

Analyst: Sung Nam

NCI Inc (NCIT)

Market Price:	\$10.86	EBITDA/Share:	\$3.67	Net Asset/Share:	\$2.97
DCF: EV/EBITDA Terminal Value	5.983%	DCF: Net Tangible Asset excluding Cash/Debt Terminal Value		-16.822%	
EBITDA-Cap Ex/Share	\$2.86	EVA Analysis:		5.001%	

Overview**Dividend?**

Dividend yield is 0.0%.

Price to Book

Price to book is 0.96. Price to book excluding goodwill is 3.66.

Cashflow Generation

Cashflows are \$25 MM from operating cashflow.

Capex is \$6 MM, minority interest payment is \$0 MM, intangibles are \$15 MM and dividend is \$0 MM.

Free cash flow is about \$4MM.

6.8% EBITA margin and FCF yield is 10.5%.

The company has \$3 MM in cash/short term investment and \$20 MM in debt.

We are projecting a \$5 MM paydown annually.

Profitability

ROA is 8.9%, and ROC is 15.6%.

Bankruptcy Risk

Altman Z is above 3.0. Low Risk.

LBO?

We don't believe a 60% debt/40% equity would be sustainable.

Price

Altman Z Score

Company Name:

NCI Inc

Ticker:

NCIT

Period	2007	2008	2009	2010	2011	2012	2013	2014	2015
Working Capital	27.29	27.30	36.31	53.02	53.25	50.65	47.99	46.66	51.46
Total Assets	178.75	200.33	241.65	269.48	285.86	299.85	313.78	328.82	349.75
X1	0.15	0.14	0.15	0.20	0.19	0.17	0.15	0.14	0.15
Retained Earnings	21.83	38.87	61.03	84.90	106.28	125.27	144.20	164.24	185.17
Total Assets	178.75	200.33	241.65	269.48	285.86	299.85	313.78	328.82	349.75
X2	0.12	0.19	0.25	0.32	0.37	0.42	0.46	0.50	0.53
EBITDA	25.34	34.05	41.83	44.83	39.07	35.55	35.55	37.33	39.19
Total Assets	178.75	200.33	241.65	269.48	285.86	299.85	313.78	328.82	349.75
X3	0.14	0.17	0.17	0.17	0.14	0.12	0.11	0.11	0.11
Market Value of Equity	147.48	147.48	147.48	147.48	147.40	147.32	147.24	147.16	147.08
Total Liabilities	98.49	101.48	117.42	116.44	111.44	106.44	101.44	96.44	96.44
X4	1.50	1.45	1.26	1.27	1.32	1.38	1.45	1.53	1.53
Net Sales	304.42	390.60	468.91	581.34	558.09	507.86	507.86	533.25	559.91
Total Assets	178.75	200.33	241.65	269.48	285.86	299.85	313.78	328.82	349.75
X5	1.70	1.95	1.94	2.16	1.95	1.69	1.62	1.62	1.60
Altman Z Score	3.42	3.82	3.80	4.14	3.94	3.70	3.69	3.78	3.80

$$Z = 1.2 \times X1 + 1.4 \times X2 + 3.3 \times X3 + 0.6 \times X4 + 1.0 \times X5$$

Z-SCORE ABOVE 3.0 –The company is considered 'Safe' based on the financial figures only.

Blue

Z-SCORE BETWEEN 2.7 and 2.99 – 'On Alert'. This zone is an area where one should 'Exercise Caution'.

Green

Z-SCORE BETWEEN 1.8 and 2.7 – Good chance of the company going bankrupt within 2 years.

Yellow

Z-SCORE BELOW 1.80- Probability of Financial Catastrophe is Very High.

Red

SN VALUATION

LBO Analysis

WACC Terminal Value:		Intrinsic Price in 5 Years:	10.83	Non-LBO Forecast	Non-LBO Forecast	Desired Return Rate	20.00%
EV/EBITDA with 5X Multiple Terminal Value:	\$14.52	Market Price:	10.86	Year 1 Target	10.85	Implied Today's Price	4.35
Net Tangible Asset Terminal Value:	\$4.32	LBO Price:	10.86	Year 2 Target	10.85	Overvalued/(Undervalued)	149.50%
EV/EBITDA with Today's Multiple Terminal Value:	\$8.75	Premium to Market Price:	0.00%	Year 3 Target	10.84		
EVA Enterprise Value:	\$15.73	LBO Price/Intrinsic Price Target:	-0.05%	Year 4 Target	10.84		
Dividend Discount Model:	N/A	LBO Price/EV/EBIT Exit Price:	-6.64%	Year 5 Target	10.83		
Average (Excluding Dividend Discount):	\$10.83	Implied IRR at today's EV/EBITDA:	-4.23%	Implied IRR (Market Price):	-0.05%		
		5 Year Return:	-0.27%				

Current Evaluation				Exit Evaluation			
Current Market Price:	10.86	LBO Price:	10.86	Exit Price:	10.83	Exit Price:	8.75
Outstanding Shares:	13,580,000	Outstanding Shares:	13,580,000	Outstanding Shares:	13,580,000	Outstanding Shares:	13,580,000
Market Capitalization:	147,478,800	Market Capitalization:	147,478,800	Market Capitalization:	147,081,649	Market Capitalization:	118,811,522
Available Cash:	2,790,000	Available Cash:	2,790,000	Available Cash:	1,229,555	Available Cash:	1,229,555
Debt:	20,000,000	Debt:	20,000,000	Debt:	0	Debt:	0
Net Cash:	-17,210,000	Net Cash:	-17,210,000	Net Cash:	1,229,555	Net Cash:	1,229,555
Enterprise Value:	164,688,800	Enterprise Value:	164,688,800	Enterprise Value:	145,852,094	Enterprise Value:	117,581,968
Original EV/EBITDA:	4.14	EV/EBITDA:	4.14	EV/EBITDA at 5 Years:	4.60	EV/EBITDA at 5 Years:	3.00
Original EV/EBITDA:	3.30	EV/EBITDA:	3.67	EV/EBITDA at 5 Years:	5.65	EV/EBITDA at 5 Years:	3.22
Competitor Average EV/EBIT:	N/A						
Competitor Average EV/EBITDA:	N/A						

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	10.86	10.86	10.85	10.85	10.84	10.84	10.83
Shares Outstanding:	13,580,000	13,580,000	13,580,000	13,580,000	13,580,000	13,580,000	13,580,000
Market Capitalization:	147,478,800	147,478,800	147,399,284	147,319,811	147,240,381	147,160,993	147,081,649
Available Cash:	2,790,000	2,790,000	3,018,006	423,168	-2,237,669	-3,570,770	1,229,555
Debt:	20,000,000	20,000,000	15,000,000	10,000,000	5,000,000	0	0
Net Cash:	-17,210,000	-17,210,000	-11,981,994	-9,576,832	-7,237,669	-3,570,770	1,229,555
Enterprise Value:	164,688,800	164,688,800	159,381,278	156,896,643	154,478,050	150,731,763	145,852,094
EBIT	39,780,000	39,780,000	33,566,048	29,550,104	29,050,104	30,327,609	31,693,989
EV/EBIT:	4.14	4.14	4.75	5.31	5.32	4.97	4.60
EBITDA	44,830,000	44,830,000	38,414,048	33,961,784	33,461,784	34,959,873	36,557,867
EV/EBITDA:	3.67	3.67	4.15	4.62	4.62	4.31	3.99

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	10.86	10.86	9.35	8.30	8.32	8.98	9.75
Shares Outstanding:	13,580,000	13,580,000	13,580,000	13,580,000	13,580,000	13,580,000	13,580,000
Market Capitalization:	147,478,800	147,478,800	126,981,107	112,760,300	113,029,468	121,985,226	132,442,352
Available Cash:	2,790,000	2,790,000	3,018,006	423,168	-2,237,669	-3,570,770	1,229,555
Debt:	20,000,000	20,000,000	15,000,000	10,000,000	5,000,000	0	0
Net Cash:	-17,210,000	-17,210,000	-11,981,994	-9,576,832	-7,237,669	-3,570,770	1,229,555
Enterprise Value:	164,688,800	164,688,800	138,963,101	122,337,132	120,267,137	125,555,996	131,212,797
EBIT	39,780,000	39,780,000	33,566,048	29,550,104	29,050,104	30,327,609	31,693,989
EV/EBIT:	4.14	4.14	4.14	4.14	4.14	4.14	4.14
EBITDA	44,830,000	44,830,000	38,414,048	33,961,784	33,461,784	34,959,873	36,557,867
EV/EBITDA:	3.67	3.67	3.62	3.60	3.59	3.59	3.59

LBO Price	10.86	Equity Partners:	167,478,800	Weighting	100.00%	Annualized Return for Equity Partners: -6.64%
Shares Outstanding	13,580,000	Debt Partners:	0		0.00%	
Market Capitalization	147,478,800	Total Funds for LBO:	167,478,800		100.00%	
Debt	20,000,000					
Cash	2,790,000					
Enterprise Value	164,688,800					
Capital Investment	167,478,800					

Book Value		Enterprise Value		Stock Valuation		Debt Reduction	
Beginning Book Value	153.05	Beginning Enterprise Value	164.69	Current Market Price	\$10.86	Starting Debt	20.00
Year 5 Book Value	253.32	Year 5 Enterprise Value	117.58	Year 5 Market Price	\$8.75	Debt Repayment	0.00
Annualized Return	10.60%	Annualized Return	-6.52%	Annualized Return	-4.23%	Year 5 Ending Debt	0.00
						% of Starting Debt	0.00%

SN VALUATION

LBO Pro Forma Income Statement

Name:

NCI Inc

Ticker:

NCIT

	Historical				Forecasted				
	12 months ending 2007-12-31	12 months ending 2008-12-31	12 months ending 2009-12-31	12 months ending 2010-12-31	2011	2012	2013	2014	2015
Revenue	304.42	390.60	468.91	561.34	558.09	507.86	507.86	533.25	559.91
COGS	263.68	336.47	407.32	512.78	496.70	451.99	451.99	474.59	498.32
Gross margin	40.74	61.13	61.59	68.56	61.39	55.86	55.86	58.66	61.59
SG&A	15.40	20.08	22.05	23.73	22.32	20.31	20.31	21.33	22.40
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unusual expense	0.00	0.00	-2.29	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation is: Included within COGS	3.01	3.67	4.23	5.05	5.50	6.00	6.50	7.00	7.50
Operating Income (EBITA)	22.33	30.38	37.60	39.78	33.57	29.55	29.05	30.33	31.69
Interest income/(expense)	-1.34	-2.02	-0.66	-0.60	-1.17	-0.77	-0.37	0.03	0.03
Gain (loss) on sale of asset	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income before tax	20.99	28.36	36.94	39.18	32.39	28.78	28.68	30.36	31.72
Tax	8.42	11.32	14.78	15.31	11.01	9.78	9.75	10.32	10.79
Income after tax	12.57	17.04	22.16	23.87	21.38	18.99	18.93	20.03	20.94
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity in affiliates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income	12.57	17.04	22.16	23.87	21.38	18.99	18.93	20.03	20.94
*Figures are in millions (\$)									
Revenue Growth	N/A	28.31%	20.05%	23.98%	-4.00%	-9.00%	0.00%	5.00%	5.00%
Tax Rate	40.11%	39.92%	40.01%	39.08%	34.00%	34.00%	34.00%	34.00%	34.00%
Implied Debt Interest Rate	-3.11%	-5.03%	-1.57%	-3.00%	-5.86%	-5.15%	-3.72%	0.56%	NA
Margins									
COGS	86.62%	86.14%	86.87%	88.21%	89.00%	89.00%	89.00%	89.00%	89.00%
Gross margin	13.38%	13.86%	13.13%	11.79%	11.00%	11.00%	11.00%	11.00%	11.00%
SG&A	5.06%	5.14%	4.70%	4.08%	4.00%	4.00%	4.00%	4.00%	4.00%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	0.00%	0.00%	-0.49%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other operating expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Depreciation is: Included within COGS	0.99%	0.94%	0.90%	0.87%	0.99%	1.18%	1.28%	1.31%	1.34%
Operating Income (EBITA)	7.34%	7.78%	8.02%	6.84%	6.01%	5.82%	5.72%	5.69%	5.66%
Interest income/(expense)	-0.44%	-0.52%	-0.14%	-0.10%	-0.21%	-0.15%	-0.07%	0.01%	0.00%
Gain (loss) on sale of asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	6.90%	7.26%	7.88%	6.74%	5.80%	5.67%	5.65%	5.69%	5.67%
Tax	2.77%	2.90%	3.15%	2.63%	1.97%	1.93%	1.92%	1.94%	1.93%
Income after tax	4.13%	4.36%	4.73%	4.11%	3.83%	3.40%	3.39%	3.59%	3.75%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in affiliates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	4.13%	4.36%	4.73%	4.11%	3.83%	3.74%	3.73%	3.76%	3.74%

					Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
	As of 2007-12-31	As of 2008-12-31	As of 2009-12-31	As of 2010-12-31	+	-						
Cash	0.11	1.27	1.19	2.79			2.79	3.02	0.42	-2.24	-3.57	1.23
Short term investment	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	0.11	1.27	1.19	2.79			2.79	3.02	0.42	-2.24	-3.57	1.23
Accounts Receivable	88.49	92.19	110.03	132.69			132.69	132.69	132.69	132.69	132.69	132.69
Other receivables	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	88.49	92.19	110.03	132.69			132.69	132.69	132.69	132.69	132.69	132.69
Deferred Income Tax	-12.38	-13.96	-11.85	-2.66			-2.66	-2.66	-2.66	-2.66	-2.66	-2.66
Total Inventory	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	1.24	1.73	1.68	3.35			3.35	3.35	3.35	3.35	3.35	3.35
Other Current Assets	1.89	3.12	4.53	4.55			4.55	4.55	4.55	4.55	4.55	4.55
Current Assets	79.35	84.35	105.58	140.72	0.00	0.00	140.72	140.95	138.35	135.69	134.36	139.16
PP&E, Gross	17.51	19.33	24.32	23.69			23.69	29.69	35.69	41.69	47.69	53.69
Change in Depreciation	3.01	3.66	4.23	5.05			5.05	4.85	4.41	4.41	4.63	4.86
Accumulated Depreciation	0.00	0.00	4.23	9.28			9.28	14.13	18.54	22.95	27.58	32.45
PP&E, Net	17.51	19.33	20.09	14.41			14.41	15.56	17.15	18.74	20.11	21.24
Goodwill	75.49	87.74	106.58	106.58	0.00		106.58	106.58	106.58	106.58	106.58	106.58
Intangibles	5.45	7.98	8.57	6.18			6.18	21.18	36.18	51.18	66.18	81.18
Long term investments	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	0.95	0.93	0.83	1.59			1.59	1.59	1.59	1.59	1.59	1.59
Long Term Assets	99.40	115.98	136.07	128.76			128.76	144.91	161.50	178.09	194.46	210.59
Total Assets	178.75	200.33	241.65	269.48	0.00	0.00	269.48	285.86	299.85	313.78	328.82	349.75
Accounts Payable	30.80	32.75	42.33	61.05			61.05	61.05	61.05	61.05	61.05	61.05
Accrued Expense	19.05	21.67	25.16	23.70			23.70	23.70	23.70	23.70	23.70	23.70
Other current Liabilities	2.21	2.63	1.78	2.95			2.95	2.95	2.95	2.95	2.95	2.95
Total Current Liabilities	52.06	57.05	69.27	87.70	0.00	0.00	87.70	87.70	87.70	87.70	87.70	87.70
Notes Payables/Short Term Debt	0.16	0.12	0.07	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Current port. Of LT Debt/Capital Leases	0.94	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Long term Debt	42.00	40.00	42.00	20.00	0.00	0.00	20.00	15.00	10.00	5.00	0.00	0.00
Capital Lease Obligations	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Interest Earning Debt	43.10	40.12	42.07	20.00	0.00	0.00	20.00	15.00	10.00	5.00	0.00	0.00
Deferred Income tax	0.00	1.69	4.14	7.45			7.45	7.45	7.45	7.45	7.45	7.45
Minority Interest	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	3.33	2.62	1.94	1.29			1.29	1.29	1.29	1.29	1.29	1.29
Total Liabilities	98.49	101.48	117.42	116.44	0.00	0.00	116.44	111.44	106.44	101.44	96.44	96.44
Redeemable Preferred Stock	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Non-redeemable Preferred Stock	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	0.25	0.26	0.26	0.26		0.00	0.26	0.26	0.26	0.26	0.26	0.26
Additional Paid-in capital	58.16	59.73	62.94	67.89	0.00	0.00	67.89	67.89	67.89	67.89	67.89	67.89
Dividends Paid	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	21.83	38.87	61.03	84.90		0.00	84.90	106.28	125.27	144.20	164.24	185.17
Treasury Stock	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other Equity	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Equity	80.24	98.86	124.23	153.05	0.00	0.00	153.05	174.43	193.42	212.35	232.39	253.32
Liability + Equity	178.73	200.34	241.65	269.49	0.00	0.00	269.49	285.87	299.86	313.79	328.83	349.76
Variance	0.02	-0.01	0.00	-0.01			-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Debt/Equity	0.54	0.41	0.34	0.13			0.13	0.09	0.05	0.02	0.00	0.00
Inventory Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!			#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Inventory Turnover Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!			#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Days Inventory Outstanding	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Accounts Receivable Turnover	3.44	4.24	4.26	4.38			4.38	4.21	3.83	3.83	4.02	4.22
Accounts Receivable Turnover Days	106.10	86.15	85.65	83.31			83.31	86.78	95.36	95.36	90.82	86.50
Days Payable Outstanding	42.64	35.53	37.93	43.46			43.46	44.86	49.30	49.30	46.95	44.72
Days Sales Outstanding	106.10	86.15	85.65	83.31			83.31	83.31	86.78	95.36	95.36	90.82
Cash Conversion Cycle	63.46	50.62	47.72	39.85			39.85	38.45	37.48	46.06	48.41	46.11

SN VALUATION

LBO Debt Schedule

	Proforma	2011	2012	2013	2014	2015
Net Change in Cash	1.60	0.23	-2.59	-2.66	-1.33	4.80
Current Portion Debt Repayment						
Long Term Debt Repayment		5.00	5.00	5.00	5.00	
Outstanding Debt	20.00	15.00	10.00	5.00	0.00	0.00
Current Portion Debt Balance	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Debt Balance	20.00	15.00	10.00	5.00	0.00	0.00
Forward Libor Curve		4.00%	4.00%	4.00%	4.00%	4.00%
Spread		4.00%	4.00%	4.00%	4.00%	4.00%
Interest Rate		8.00%	8.00%	8.00%	8.00%	8.00%
Interest Expense		1.20	0.80	0.40	0.00	0.00
Cash Balance		2.79				
Interest @ 1.0%		0.03	0.03	0.03	0.03	0.03
Net Interest Expense/(Income)		1.17	0.77	0.37	(0.03)	(0.03)
Net Interest Rate		5.86%	5.15%	3.72%	-0.56%	#DIV/0!
EBITDA		33.57	29.55	29.05	30.33	31.69
EBITDA/Interest Expense Coverage		27.97	36.94	72.63	#DIV/0!	#DIV/0!

Interest Rate Coverage Table

Debt Rating	2011	2012	2013	2014	2015
AAA	AAA	AAA	AAA	#DIV/0!	#DIV/0!
AA				#DIV/0!	#DIV/0!
A+				#DIV/0!	#DIV/0!
A				#DIV/0!	#DIV/0!
A-				#DIV/0!	#DIV/0!
BBB				#DIV/0!	#DIV/0!
BB+				#DIV/0!	#DIV/0!
BB				#DIV/0!	#DIV/0!
B+				#DIV/0!	#DIV/0!
B				#DIV/0!	#DIV/0!
B-				#DIV/0!	#DIV/0!
CCC				#DIV/0!	#DIV/0!
CC				#DIV/0!	#DIV/0!
C				#DIV/0!	#DIV/0!
D				#DIV/0!	#DIV/0!

*Source: NYU; Professor Damodaran