NCI INC NCIT

March 30, 2016 - 1:41pm EST
by andreas947

			2016	2017
Price:	14.00	EPS	0	0
Shares Out. (in M):	14	P/E	0	0
Market Cap (in $M):	195	P/FCF	9	8
Net Debt (in $M):	10	EBIT	0	0
TEV ($):	205	TEV/EBIT	0	0

Description

NCI, Inc. (NCIT)

Summary

We focus on smaller companies with “Ft. Knox” balance sheets and large & sustainable free cash flow yields and we are typically seeking a double-digit FCF yield or higher on an unleveraged basis. The objective is for the sustainable FCF to eventually drive up the share price to a more reasonable valuation, through share buybacks, debt reductions, dividends, or accretive acquisitions. Obviously, it is important we have a management team that cares about shareholder value. We also focus on small and micro-cap stocks because there is a much better chance to find an attractive investment opportunity which is under-followed or undiscovered.

NCI, Inc. (NCIT) is a leading provider of enterprise solutions and services to U.S. defense, intelligence, health care, and civilian government agencies. NCIT has the expertise and proven track record to solve customers’ most important and complex challenges through technology and innovation. NCIT is headquartered in Reston, VA and has approximately 2,000+ employees operating at more than 100 locations worldwide. Almost all of NCIT’s revenue is derived from contracts with the U.S. Federal government, primarily as a prime contractor (92% of LTM revenues). NCIT conducts business primarily throughout the U.S. NCIT provides IT and professional services and solutions through eight core service offerings, including: 1) Cloud Computing and IT Infrastructure Optimization; 2) Cybersecurity and Information Assurance; 3) Engineering and Logistics Support; 4) Enterprise Information Mgmt. and Advanced Analytics; 5) Health IT and Medical Support; 6) IT Service Management; 7) Modeling, Simulation, and Training; and 8) Agile Development and Integration.

NCIT’s customers are a diverse base of Federal Government defense, intelligence, and civilian agencies. In 2015, approximately 60% of total revenue was generated from DOD and Intelligence agency customers and approximately 40% was generated from Federal Civilian agency customers. NCIT’s PEO Soldier contract is its largest contract and was renewed in September 2015 and accounted for approximately 11% and 10% of total revenues in 2015 and 2014.

NCIT has an attractive asset-light business model with limited capital expenditures and working capital needs and NCIT is generating strong free cash flows. NCIT has a return on invested capital or ROIC close to 70% based on EBIT ($21m) divided by working capital ($23m) plus net PPE ($7m). NCIT’s revenues and profits grew nicely in 2015 with total revenues up 5% to $333m in 2015 and adjusted EBITDA up over 30% to $28m. These positive results in 2015 are being driven by the strategic plan implemented by CEO Brian Clark, who joined NCIT in 2011, and has been working ever since to stabilize and grow the company. We believe there could be more good news to come over time.

Brian Clark has a strong background in the defense-related government procurement industry, having previously worked as VP-Strategic Transactions and VP-Controller at Titan Corporation, a San Diego-based defense contractor which provided specialized services for military and defense agencies from 2001 to 2006, when Titan was sold to L-3 Communications for $2.65b. In 2006, Clark became CFO of Stanley, Inc., an information technology company which was publicly-traded and whose largest customer was the U.S. Army, which was acquired by CGI Group in 2010 for $903m. We believe Clark was brought into NCIT by then-CEO and controlling shareholder Charles Narang to stabilize, turn around, and grow the business and drive shareholder value and we are starting to see the positive results of his program.

NCIT has been a strong and consistent generator of FCF for many years – in the six years from 2010 to 2015, NCIT has generated about $175m of cumulative cash from operations or close to 90% of the current enterprise value (EV). Over this period, capital expenditures have averaged about $3m per year. Even during the recession years of 2008 to 2010, NCIT generated strong cash from operations ($22m, $19m, and $27m) and FCF ($19m, $15m, and $25m). We believe this speaks to the strength of NCIT's business model and its contract revenue base. If NCIT can sustain these levels of cash generation, we believe its share price can go significantly higher over time.

NCIT has a "Ft. Knox" balance sheet, with only $10m in debt at year end 2015, or 0.4x LTM EBITDA. NCIT has about 14m shares outstanding at about $14 per share for a market cap of about $195m plus $10m of net debt or an enterprise value (EV) of about $205m. Based on 2015 adjusted EBITDA of $28m, NCIT is trading at 7.3x adjusted EBITDA and a 10% unleveraged FCF yield. 2015 revenue was about $333m, so NCIT is trading at about 0.6x LTM revenues. We think these valuation metrics are attractive for a niche provider of IT and professional engineering services and solutions to U.S. DOD and Federal Government Agencies, with a cash-generative business model, solid long-term revenue growth opportunities, cumulative cash from operations of about $175m in past six years (90% of the current enterprise value), and a "Ft. Knox" balance sheet.

We think NCIT's total revenues could grow modestly over the next few years, driven by increased backlog growth due to improved, more focused contract bidding procedures and strategy, better contract execution, and a stronger array of defense and government service capabilities. We believe adjusted EBITDA could grow to $32m by 2017 and, based on $32m of adjusted EBITDA at an 8x multiple, plus $30m in projected net cash by year end 2017, NCIT could have a market cap of $290m and a share price of $21 per share (+50% from $14 today).

Background

NCIT is a provider of information technology (IT) and professional engineering services and solutions to U.S. Federal Government Agencies. NCIT's technology and industry expertise enables it to provide a wide spectrum of services and solutions that assist its customers. NCIT delivers these complex services and solutions by leveraging its skills across eight core competencies discussed above, including: 1) Cloud Computing and IT Infrastructure Optimization; 2) Cybersecurity and Information Assurance; 3) Engineering and Logistics Support; 4) Enterprise Information Management and Advanced Analytics; 5) Health IT and Medical Support; 6) IT Service Management; 7) Modeling, Simulation, and Training; and 8) Agile Development and Integration.

NCIT results peaked in 2010 with $580m of revenue, $40m of operating income, and 3,000 employees. However, a weak environment for the government procurement industry ensued. The Federal IT and professional services market experienced political uncertainty and tight budgets. Budgetary pressures resulted in a much more competitive landscape where price dominated contract awards and protests delayed or canceled awarded contracts. NCIT revenues dropped sharply in 2011 and 2012 and NCIT brought in a new management team in 2011 and 2012 to pursue a more focused strategy on bidding on higher margin, longer term projects supported by an improved bidding process. The government procurement industry has endured several years of weak results, including sequestration and consistent uncertainties about funding of projects which has markedly slowed contract awards across the industry. Organic growth has been consistently negative across the entire industry. However, as discussed below, there are some signs that the industry environment might be improving.

NCIT's current strategy under CEO Brian Clark is focused on:

- Achieving revenue growth by deploying internal resources and forming tactical and strategic relationships while better leveraging key differentiators;
- Deploying resources, particularly in the area of business development, toward larger, more technically challenging opportunities in higher growth segments of federal procurement;
- Improving operating income margins through solid contract execution and growth in higher margin business areas and continued investment in infrastructure and related business processes for greater efficiencies;
- Disciplined deployment of cash resources and use of capital structure to enhance growth and shareholder value through acquisitions, internal growth initiatives, stock repurchases, dividends; and
- Investing in personnel, including employee training and development programs, with a focus on retention and recruiting.

Current Industry Trends

As discussed, the past several years have been a difficult environment for the Federal Government IT services procurement industry, with negative organic growth being the norm. NCIT believes current trends in the U.S. government IT services industry are as follows:

- Rapid decline in Federal IT services budgets ended in beginning of government fiscal year 2015, but analysts expect only gradual improvement going forward;
- More clarity in appropriations for both federal civilian and DOD customers should help facilitate a return to more normalized decision timelines;
- After several years of negative organic growth as the norm in the industry, NCIT expects a return to positive organic growth going forward, although only low to mid-single digits;
- NCIT expects a slight improvement in the pricing environment from the recent LPTA cost model, however, expects customers to continue to be price sensitive;
- Cost cutting and efficiency efforts by U.S. civilian agencies will result in the focus on increased use of performance measurement efforts to reduce waste and fraud in entitlement programs and this will lead to focus on improving procurement practices for and interagency use of IT services, including cloud based options and data center consolidations;
- Companies are working under increasingly complex requirements of the DOD and Intel community, including cyber-security, managing federal health care cost growth and focus on reforming existing government regulation of various sectors of the economy, including financial regulation and healthcare; and
- Recent consolidations in the government services space, such as Engility-TASC, CSC-SRA, CACI-NSS (L-3), and Leidos-LMT Services could bring added pressure on mid-tier providers such as NCIT, which may face scale issues in bidding and winning larger procurements.

Other Information

Prime contractor revenue - Total revenue derived from prime contracts was 90% in 2013, 92% in 2014, and 92% in 2015.

DOD/Intel vs. Federal Civilian Agency revenue - NCIT generates substantially all its revenue from U.S. Federal Government contracts and revenue from contracts and task orders are generally linked to trends in U.S. Federal Government spending by Defense, Intelligence, and Federal Civilian agencies. Defense and Intel Agencies represented 75% of total revenue in 2013, 75% in 2014, and 60% in 2015. Federal Civilian Agencies represented 25% of total revenue in 2013, 25% in 2014, and 40% in 2015.

Contract type revenue - NCIT's services and solutions are provided under three basic types of contracts – time and materials, cost plus fee, and firm fixed price. Time and materials contracts represented 19% of total revenue in 2013, 16% in 2014, and 23% in 2015. Cost plus fee contracts represented 52% of total revenue in 2013, 51% in 2014, and 49% in 2015. Firm fixed price contracts represented 29% of total revenues in 2013, 33% in 2014, and 28% in 2015.

Backlog- Funded backlog was $220m at year-end 2011; $212m at year-end 2012; $195m at year-end 2013; $184m at year-end 2014 and $147m at year-end 2015. Total backlog was $1b at year-end 2011; $706m at year-end 2012; $488m at year-end 2013; $410m at year-end 2014 and $552m at year-end 2015.

Employees – NCIT has reduced and focused its employee base since 2010, when it had almost 3,100 employees, compared to about 2,000 at present. The company had 2,600 employees at year end 2011; 2,200 employees at year end 2012; 1,900 employees at year end 2013; 1,800 employees at year end 2014; and 2,000 employees at year end 2015. At year-end 2015, approximately 62% of employees were located on site with customers, enabling NCIT to build and cultivate long-term relationships with customers.

Improved Results for 2015 and Solid Results Projected for 2016

Total revenues increased from $317m in 2014 to $333m in 2015 or up about 5%. Adjusted EBITDA increased from $20m in 2014 to $28m in 2015. A major factor in these improved results was the acquisition of Computech which was completed in January 2015. Computech added higher margin revenue, important product and service capabilities, and diversification into Federal civilian government revenues. DOD and Intel revenues represented about 75% of total revenue in 2014 and about 60% in 2015, with Federal Civilian revenues representing the rest, due to the Computech acquisition.

Total 2015 bookings were $441m or 1.3 times revenue of $333m and Q4 2015 bookings were $130m or 1.5 times revenue. This compares to bookings of 0.8 times revenues in 2014. While bookings can be volatile from quarter to quarter, these results in 2015 may indicate revenue growth in 2016, as the industry environment improves and NCIT seems well-positioned to win both new business and recompetes. Total backlog increased in 2015 for the first time in several years. NCIT has several $50m plus opportunities in contract bids it has recently submitted or expects to submit in the near term and the company believes the quality of its bids and opportunities are continuing to improve.

Guidance for Q1 of 2016 was $80m to $86m in revenue and 21 to 24 cents of diluted EPS and guidance for fiscal year 2016 was $330m to $354m of revenue and 86 cents to $1 of diluted EPS. These compare to 2015 revenue of $330m and diluted EPS of 86 cents and these projections would imply an adjusted EBITDA of $30m in 2016. It should be noted that throughout most of 2015, NCIT generally consistently beat guidance and raised full year guidance more than once.

Strong Cash-Generative Business Model and Attractive FCF yield

NCIT has a highly cash generative business model which is asset-light with limited capital expenditures and working capital needs and a high ROIC. NCIT trades at an attractive 10% unleveraged FCF yield, with decent prospects for near term growth in revenues, adjusted EBITDA, and FCF in 2016 and 2017. NCIT has a high ROIC business model (over 70%) based on EBIT versus the investment in net working capital and net PPE. With even modest revenue growth, we think NCIT can generate significant incremental FCF from current levels.

Strong Competitive Position/ Large Base of IDIQ and GWAC Contract Vehicles

We think NCIT has a strong competitive position in the Federal Government IT services industry and is well-positioned in important areas that should represent growth opportunities over the next few years – these would include Cloud Computing, Cybersecurity, and Information Assurance. Major competitive factors in its market include strong customer relationships, a record of successful contract performance, a reputation for quality, an experienced management team, and employees with a wide range of technical expertise and security clearances.

NCIT has a strong portfolio of indefinite delivery, indefinite quantity or IDIQ and government wide acquisition or GWAC contracts which can provide a stable source of revenue over time through extensions and renewals. NCIT's reputation has been built over 25 years in the Federal IT and professional services industry in which past performance and technical expertise are essential to winning and retaining customer engagements.

The Government's focus on adoption of low-price, technically acceptable (LPTA) has resulted in competitive pricing becoming even more important, especially in labor-intensive, services-based contracts. The company often competes or teams with divisions of large Defense and IT services contractors, including Lockheed Martin, Northrop Grumman, General Dynamics, Computer Sciences, Raytheon, Harris, BAE Systems, Booz Allen Hamilton, Leidos, and SAIC. The company also competes against or teams with mid-tier Federal contractors such as CACI International or ManTech International that have specialized capabilities.

Improved Operating Results Under CEO Brian Clark

NCIT was in a very difficult situation when Brian Clark joined in 2011, initially at CFO. (He was made CEO in mid-2015). The company was losing significant revenues as legacy contracts rolled off and were not replaced and had a cost structure that was much too high, given the industry environment. We believe Clark has overseen an effective make-over and improvement in the company's contract execution, product and service capabilities, and contract bidding procedures. One focus has been on larger and longer-term contracts instead of pursuing individual projects. There has also been a strong focus on reducing indirect costs to enable more competitive bidding in the LPTA environment. The result has been a stabilization of revenue declines as legacy contracts rolled off and growth in backlog has started to lead to higher revenues, with total revenue growth of 5% in 2015 versus prior year, improved from down 10% in revenues for 2013 and down 5% in revenues for 2014. In addition, gross margins have started to improve due to a focus on higher-margin, higher value-added revenues and better contract execution, with less indirect and subcontracted labor. Gross margins were 13.0% in 2013, 14.5% in 2014, and 16.5% in 2015. We believe Clark's management overhaul has been effective and is not yet fully reflected in the company's results. We expect continued improvement in operating results in 2016 and 2017.

Computech Acquisition Provides a Template for Growth

NCIT acquired Computech in January 2015 for approximately $56m in cash. Computech was generating approximately $40m in revenues and had about 170 employees when acquired. NCIT used cash on its balance sheet and incurred debt of $34m to acquire Computech and during 2015 NCIT has already paid down most of this debt. Computech has diversified NCIT's revenue base into Federal Civilian business, which represented about 40% of the company's total revenues in 2015. Computech customers include the FCC, IRS, Department of Homeland Security, and the U.S. International Trade Commission. Computech has also added service and product capabilities that NCIT did not previously have. Computech revenues were also higher margin and have helped to increase the overall margin profile of NCIT. We believe the Computech acquisition represents an excellent template for an effective "bolt-on" acquisition strategy by NCIT whereby it makes acquisitions, repays the debt incurred, and then repeats the process again. The result could be a larger, more diversified revenue base over time, leading to enhanced shareholder value.

Significant NOL Shelters Cash Taxes

NCIT had approximately $38m in net deferred tax assets at year-end 2015 with a minimal valuation allowance, which indicates management believes the company can generate sufficient earnings to utilize these deferred tax assets. As a result, the company pays a relatively modest cash tax rate on its pre-tax earnings, which enhances FCF.

Federal Procurement Industry Environment Might Be Improving

NCIT could benefit from an improving environment for Federal Procurement contracts, which has been long-awaited, and slow to materialize thus far. However, management believes the current budget deal does provide increased funding certainty and contracts appear to be being awarded on a more timely basis as a result. The company also believes there may be a gradual easing of the emphasis on Lowest Price, Technically Acceptable or LPTA due to problems with execution of contracts under this constraint. NCIT expects to submit almost $1.2b of bids in 2016, in addition to $350m of bids already submitted and awaiting processing.

Attractive Upside Potential

In 2015, NCIT generated $28m of adjusted EBITDA and $21m of FCF (cash from operations less capital expenditures). We believe NCIT can grow adjusted EBITDA and FCF in 2016 and 2017 based on a stronger service offering and improved bidding procedures and better contract execution, along with a streamlined cost structure. We believe NCIT bookings can continue to increase in 2016 and 2017 and this will lead to increased revenue, adjusted EBITDA, and FCF.

We believe NCIT can generate adjusted EBITDA of $32m in 2017 with net cash of $30m by year end 2017. We believe NCIT could trade for $256m or 8x Adjusted EBITDA in 2017 plus $30m of net cash at year end 2017 or $290m or $21 per share, about 50% higher than present $14 per share.

Share Repurchases or Dividends / Motivated Controlling Shareholder

NCIT has paid modest special dividends in recent years as its balance sheet has strengthened. However, we believe that management is primarily focused on additional niche acquisitions like Computech which are accretive and add important services, products, and customers to diversify and strengthen the company's revenue base. We believe management is particularly focused on growing the Federal Civilian industry exposure to diversify its historical reliance on the DOD and Intel industries. We do believe that if NCIT's share price remains depressed and its improving operations are not being recognized, there could be a major share-repurchase program and/or a major dividend program, especially given the significant control shareholding position by the Narang Family, who we believe is highly motivated to drive shareholder value.

Solid Balance Sheet and Expected Steady Build-up in Net Cash Position.

NCIT has a "Ft. Knox" balance sheet with a net debt position of $10m at year end 2015 or 0.4x LTM EBITDA. We believe NCIT can generate $20m+ of FCF per year in 2016 and 2017 and we think NCIT could end 2017 with a net cash position of $30m. Alternatively, management may use the strong cash position to repurchase shares, pay dividends, or complete accretive acquisitions. We think the potential build up in net cash in 2016 and 2017 will continue to highlight the strong cash generating capabilities of the business model and could attract investor attention. Further, NCIT has a credit line of up to $125m, which is almost completely unused, and has very low borrowing rates.

Recent Consolidation in Government Services Space

There have been several consolidation transactions in the government services space over the last 18 months. These include Lockheed Martin merging its IT and government services subsidiary with Leidos to create the largest government services provider with about $10b of revenues in January 2016. CACI completed a $550m acquisition of L-3's National Security Solutions in February 2016 to pursue next generation IT programs across the federal marketplace. In August 2015, CSC combined its government services unit with SRA to become one of the largest pure play IT services providers serving the U.S. government sector, with combined 2015 revenues of approximately $5.5b and 19,000 employees. In October 2014, Engility Holdings, which had previously been spun off from L-3 Communications, acquired TASC, Inc. in an all-stock deal valued at $1.1b. General Atlantic and KKR had previously paid $1.65b for TASC as part of a management buyout from Northrop Grumman in 2009. We believe there are both positives and negatives for NCIT resulting from this consolidation but believe it can execute in it niches against these larger players and might eventually become an acquisition target.

Conclusion and Target Price

Based on 8x our adjusted EBITDA estimate of $32m for 2017 plus a projected $30m+ net cash position at year-end 2017, we believe NCIT could trade for a market cap of close to $290m or $21 per share or more versus $14 per share today (+50%). If NCIT continues to execute and its IT and professional services and solutions business for U.S. DOD and Government Agencies performs as we expect, we think our target price can be achieved. Further, NCIT's strong services and solutions offering and long-term, well-established customer relationships in key areas of DOD, Intel, and Federal Civilian contract work could prove attractive to a strategic or private equity acquirer.

Major Shareholders		
Narang Family Trust (a)	5,000	17.3%
Fidelity Mgmt.	1,927	10.5%
Heartland Advisors	573	6.6%
Renaissance Tech.	411	4.8%
Narang, Charles	365	4.2%
Arcadian Asset	343	4.0%

(a) Narang Family Trust owns 4.7m Class B shares of stock with super-voting rights of 10 votes per share while Class A shares receive one vote per share.

		Avg Daily Volume
Price per share	$14	36,000
Shares outstanding	14	
Market value	$196	

52 week range	$9.5	$17.2

Income statements							
FYE 12/31	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Sales	$469	$581	$558	$368	$332	$317	$333
Gross profit	$62	$68	$59	$46	$43	$46	$55
G&A expense	$22	$29	$31	$34	$30	$31	$34
Adjusted EBITDA (1)	$40	$45	$35	$19	$19	$20	$28
Adjusted EBIT (1)	$38	$40	$28	$12	$13	$15	$21
Net income	$22	$24	$13	($87)	$8	$9	$12
Cash EPS – cont. ops	$1.15	$1.72	$0.95	($6.51)	$0.60	$0.63	$0.89
Gross margin %	13.2%	11.7%	10.6%	12.5%	13.0%	14.5%	16.5%
Cash flow statements							
FYE 12/31	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Net income	$22	$24	$13	($87)	$8	$9	$12
Dep & amort	$4	$5	$7	$7	$6	$6	$8
Non cash adjust	$3	$5	$1	$152	$5	$4	$4
Working capital chgs	($11)	($7)	$15	$19	($1)	$9	$0
Cash fr operations	**$19**	**$27**	**$36**	**$42**	**$17**	**$28**	**$24**
Capital expenditures	($5)	($6)	($3)	($2)	($1)	($2)	($3)
Dividends	$0	$0	$0	$0	$0	$0	$0
Share repurchases	$2	$3	($5)	($5)	$0	$0	$0
Acquisitions	($18)	$0	($63)	$0	$0	$0	($57)
Est. free cash flow	**$14**	**$21**	**$33**	**$40**	**$16**	**$26**	**$21**
Balance sheets							
FYE 12/31	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Cash	$1	$2	$3	$1	$0	$26	$0
Total assets	$242	$269	$283	$142	$127	$164	$164
Total debt	$42	$20	$54	$18	$ 1	$0	$10
Shareholder equity	$124	$153	$164	$73	$82	$94	$107
Net debt / (cash)	$41	$17	$51	$17	$1	($26)	$10
Shares outstanding	13.8	13.9	13.8	13.3	12.8	13.5	13.7

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Valuation & Valuation Ratios	
Market value	$185
Net cash	$10
Preferred	$0

EV / Adjusted EBITDA	6.8
Enterprise Value / Free Cash Flow	9.5
Enterprise Value / Cash from Ops	8.2

Enterprise value	$195		Enterprise Value / Revenues	59%

Price per share	$13.3	
Shares outstanding	14	
Market value	$185	
52 week range	$9.5	$17.2

Avg. Daily Volume
32,000

Detailed Income Statements

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Total Revenue	$304	$391	$469	$581	$558	$368	$332	$317	$333

Cost of revenues	$264	$336	$407	$513	$499	$322	$289	$271	$278
G&A expense	$15	$20	$22	$24	$24	$26	$23	$26	$26
D&A expense	$3	$4	$4	$5	$7	$7	$6	$6	$8
Acquisition & other expense	$0	$0	$0	$0	$4	$2	($1)	$0	$0
Impairment of goodwill exp.	$0	$0	$0	$0	$0	$151	$0	$0	$0
Total operating ex	$282	$360	$431	$542	$534	$508	$318	$303	$312
Operating income	$22	$30	$36	$40	$28	($140)	$14	$14	$21
Other Income	$1	$2	$1	$1	$2	$1	$1	$0	$1
Taxes	$8	$11	$15	$15	$9	($55)	$6	$6	$8
Net income	$13	$17	$22	$24	$13	($87)	$8	$8	$12
Gross profit	$40	$55	$62	$68	$59	$46	$43	$46	$55
Gross margin %	13.2%	14.1%	13.2%	11.7%	10.6%	13.5%	13.0%	14.5%	16.5%
Adjusted EBITDA	$25	$34	$40	$45	$35	$20	$19	$20	$29
Adjusted EBITDA %	8.2%	8.7%	8.5%	7.7%	6.3%	5.4%	5.7%	6.3%	8.7%

Detailed Quarterly Income Statements

	3/13	6/13	9/13	12/13	3/14	6/14	9/14	12/14	3/15	6/15	9/15	12/15
Total Revenue	$91.5	$83.0	$77.9	$79.9	$89.1	$77.8	$75.7	$74.4	$81.0	$85.8	$82.3	$84.0
Cost of revenues	$80.5	$72.0	$67.8	$69.0	$78.0	$65.9	$64.1	$62.8	$67.6	$71.6	$68.7	$70.5
G&A expenses	$5.9	$6.1	$5.8	$5.6	$7.4	$6.4	$6.2	$5.9	$6.6	$6.9	$6.5	$6.1
D&A expense	$1.6	$1.5	$1.7	$1.5	$1.4	$1.5	$1.4	$1.4	$2.1	$1.9	$1.8	$1.9
Acquisition expense	$0	$0	$0	$0	$0	$0	$0	$0.2	$0.2	$0.2	$0	$0
Total operating expenses	$88.0	$79.0	$74.5	$76.1	$86.9	$73.8	$71.7	$70.3	$76.6	$80.5	$76.9	$78.4
Operating income	$3.6	$3.3	$3.5	$3.8	$2.2	$4.1	$4.0	$4.2	$4.4	$5.3	$5.4	$5.6
Gross profit	$11.0	$11.0	$10.1	$10.9	$11.1	$11.9	$11.6	$11.6	$13.4	$14.2	$13.6	$13.5
Gross margin %	12.0%	13.3%	13.0%	13.6%	12.5%	15.3%	15.3%	15.6%	16.5%	16.6%	16.5%	16.1%
Adjusted EBITDA	$5.2	$4.8	$4.3	$5.3	$3.6	$5.6	$5.4	$5.8	$6.5	$7.4	$7.2	$7.5
Adjusted EBITDA %	5.7%	5.8%	5.5%	6.6%	4.0%	7.2%	7.1%	7.8%	8.0%	8.6%	8.7%	8.9%

Detailed Quarterly Balance Sheets

	12/12	3/13	6/13	9/13	12/13	3/14	6/14	9/14	12/14	3/15	6/15	9/15	12/15
Cash and equivalents	$1	$1	$1	$0	$0	$0	$13	$20	$26	$1	$0	$0	$0
A/R	$62	$80	$63	$56	$64	$67	$56	$55	$53	$53	$57	$5	$60
Prepaid and other	$14	$10	$9	$6	$6	$7	$5	$6	$7	$10	$8	$6	$7
Total current	$77	$91	$74	$63	$70	$75	$75	$81	$86	$63	$65	$59	$68
PPE, net	$13	$12	$11	$10	$10	$10	$9	$8	$7	$7	$7	$6	$7
Deferred tax assets	$44	$44	$44	$44	$40	$40	$40	$40	$38	$38	$38	$38	$35
Intangible & Goodwill	$10	$7	$7	$6	$6	$5	$6	$5	$4	$56	$55	$54	$53
Total assets	$142	$155	$135	$123	$127	$132	$130	$134	$137	$166	$166	$159	$164
A/P	$24	$26	$20	$14	$17	$21	$14	$14	$16	$16	$19	$15	$20
Accrued expenses	$16	$15	$16	$17	$17	$15	$16	$17	$17	$16	$17	$18	$19
CPLTD	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Deferred revenue & other	$9	$10	$9	$3	$6	$7	$6	$9	$7	$4	$9	$10	$8
Total current	$49	$51	$46	$39	$41	$43	$39	$40	$41	$41	$45	$43	$45
LTD	$18	$26	$10	$2	$1	$0	$0	$0	$0	$27	$20	$11	$10
Other liabilities	$3	$3	$3	$2	$3	$4	$3	$2	$3	$3	$3	$3	$2
Shareholder equity	$73	$75	$77	$80	$82	$85	$88	$91	$94	$95	$99	$102	$106
Net debt	**$17**	**$25**	**$9**	**$2**	**$1**	**$0**	**($13)**	**($20)**	**($26)**	**$26**	**$20**	**$11**	**$10**
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NCI, Inc. (NCIT)	**ICF Intl. (ICFI)**	**Engility (EGL)**	**CACI Intl. (CACI)**	**ManTech Intl. (MANT)**	
Provides information	Provides management,	Provides various	Provides info solutions and	Provides technologies	

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	technology (IT) and professional services to defense, intelligence, healthcare, and civilian government agencies worldwide, with about 2,000 employees at 100 locations worldwide.	technology, and policy consulting and implementation services to government and commercial clients in the U.S. and internationally, with about 5,000 employees in 65 offices worldwide.	engineering, technical, analytical advisory, training, logistics, and support services worldwide, with about 9,500 employees worldwide.	services to U.S. federal government, state, and local governments, commercial enterprises, and government agencies in North America and internationally with 16,200 employees worldwide.	and solutions for mission critical national security programs in the U.S. and internationally, with about 8,000 employees worldwide.
Cash	$0	$5m	$76m	$69m	$0
LTD	$10m	$330m	$1.15b	$1b	$0
Price	$13	$33	$18	$99	$31
Shares	14m	19m	37m	25m	24.5m
Market Cap	$182m	$630m	$666m	$2.4b	$1.2b
Enter. Value (EV)	$192m	$960m	$1.74b	$3.3b	$1.1b
Rev - LTM	$330m	$1.13b	$1.87b	$3.34b	$1.6b
Adj. EBITDA – LTM	$28m	$111m	$181m	$306m	$116m
Adj. EBITDA – 2014	$20m	$93m		$310m	$130m
Adj. EBITDA margin	9.2%	9.8%	10.4%	9.2%	7.2%
EV to Adj. EBITDA	6.8x	8.6x	9.6x	10.8x	9.5x
EV to LTM Revenues	0.58x	0.85x	0.93x	0.99x	0.7x
LTM Capital Expenditures	$3m	$13m	$20m	$17m	$5m
Cap Ex to Revenues	1.0%	1.2%	1%	0.5%	0.5%
Revenue per employee	$166,000	$226,000	$197,000	$206,000	$200,000
LTM Free Cash Flow	$21m	$65m	$30m	$230m	$145m
FCF to EV	11%	7%	2%	7%	13%

Catalysts

1. Low valuation for a high ROIC (70%+) enterprise solutions and services defense and government services company (10%+ unleveraged FCF yield, 7x adjusted EBITDA, and 0.6x LTM revs).
2. Steady build-up of net cash on balance sheet, from $10m of net debt at year-end 2015 to $30m+ at year end 2017.
3. Projected FCF of $20m+ in 2016 and 2017.
4. Increase in backlog and revenues from organic growth programs (streamlined cost structure, enhanced bidding procedures, improved array of services and solutions).
5. Growth in revenues and adjusted EBITDA through additional niche acquisitions similar to Computech.
6. Share repurchases and dividends from excess cash and FCF generation.
7. Possible acquisition of NCIT by a strategic or financial purchaser.
8. Increased analyst coverage and recognition of NCIT.

Risks

1. The U.S. economy declines.
2. There are major cutbacks in U.S. DOD and Intel budgets or, alternatively, another government shutdown over budget differences.
3. NCIT turns over about 1/3 of its contracts each year – three year average life – so unexpected loss of a major contract.
4. Organic growth in NCIT's industry has been negative in recent years and is only expected to be modestly positive going forward.
5. NCIT is unable to win new contracts and increase backlog as we expect.
6. Backlog additions and re-competes can be extremely volatile from quarter to quarter, which can significantly impact revenues and profits.
7. NCIT has a performance issue on a contract.
8. Increasingly competitive bidding environment – lowest price, technically acceptable (LPTA) – impacts NCIT profit margins.
9. Misallocation of capital into a poor acquisition.
10. Going private transaction led by largest shareholder at below fair value. Narang Family Trust owns super-voting stock.
11. We are defining FCF as cash from operations less capital expenditures and including non-cash stock comp and some other add-backs which some investors would not want to include.

Disclaimer

Disclaimer: We own shares of NCIT. We may buy or sell these shares at any time without notice. The information in the write-up is believed to be correct as of the date written but VIC members should do their own verification of this information and analysis of this potential investment. We undertake no obligation to update this write-up if new information arises at a future date.

I do not hold a position with the issuer such as employment, directorship, or consultancy.

I and/or others I advise do not hold a material investment in the issuer's securities.

Catalyst

See above

Messages

Subject CEO Clark out
Entry 10/31/2016 09:54 AM
Member natty813

Andreas947 - any thoughts on the abrupt exit of CEO Clark after the company finally appears to have some momentum on the bookings side of the business? It is clear they have been looking for deals - but considering that the stock trades at 4.9x EBITDA and is a $150MM market cap - they have struggled to get anything done. I appreciate the patience/discipline that Clark has shown. My suspicion is that Clark and founder Narang had a falling out and I am trying to confirm.

Thanks!!

Natty

Subject Re: CEO Clark out
Entry 10/31/2016 11:16 AM
Member andreas947

Natty - I think you are right on the falling out. I thought Clark was doing a pretty good job and b/s is almost completed deleveraged which I love. I am not yet sure what happened. I am going to poke around some and see if I can find anything out. My bet would be there was a dispute over either selling the company or making an acquisition and Narang holds the control stock. I will let you know if I can find anything out. I find it still pretty attractive here as long as there is not some execution or contract issue looming and, some day, it would be a great bolt on acquisition candidate for a number of larger players in this industry. Candidly, I would have prefered Clark remain but, for now, it remains financially attractive at these levels, at least to me. My hope is that Narang went through an extremely painful period of time with poor acquisitions that Clark helped to dig the company out from and that Narang does not want to go back there. Hopefully no big shoes drop on me. Best, Andreas

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Subject Re: CEO Clark out
Entry 10/31/2016 06:32 PM
Member andreas947

Sounds like Board wanted to see more organic growth before they did any larger acquisitions such as those favored by Clark who sounds like wanted to move faster. Organic growth could improve into 2017 but we will have to see. Sorry to see Clark go but holding steady on this one for now.

Subject Re: Re: CEO Clark out
Entry 11/01/2016 08:42 AM
Member natty813

Thanks Andreas - that is what I gathered as well - which seems like the best possible answer considering the circumstances. This is a company that should be consolidated, not serving as a consolidator considering the size and valuation of the company. Very few stocks trading this cheaply -

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Subject Re: Re: Re: CEO Clark out
Entry 07/03/2017 10:12 AM
Member andreas947

NCI to Be Acquired by H.I.G. Capital, LLC
RESTON, Va.--(BUSINESS WIRE)--Jul. 3, 2017-- NCI, Inc. (NASDAQ:NCIT) ("NCI" or the "Company"), a leading provider of information technology (IT) and professional services and solutions to U.S. Federal Government agencies, announced today that it has signed a definitive agreement to be acquired by private funds managed by an affiliate of H.I.G. Capital, LLC ("H.I.G."), a leading global private equity investment firm, in an all-cash transaction valued at approximately $283 million.

Under the terms of the definitive agreement, H.I.G. will commence a tender offer no later than July 17, 2017, to acquire all outstanding shares of NCI's Class A and Class B common stock for $20.00 per share in cash. NCI's board of directors has unanimously approved the transaction. Concurrently with the execution of the merger agreement, the chairman of the board of NCI, Charles Narang, in his capacity as a stockholder of the Company, entered into a tender and support agreement pursuant to which he will, subject to certain exceptions, tender all of his shares of NCI common stock in favor of the offer.

"On behalf of NCI, I am pleased to announce this agreement today and excited by the prospect of what it means for our customers and employees," said Paul A. Dillahay, president and CEO. "This partnership with H.I.G. Capital will offer NCI an opportunity to accelerate our growth strategy; enhance our delivery of premier solutions to our customers, including the use of artificial intelligence and agile software development to increase the speed, productivity and capability of their missions; and create new opportunities for our employees."

“We are excited to partner with Paul Dillahay and the entire NCI workforce,” said Rick Rosen, an executive managing director at H.I.G. “We believe NCI is well positioned to continue to deliver differentiated technology solutions to its federal government customers, including the men and women of our armed forces, and we look forward to working with the NCI management team through the next stage of the Company’s growth.”

The closing of the tender offer will be subject to certain conditions, including the tender of shares of NCI common stock representing at least a majority of the voting power of the shares of Class A and Class B common stock outstanding on a fully-diluted basis (assuming that the shares of Class B common stock will convert to Class A common stock upon consummation of the tender offer, the exercise of all options and the vesting of all restricted stock awards), the expiration of the waiting period under any applicable antitrust laws and other customary conditions. Upon the completion of the tender offer, H.I.G. will acquire all remaining shares through a second step merger without the need for a stockholder vote under Delaware law. The closing of the transaction is not contingent on financing. The parties currently expect the transaction to close in the third quarter of 2017. Upon the completion of the proposed transaction, NCI will become a privately held company.

Wells Fargo Securities, LLC and Stifel, Nicolaus & Company, Incorporated are serving as financial advisors to NCI. Paul Hastings LLP is acting as NCI’s legal advisor. Teneo Capital is acting as H.I.G.’s financial advisor. Kirkland & Ellis LLP is acting as H.I.G.’s legal advisor.

Subject Author Exit Recommendation
Entry 07/09/2017 09:54 AM
Member andreas947

The author has recommended exiting the position

Subject Acquired
Entry 07/09/2017 09:55 AM
Member andreas947

NCI to Be Acquired by H.I.G. Capital, LLC

RESTON, Va.--(BUSINESS WIRE)--Jul. 3, 2017-- NCI, Inc. (NASDAQ:NCIT) (“NCI” or the “Company”), a leading provider of information technology (IT) and professional services and solutions to U.S. Federal Government agencies, announced today that it has signed a definitive agreement to be acquired by private funds managed by an affiliate of H.I.G. Capital, LLC (“H.I.G.”), a leading global private equity investment firm, in an all-cash transaction valued at approximately $283 million.

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