fair value of any investment is going to be highly sensitive to estimations of risk and the corresponding rate at which forecasted cash flows are discounted. However, we found our DCF model to be far more sensitive to our chosen exit multiple than the WACC (see the next page for additional detail).

3. Exit Multiple

We selected EV/EBITDA as our exit multiple because it is not sensitive to differences in capital structure amongst comparable companies. Given the range of EV/EBITDA multiples generated from our relative valuation (see page 5), we selected a multiple of 12x EV/EBITDA. This multiple implies a perpetuity growth rate of approximately 4.1%, which we believe to be reasonable as it is roughly in line with long-term nominal GDP growth. We see no catalyst that would cause EGOV to grow at a faster rate than the broader economy into perpetuity. The imputed fair value from our DCF analysis is highly sensitive to this assumption.

Other Assumptions:

- Steady operating margin improvement due to low fixed costs (i.e., low operating leverage).
- Tax rate held constant at 39%, based on historical averages. Of course, this could vary with the states (or even countries) in which EGOV does business.
- Growth in CAPEX parallel to growth in revenue, reflecting the fact that the company's CAPEX is typically related to setting up / expanding operations in regions where new business has been won or existing business has grown.

Appendix 4 – NIC Inc. Discounted Cash Flow Model, Assumptions and Sensitivity Analysis (continued)

Current WACC	8.68%
Current Exit Multiple	12.0x
Current Price	$16.97
Current Valuation	$18.67
Buy Under Price	$15.56

Sensitivity Analysis of EGOV Valuation

Exit Multiple

WACC		10.75x	11.00x	11.25x	11.50x	11.75x	12.00x	12.25x	12.50x	12.75x	13.00x	13.25x
25%	10.85%	$14.99	$15.19	$15.39	$15.59	$15.79	$16.00	$16.20	$16.40	$16.60	$16.81	$17.01
20%	10.42%	$15.44	$15.65	$15.86	$16.07	$16.28	$16.49	$16.70	$16.91	$17.12	$17.33	$17.54
15%	9.98%	$15.91	$16.13	$16.35	$16.56	$16.78	$17.00	$17.22	$17.44	$17.66	$17.88	$18.10
10%	9.55%	$16.40	$16.63	$16.85	$17.08	$17.31	$17.54	$17.76	$17.99	$18.22	$18.45	$18.68
5%	9.12%	$16.91	$17.15	$17.38	$17.62	$17.86	$18.09	$18.33	$18.57	$18.80	$19.04	$19.28
Base	8.68%	$17.44	$17.69	$17.93	$18.18	$18.43	$18.67	$18.92	$19.17	$19.41	$19.66	$19.91
-5%	8.25%	$17.99	$18.25	$18.51	$18.76	$19.02	$19.28	$19.53	$19.79	$20.05	$20.31	$20.56
-10%	7.81%	$18.57	$18.84	$19.11	$19.37	$19.64	$19.91	$20.18	$20.44	$20.71	$20.98	$21.24
-15%	7.38%	$19.18	$19.45	$19.73	$20.01	$20.29	$20.57	$20.84	$21.12	$21.40	$21.68	$21.96
-20%	6.94%	$19.80	$20.09	$20.38	$20.67	$20.96	$21.25	$21.54	$21.83	$22.12	$22.41	$22.70
-25%	6.51%	$20.46	$20.76	$21.06	$21.36	$21.67	$21.97	$22.27	$22.57	$22.87	$23.17	$23.48

*Green cells indicates a buying price, red cells indicate sell price. Buying threshold assumes 20% upside.

Implied Perpetuity Growth Rate Associated with Valuation Sensitivity

Exit Multiple

WACC		10.75x	11.00x	11.25x	11.50x	11.75x	12.00x	12.25x	12.50x	12.75x	13.00x	13.25x
25%	10.85%	5.68%	5.79%	5.90%	6.00%	6.10%	6.19%	6.28%	6.37%	6.46%	6.54%	6.62%
20%	10.42%	5.26%	5.38%	5.48%	5.58%	5.68%	5.78%	5.87%	5.96%	6.04%	6.12%	6.20%
15%	9.98%	4.85%	4.96%	5.07%	5.17%	5.27%	5.36%	5.45%	5.54%	5.62%	5.70%	5.78%
10%	9.55%	4.44%	4.55%	4.65%	4.75%	4.85%	4.95%	5.04%	5.12%	5.21%	5.29%	5.36%
5%	9.12%	4.02%	4.13%	4.24%	4.34%	4.44%	4.53%	4.62%	4.71%	4.79%	4.87%	4.95%
Base	8.68%	3.61%	3.72%	3.82%	3.92%	4.02%	4.11%	4.20%	4.29%	4.37%	4.45%	4.53%
-5%	8.25%	3.19%	3.30%	3.41%	3.51%	3.61%	3.70%	3.79%	3.87%	3.96%	4.03%	4.11%
-10%	7.81%	2.78%	2.89%	2.99%	3.09%	3.19%	3.28%	3.37%	3.46%	3.54%	3.62%	3.69%
-15%	7.38%	2.37%	2.48%	2.58%	2.68%	2.78%	2.87%	2.96%	3.04%	3.12%	3.20%	3.28%
-20%	6.94%	1.95%	2.06%	2.17%	2.26%	2.36%	2.45%	2.54%	2.62%	2.71%	2.78%	2.86%
-25%	6.51%	1.54%	1.65%	1.75%	1.85%	1.94%	2.04%	2.12%	2.21%	2.29%	2.37%	2.44%

Appendix 5 – NIC Inc. Comp Analysis

Financial Metric	NIC Inc. - EGOV				Maximus Inc.				Accenture Plc.			
	2010	2011	2012	2013	2010	2011	2012	2013	2011	2012	2013	2014
Price	$9.71	$13.31	$16.34	$24.87	$61.58	$34.90	$59.72	$45.04	$53.59	$61.60	$72.25	$81.06
Market Value	619	854	1056	1616	1058	1179	2030	3086	34374	39016	45954	50906
EV	567	776	994	1519	899	1003	1830	2950	28673	32373	40345	46009
Trading Multiples												
EV/Sales	3.51	4.29	4.71	6.09	1.08	1.08	1.74	2.24	1.05	1.09	1.33	1.44
EV/EBITDA	16.40	17.89	19.99	23.00	7.47	6.95	11.66	14.19	7.61	7.72	9.19	9.30
EV/EBIT	18.96	20.16	23.01	26.32	8.81	8.25	14.02	17.14	8.26	8.36	9.92	10.74
P/E	34.68	38.03	40.85	50.76	15.95	15.11	27.27	26.81	15.76	16.04	14.66	17.93
Profitability Ratios												
ROIC	0.345	0.353	0.334	0.348	0.207	0.216	0.168	0.220	0.587	0.616	0.658	0.511
ROE	0.345	0.353	0.334	0.348	0.208	0.217	0.169	0.220	0.587	0.616	0.662	0.513
ROA	0.165	0.159	0.181	0.178	0.133	0.144	0.109	0.136	0.145	0.153	0.195	0.164
Capital Structure												
D/E	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00
Debt/EBITDA	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.00	0.00	0.01	0.01
Flexibility												
Current Ratio	1.77	1.72	2.04	1.95	2.16	2.39	2.25	1.87	1.45	1.55	1.45	1.46
Sales	161.534	180.899	211.143	249.279	831.749	929.633	1050.15	1315.244	27352.914	29777.985	30394.285	31874.678
Sales Growth		12.0%	16.7%	18.1%		11.8%	13.0%	25.2%		8.9%	2.1%	4.9%
Gross Profit	62.002	72.138	82.563	106.968	239.173	276.496	314.403	405.814	8684.268	9305.693	9709.172	9684.466
Gross Margin	38.4%	39.9%	39.1%	42.9%	28.8%	29.7%	29.9%	30.9%	31.7%	31.3%	31.9%	30.4%
EBITDA	34.58	43.41	49.71	66.04	120.40	144.44	157.00	207.96	3769.53	4191.23	4391.64	4946.00
EBITDA Margin	21.4%	24.0%	23.5%	26.5%	14.5%	15.5%	15.0%	15.8%	13.8%	14.1%	14.4%	15.5%
EBIT	29.90	38.51	43.19	57.71	102.06	121.59	130.54	172.14	3471.98	3873.24	4066.64	4282.50
EBIT Margin	18.5%	21.3%	20.5%	23.2%	12.3%	13.1%	12.4%	13.1%	12.7%	13.0%	13.4%	13.4%
Net Income	18.36	22.94	26.34	32.04	70.41	81.17	76.13	116.73	2277.68	2553.51	3281.88	2941.50
Net Margin	11.4%	12.7%	12.5%	12.9%	8.5%	8.7%	7.2%	8.9%	8.3%	8.6%	10.8%	9.2%
Diluted EPS (Excludes Ex. Items)	0.28	0.35	0.40	0.49	3.86	2.31	2.19	1.68	3.40	3.84	4.93	4.52
EPS Growth		25%	14%	23%		-40%	-5%	-23%		13%	28%	-8%

Appendix 6 – NIC Inc. Relative Valuation

EGOV Relative Firms Valuation

EV/Sales		Multiple Range		Implied EV			Implied Equity Value			Implied Share Price	
	Sales (NIC)	Low	High	Low	High	Less: Debt + (Cash)	Low	High	Shares Out.	Low	High
2013	249.28	1.84	2.24	459.47	559.13	-106.00	565.47	665.13	65.30	$8.66	$10.19
2014E	273.00	1.85	2.10	505.05	573.30	-106.00	611.05	679.30	65.30	$9.36	$10.40
2015E	298.00	1.75	1.80	521.50	536.40	-106.00	627.50	642.40	65.30	$9.61	$9.84
Price Target	298.00	1.85	2.10	551.30	625.80	-106.00	657.30	731.80	65.30	**$10.07**	**$11.21**

EV/EBITDA		Multiple Range		Implied EV			Implied Equity Value			Implied Share Price	
	EBITDA (NIC)	Low	High	Low	High	Less: Debt + (Cash)	Low	High	Shares Out.	Low	High
2013	66.04	11.74	14.19	775.62	936.89	-106.00	881.62	1042.89	65.30	$13.50	$15.97
2014E	75.00	11.48	12.76	860.87	956.74	-106.00	966.87	1062.74	65.30	$14.81	$16.28
2015E	83.00	10.85	11.60	900.55	962.80	-106.00	1006.55	1068.80	65.30	$15.41	$16.37
Price Target	83.00	11.48	12.76	952.70	1058.80	-106.00	1058.70	1164.80	65.30	**$16.21**	**$17.84**

EV/EBIT		Multiple Range		Implied EV			Implied Equity Value			Implied Share Price	
	EBIT (NIC)	Low	High	Low	High	Less: Debt + (Cash)	Low	High	Shares Out.	Low	High
2013	57.71	13.94	17.14	804.51	989.02	-106.00	910.51	1095.02	65.30	$13.94	$16.77
2014E	65.00	13.61	15.51	884.39	1008.28	-106.00	990.39	1114.28	65.30	$15.17	$17.06
2015E	74.00	12.80	14.10	947.20	1043.40	-106.00	1053.20	1149.40	65.30	$16.13	$17.60
Price Target	74.00	13.61	15.51	1006.84	1147.89	-106.00	1112.84	1253.89	65.30	**$17.04**	**$19.20**

P/E		Multiple Range		Implied Price	
	EPS (NIC)	Low	High	Low	High
2013	0.49	21.20	23.90	10.39	11.71
2014E	0.61	22.50	26.30	13.73	16.04
2015E	0.68	21.20	23.90	14.42	16.25
Price Target	0.68	22.50	26.30	**$15.30**	**$17.88**

Appendix 7 – NIC Inc. Ratio Analysis

Margins / Financial Ratios	2005	2006	2007	2008	2009	2010	2011	2012	2013	1Q14	2Q14	3Q14
Closing PE Ratio	61.6	29.2	44.4	24.2	37.7	41.7	38.6	52.7	34.2	38	39	30
High PE Ratio	66.1	44.2	46.8	47.1	52.7	42.1	53.4	9.8	40.8	54	53	46
Low PE Ratio	41.3	26.1	26.2	17.3	10.2	21.6	12.1	0.4	21.3	11	12	10
Gross Profit Margin	41.3	47.0	46.9	44.5	0.4	40.6	0.4	0.2	38.8	0	0	0
EBITDA Margin	19.9%	25.5%	21.7%	22.1%	21.1%	21.1%	24.0%	23.5%	24.4%	27.1%	28.0%	27.1%
EBIT Margin	18.4%	25.8%	21.4%	19.2%	16.6%	18.2%	21.3%	20.5%	21.1%	23.7%	24.7%	23.7%
Pre-Tax Profit Margin	18.4	25.8	21.4	19.1	20.0	22.0	20.0	20.4	20.0	0	0	0
Post-Tax Profit Margin	10.7	15.0	13.9	11.9	10.0	13.7	10.0	12.5	10.0	0	0	0
Net Profit Margin	10.7	15.0	13.9	11.9	10.0	13.7	10.0	12.5	10.0	0	0	0
Effective Tax Rate	42	42	35	38	40.0	37.6	40.0	39.0	40.0	0	0	0
Income per Employee	20,863	31,678	28,601	25,203	41,446.0	Error	41,446.0	36,889.0	41,446.0	41,446	41,446	41,446
Normalized Ratios												
Closing PE Ratio	62	29	44	24	37.7	41.7	61.0	40.9	37.7	122	61	104
High PE Ratio	66	44	47	47	37.9	42.1	61.6	42.1	37.9	126	62	107
Low PE Ratio	41	26	26	17	37.2	21.6	59.6	24.9	37.2	121	60	101
Net Profit Margin	11	15	14	12	10.0	13.7	10.0	12.5	10.0	0	0	0
ROE	8	11	18	18	30.0	34.1	10.0	33.4	30.0	0	0	0
ROA	5	8	11	10	20.0	19.6	10.0	18.1	20.0	0	0	0
ROCI	8	11	18	18	30.0	34.1	10.0	33.4	30.0	0	0	0
Income per Employee	20,863	31,678	28,601	25,203	41,446.0	Error	26,397.0	36,889.0	41,446.0	12,129	26,397	13,404
Solvency Ratios												
Quick Ratio	2.5	2.7	1.9	1.9	1.5	2.1	1.5	1.9	1.5	1.5	1.5	1.5
Current Ratio	2.6	2.8	2.1	2.0	2.0	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Efficiency Ratios												
Leverage Ratio	1.4	1.4	1.7	1.8	0.0	1.7	0.0	1.8	0.0	0.0	0.0	0.0
Asset Turnover	0.6	0.6	0.7	0.9	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Cash as % of Revenue	62.3	51.5	44.6	60.0	29.8	28.5	70.1	29.5	29.8	124.8	70.1	152.4
Receivables as % of Revenue	41.3	41.7	33.7	37.6	21.2	29.5	44.8	26.2	21.2	94.2	44.8	89.0
SG&A as % of Revenue	21.4	21.5	25.2	22.4	16.4	15.4	15.5	15.6	16.4	15.7	15.5	16.5
Activity Ratios												
Revenue per $ Cash	1.6	1.9	2.2	1.7	3.4	3.5	1.4	3.4	3.4	0.8	1.4	0.7
Revenue per $ Plant (Net)	17.8	18.8	14.0	15.1	16.4	14.7	10.0	13.2	16.4	4.6	10.0	5.4
Revenue per $ Common Equity	0.7	0.7	1.3	1.5	2.7	2.5	1.2	2.7	2.7	0.6	1.2	0.6
Revenue per $ Invested Capital	0.7	0.7	1.3	1.5	2.7	2.5	1.2	2.7	2.7	0.6	1.2	0.6
Liquidity Ratios												
Receivables Turnover	2.6	2.6	2.9	3.0	3.5	4.0	4.0	4.0	4.6	4.6	4.6	4.6
Receivables per Day Sales	148.7	150.3	121.2	135.5	105.6	93.7	98.1	94.2	79.3	79.3	79.3	782,268.8
Sales per $ Receivables	2.4	2.4	3.0	2.7	3.4	3.8	3.7	3.8	0.0	0.0	0.0	0.0
Revenue/Assets	0.5	0.5	0.8	0.8	1.1	1.5	1.3	1.5	1.4	0.4	0.7	0.4
Current Assets per Share	1.4	1.9	1.5	1.7	1.8	1.6	2.1	2.0	3.5	3.4	3.7	3.9
Total Assets per Share	1.9	2.3	1.8	1.9	2.0	1.8	2.3	2.3	3.9	3.7	4.0	4.2
Intangibles as % of Book-Value	0.0	0.0	0.0	0.0	3.0	2.9	1.7	1.3	0.0	0.0	0.0	0.0
Inventory as % of Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Structure Ratios												
Current Liabilities per Share	0.5	0.7	0.7	0.8	0.9	0.9	1.2	1.0	1.8	1.4	1.4	1.4
Cash per Share	0.6	0.6	0.6	1.0	1.1	0.8	1.0	1.0	0.6	0.7	0.7	0.7
Total Debt as % Total Assets	27.7	29.2	40.0	43.7	46.2	52.2	54.9	45.6	0.0	0.0	0.0	0.0
Working Captial as % of Equity	60.2	73.6	74.5	79.6	83.0	82.2	86.4	82.4	86.4	89.2	90.4	91.2
Revenue per Share	1.0	1.2	1.4	1.6	2.1	2.5	2.8	3.3	5.4	1.4	3.0	1.5
Book Value per Share	1.4	1.6	1.1	1.1	1.1	0.8	1.0	1.2	1.4	1.6	1.8	2.0
Tangible Book Value per Share	1.4	1.6	1.1	1.1	1.0	0.8	1.0	1.2	2.0	2.2	2.4	2.7
Price/Revenue Ratio	6.4	4.3	6.1	2.9	4.4	3.8	4.7	5.0	485.5	1,805.0	898.0	1,577.8
Price/Equity Ratio	4.4	3.1	7.8	4.3	8.7	11.6	13.2	13.4	1,316.5	1,154.5	1,067.9	862.4
Price/Tangible Book Ratio	4.4	3.1	7.8	4.3	9.0	12.0	13.3	13.5	1,343.7	1,177.2	1,087.4	877.9
Working Capital as % of Price	13.6	23.9	9.5	18.5	9.5	7.1	6.6	6.2	6.6	7.7	8.5	10.6
Profitability Ratios												
Working Capital per Share	0.8	1.2	0.8	0.9	0.9	0.7	0.9	1.0	1.2	1.4	1.6	1.8
Cash Flow per Share	0.1	0.2	0.2	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.7	0.7
Free Cash Flow per Share	0.3	0.4	(0.4)	0.0	0.1	(0.3)	0.1	(0.0)	0.5	0.6	0.5	0.6
Return on Stock Equity (ROE)	7.5	10.8	17.9	17.7	21.0	34.5	35.3	33.4	40.0	40.0	40.0	0.4
Return on Capital Invested (ROCI)	7.5	10.8	17.9	17.7	21.0	34.5	35.3	33.4	30.0	30.0	30.0	0.3
Return on Assets (ROA)	5.4	7.7	10.7	10.0	11.3	16.5	15.9	18.1	20.0	20.0	20.0	0.2
Price/Cash Flow Ratio	47.4	23.7	36.7	18.4	26.1	27.0	31.0	32.0	29.6	25.4	27.9	24.8
Price/Free Cash Flow Ratio	19.9	13.4	(19.2)	115.0	101.6	(34.7)	102.4	(817.0)	37.0	30.7	34.6	30.6
Sales per Employee	194,238.0	210,548.0	205,155.0	212,633.0	219,283.0	271,030.0	277,028.0	295,718.0	322,482.0	322,482.0	322,482.0	322,482.0

Appendix 8 – NIC Inc. Peer Consideration

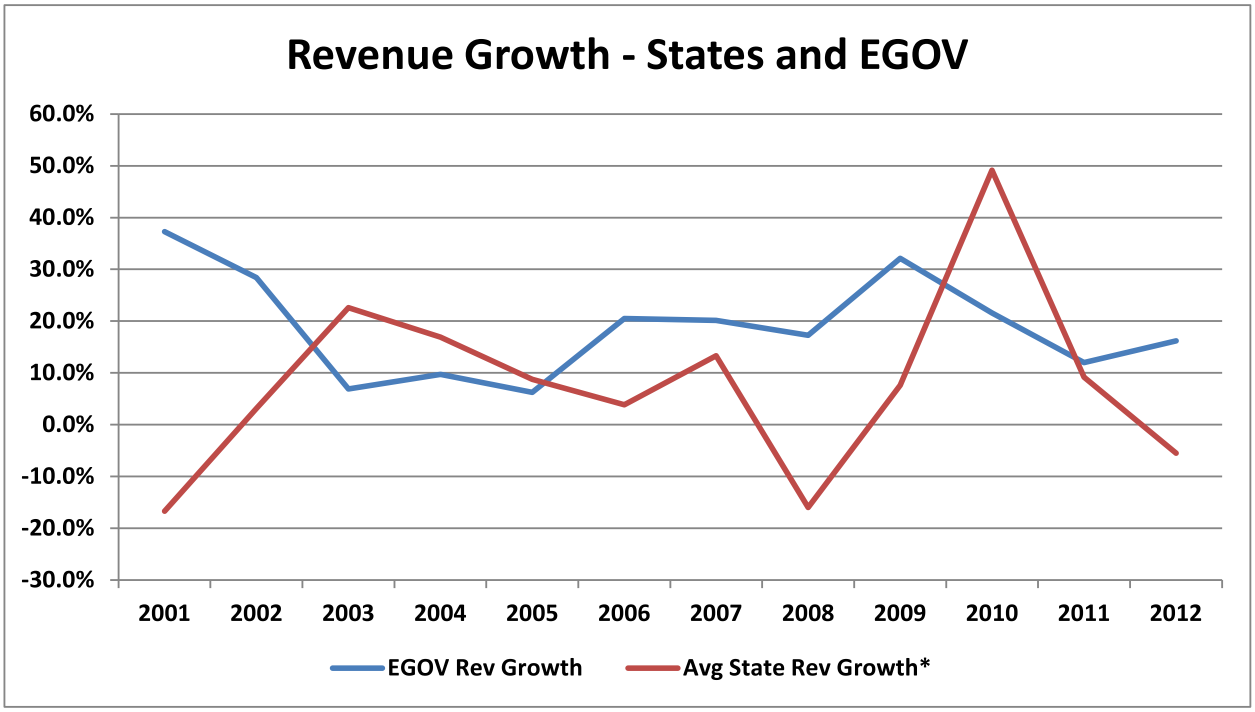
Peer Considerations

EGOV has no immediate competitors at the state level other than the states themselves, which complicated our relative valuation. Because EGOV has no exact matches in terms of business model, financial ratios/margins, growth prospects, risks, or market environment, analysts have a few possible comparable groups to choose from:

1) **Large and Well Established IT and Consulting Companies That Compete in The Federal Market and Elsewhere**
   Considered Firms: Maximus, Inc. (MMS), Accenture (CAN), Computer Sciences Corporation (CSC), Unisys Corporation (UIS), Hewlett-Packard (HPQ), and IBM
   Selected Firms: MMS, ACN
   Similarities: These firms provide similar services to government entities such as IT services and management. Although they work on the Federal level, generally they adhere to long-term contracts that provide stable predictability, similar to EGOV.
   Differences: The problem is that these entities are large corporations that have a large and well-diversified revenue base. They operate in many markets and provide many services including consulting. This makes their businesses more capital intensive, making their costs higher and margins lower. Besides MMS, these companies also have seen a slowdown in revenue growth and in some cases a decline. This also implies that investors don't see the same growth expectations from these companies.
   MMS: It is important to note that this group contains EGOV's best comparable, MMS. MMS is a similarly sized company that does IT services, web development and management for the Federal Government. Along with other revenue drivers, this company created and manages HealthCare.gov. This firm has similar margins, capital structure, and historical revenue growth. Investors value this company similar to NIC because of its contract based business model, and its growth prospects.
2) **Firms that build and manage websites and portals, but don't compete in the government space.**
   Considered Firms: Wix.com (WIX), Bridgeline Digital, Inc. (BLIN), Digital River, Inc. (DRIV), Web.com Group, Inc. (WWWW), ECI Technology (ECIT)
   Selected Firms: None
   Similarities: Investors have similar growth expectations for these firms. This is evidenced by their high EV/Sales ratios. In addition, these firms offer similar services such as Web design, payment processing, and general IT. This causes them to have similar costs and gross margins.
   Differences: Although they provide the same services, they do not sell to the same customers. Since they don't have steady, long-term government contracts, they have different risk considerations. Additionally, these are growth companies with negative net income, while EGOV is not a pure growth play. Negative net income means that the only useful metric is EV/Sales.

3) **Federal Defense Contractors focused primarily on technical services; including IT**
   Considered Firms: Booz Allen Hamilton Holding Corporation (BAH), Engility Holdings, Inc. (EGL), CACI International, Inc. (CACI), Mantech International Corporation (MANT), ICF International (ICFI), Leidos Holdings, Inc. (LDOS)
   Selected Firms: None
   Similarities: These firms have revenue based on long-term government contracts. This exposes them to similar risks as EGOV. A lot of these firms also collect fixed fees based on online traffic.
   Differences: These companies are susceptible to budget cuts in the defense sector, which varies widely from EGOV's exposure. Financial metrics are vastly different from EGOV's due to differences in business models and customer base. Although they do service government to some degree, these companies are highly diversified, much larger, and are at different points in the company lifecycle. They are much more capital asset intensive and vary with regards to margins.

Appendix 9 – EGOV Sensitivity to State Revenue Growth



*Calculated as year-over-year change in average revenue for the states with which EGOV has contracts in a given year.

	EGOV Rev Growth	Avg State Rev Growth
2001	37.3%	-16.7%
2002	28.4%	3.1%
2003	6.9%	22.6%
2004	9.7%	16.9%
2005	6.2%	8.8%
2006	20.5%	3.9%
2007	20.1%	13.3%
2008	17.3%	-16.0%
2009	32.1%	7.6%
2010	21.6%	49.2%
2011	12.0%	9.2%
2012	16.2%	-5.5%
Max	37.3%	49.2%
Min	6.2%	-16.7%
Average	19.0%	8.0%
Std. Dev	9.8%	17.6%

Appendix 9 – EGOV Sensitivity to State Revenue Growth (continued)

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.31260841
R Square	0.09772402
Adjusted R Square	0.00749642
Standard Error	0.09779795
Observations	12

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.010359087	0.010359087	1.083083456	0.32251649
Residual	10	0.095644399	0.00956444		
Total	11	0.106003486			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.20422665	0.031261754	6.532795593	6.61504E-05	0.134571121	0.27388218	0.134571121	0.27388218
Avg State Rev Growth	-0.1738911	0.167088451	-1.040712956	0.32251649	-0.546187385	0.198405154	-0.546187385	0.198405154

The value proposition of EGOV's transactions-based, self-funding model for states is that it prevents them from having to fund their E-Government projects with appropriated tax dollars. In turn, this should effectively hedge EGOV's exposure to ever-fluctuating state budgets, and the figures above suggest that this has held true historically. In charting EGOV's historical revenue growth against the average revenue growth of the states it services, we see that EGOV's revenue exhibits significantly less volatility. This is confirmed when comparing the standard deviation of the respective samples. Additionally, the regression analysis above provides evidence that EGOV's revenue growth is not significantly linked to state revenue growth. Of course, this will only continue to benefit EGOV to the extent that states continue to recognize the value of the self-funding model, which, as we have noted in this report, has not been the case for three states in the past two years.

Appendix 10 – EGOV Subsidiaries

	NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION
1	NICUSA, Inc.*	Kansas, U.S.
2	Kansas Information Consortium, Inc.**	Kansas, U.S.
3	Indiana Interactive, LLC**	Indiana, U.S.
4	Arkansas Information Consortium, LLC**	Arkansas, U.S.
5	Nebraska Interactive, LLC**	Nebraska, U.S.
6	Virginia Interactive, LLC**	Virginia, U.S.
7	Iowa Interactive, LLC**	Iowa, U.S.
8	Montana Interactive, LLC**	Montana, U.S.
9	Maine Information Network, LLC**	Maine, U.S.
10	Utah Interactive, LLC**	Utah, U.S.
11	Hawaii Information Consortium, LLC**	Hawaii, U.S.
12	Idaho Information Consortium, LLC**	Idaho, U.S.
13	NIC Commerce, LLC**	Colorado, U.S.
14	NIC Conquest, LLC**	Colorado, U.S.
15	National Information Consortium Technologies, LLC**	California, U.S.
16	Intelligent Decision Technologies, LLC**	Colorado, U.S.
17	National Online Registries, LLC**	Colorado, U.S.
18	Bay Interactive, LLC**	California, U.S.
19	Florida Information Consortium, Inc.**	Florida, U.S.
20	Michigan Local Interactive, LLC**	Michigan, U.S.
21	Texas Local Interactive, LLC**	Texas, U.S.
22	Alabama Interactive, LLC**	Alabama, U.S.
23	NIC European Business Limited*	London, England
24	Kentucky Interactive, LLC**	Kentucky, U.S.
25	NIC Solutions, LLC**	Colorado, U.S.
26	National Retail Registries, LLC**	Colorado, U.S.
27	South Carolina Interactive, LLC**	South Carolina, U.S.
28	Colorado Interactive, LLC**	Colorado, U.S.
29	Vermont Information Consortium, LLC**	Vermont, U.S.
30	Rhode Island Interactive, LLC**	Rhode Island, U.S.
31	eGov Service Corporation*	Colorado, U.S.
32	One Point Security Solutions, LLC*	Colorado, U.S.

*Wholly-owned subsidiary of NIC Inc.
**Wholly-owned subsidiary of NICUSA, Inc.

Source: 2013 10-K

Appendix 10 – Precedent Transaction Analysis

Precedent Transaction Analysis															
EV/Sales		Multiple Range		Implied Deal Offer			Implied Equity Value (Offer)		Minus Premium (25%)		Minus Premium (50%)			Implied Share Price	
	Sales 2015 E	Low	High	Low	High	Less: Net Debt	Low	High	Low	High	Low	High	Fully Diluted Shares	Low	High
Price Target	298.00	4.29	5.40	1277.675	1609.2	-106	1383.675	1715.2	1037.75625	1286.4	691.8375	857.6	65.299	10.59492	19.70015
EV/EBITDA		Multiple Range		Implied Deal Offer			Implied Equity Value (Offer)				Implied Value minus Premium			Implied Share Price	
	EBITDA 2015 E	Low	High	Low	High	Less: Net Debt	Low	High	Low	High	Low	High	Fully Diluted Shares	Low	High
Price Target	83.00	17.92	17.92	1487.36	1487.36	-106	1593.36	1593.36	1195.02	1195.02	796.68	796.68	65.299	12.20049	18.30074
EV/NI		Multiple Range		Implied Deal Offer			Implied Equity Value (Offer)				Implied Value minus Premium			Implied Share Price	
	Net Income 2015 E	Low	High	Low	High	Less: Net Debt	Low	High	Low	High	Low	High	Fully Diluted Shares	Low	High
Price Target	44	51.15	51.15	2250.6	2250.6	-106	2356.6	2356.6	1767.45	1767.45	1178.3	1178.3	65.299	18.04469	27.06703

Company	Deal	EV/LTM Revenue	EV/LTM EBITDA	EV/LTM N
Accenture	Acquires Acquity Group	2.24		
Bridgeline	Acquires ElementsLocal Inc	2.1		
	Acquires MarketNet Inc.	2.7		
	Acquires Magnetic Corp	2		
	Acquires e.magination net	5.4		
	Acquires TMX Interactive	2.4		
Digital River	Investor Group Acquires DI	1.55	17.92	
	Acquires 30% of Softonic Ir	15.91		51.15
Mean		4.2875	17.92	51.15
Max		5.4	17.92	51.15

Precedent Transaction Deals

1) Accenture Acquires Acquity Group
    a. Acquity group is a digital marketing group that provides customers with IT software and services including consulting.
2) Bridgeline Acqusitions
    a. Bridgeline Digital is a web content management, eCommerce, eMarketing, and social media company that specialized in web development and management. Their numerous acquisitions, although small in dollar value, include numerous web development and management companies.
3) Digital River Acquires Softonic
    a. Softonic is a leading developer and service company in the eCommerce web space. This acquisition was made so that Digital River could expand its eCommerce capabilities
4) Investor Group acquires Digital River
    a. Digital River is a public company that provides web based service and development encompassing eCommerce and payments processing. This acquisition represents our best precedent transaction because it was a public company when acquired, and had a similar business model. Like EGOV, Digital River was a fast growing revenue company with a developed bottom line.

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