



UNCOMMON INSIGHTS

AN INVESTMENT COMES FULL CIRCLE

Spring 2021

Theodore S. Kerr, CFP® | David Simeone, CRC®, RFC® | Scott Lucas, CFP®, CSE®

Touchstone Capital, Inc. | 2607 Nicholson Rd. | Building II, Suite 1100 | Sewickley, PA 15143 | 724.933.8388 | www.touchstonecapital.com

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TOUCHSTONE CAPITAL | AN INVESTMENT COMES FULL CIRCLE

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The recent buyout announcement of NIC, Inc. (EGOV) by Tyler Technologies (TYL) brings a Touchstone Capital investment idea full circle—search, research, analysis, trade execution, add-on purchase, and exit. In an environment

dominated by the market's short-term mentality, our investment in EGOV is a perfect example of how our clients benefit from our process, which features a more thoughtful approach and a commitment to investing for the long haul.

FINDING GREAT BUSINESSES, MAKING GREAT INVESTMENTS

In the case of EGOV, our research and analysis clearly demonstrated that the market was wrong about how it was valuing the company—for several years. We initially found EGOV through a proprietary screening process based on several key criteria we have formulated. After running EGOV through our exhaustive research process, our analysis determined it met our criteria as a great company with the capacity to generate and allocate consistently strong profits in a way that would accrue to the benefit of shareholders over time. Although our process led us to believe that we had found a truly great business, great businesses don't necessarily make great investments. What made EGOV a great investment from our perspective is that, based on our analysis, it was selling at a significant discount from the company's true value

(what some people refer to as intrinsic value). As with all our investments, we were willing to buy and hold shares in EGOV for as long as it made sense for a great business to also become a great investment. That's the standard outlook for our entire portfolio of common stocks—think as long-term owners or partners of a business that benefits shareholders in the long run.

As it turned out, the acquisition of EGOV by TYL proved the market was wrong and we were right. But in this case, it took less than three years for a great business to prove that it was also a great investment. With EGOV, as with the other companies in our portfolio, we allowed the process—our investment framework—to do the heavy lifting. We merely executed on it.

TOUCHSTONE CAPITAL | THE GREAT ADVANTAGES FRAMEWORK





SOME TAKEAWAYS FROM THE INVESTMENT IN EGOV

- Opportunities like this don't frequently occur among the headline stocks. We avoid market leaders such as Amazon, Microsoft, and Apple because they're widely followed and generally overvalued. We like EGOV and companies like them because they fly under the radar, yet they are well-managed, have little or no debt, and generate consistently strong profits that they allocate in ways that benefit shareholders over time. Eventually, the market or some other public company will recognize their value, and that's when we are able to capitalize on our due diligence and patience.

- As was evident with EGOV, we don't value companies the way the market values companies, which is why our portfolio is positioned to benefit significantly from these types of events—companies offering to buy other companies at a significant premium to the market price. We buy companies at a discount to what the market thinks they're worth. That not only raises both the potential ceiling and floor of the stock price, but it also means the companies we own are attractive to other companies that recognize their true (intrinsic) value. While that's not the primary reason we invest in a company, buyout premiums are a predictable byproduct of our process.

- When investing in common stocks, confidence is everything. Ted Kerr wrote about this in chapter

4 of his book, *Taking Stock*, entitled Increasing Investor Confidence. Without confidence, you are more likely to abandon your strategy when things don't seem to be working, which invariably leads to investor confusion and to underperformance. It was confidence in our process that led us to add to our investment in EGOV, increasing our position by 30% when its stock price was falling on bad news in September 2018. By purchasing additional shares at a lower price, we increased our overall return as we lowered the average cost of the total shares that our clients owned.

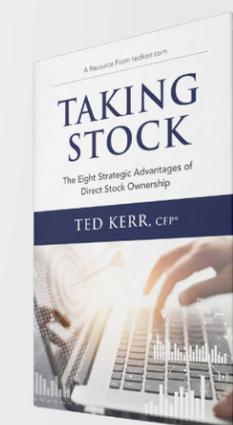
- Lastly, the success of investments like EGOV is a double-edged sword for us. We can pat ourselves on the back for the 136% gain in the stock in less than three years, but, at the same time, it poses a dilemma. That is, what do we do with \$13 million in cash proceeds from the sale? How do we replace EGOV? As with all of our stock investments, EGOV is a special company. It was a special *opportunity*. Opportunities like EGOV are not what you would call run-of-the-mill, which makes them challenging to replace - like



when a star football player leaves in free agency to play for another team. At least in this case, we're getting paid handsomely by the other team! We want our clients to know that our process is always in motion. It is designed to find these opportunities. It may take us several years of monitoring a company before we act, but we always have potential opportunities in the pipeline. Thank you for your trust and confidence! We will continue to work hard to find more companies like EGOV!

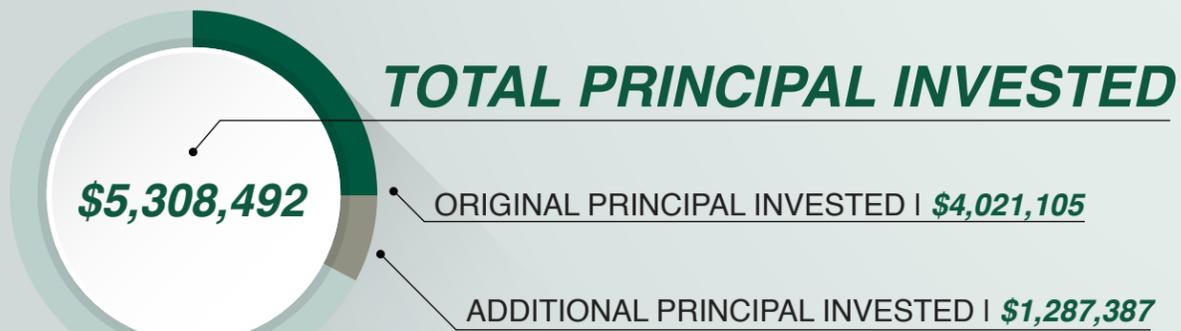


tedkerr.com/taking-stock/



“Unfortunately, when markets face stormy seas, investors often choose the safety and security of a known harbor. This is a polite way of saying they sell investments after they have dropped in value, which is the opposite of what is likely in their best interest.” ~ Ted Kerr, Taking Stock, pg. 29

AN IN-DEPTH LOOK AT THE INVESTMENT IN EGOV



5 WALL STREET ANALYSTS (100%) RATED THE STOCK A "HOLD" AT TIME OF ORIGINAL PURCHASE.



1 WALL STREET ANALYST (33%) RATED THE STOCK A "BUY" AT TIME OF ACCOUNCED ACQUISITION.

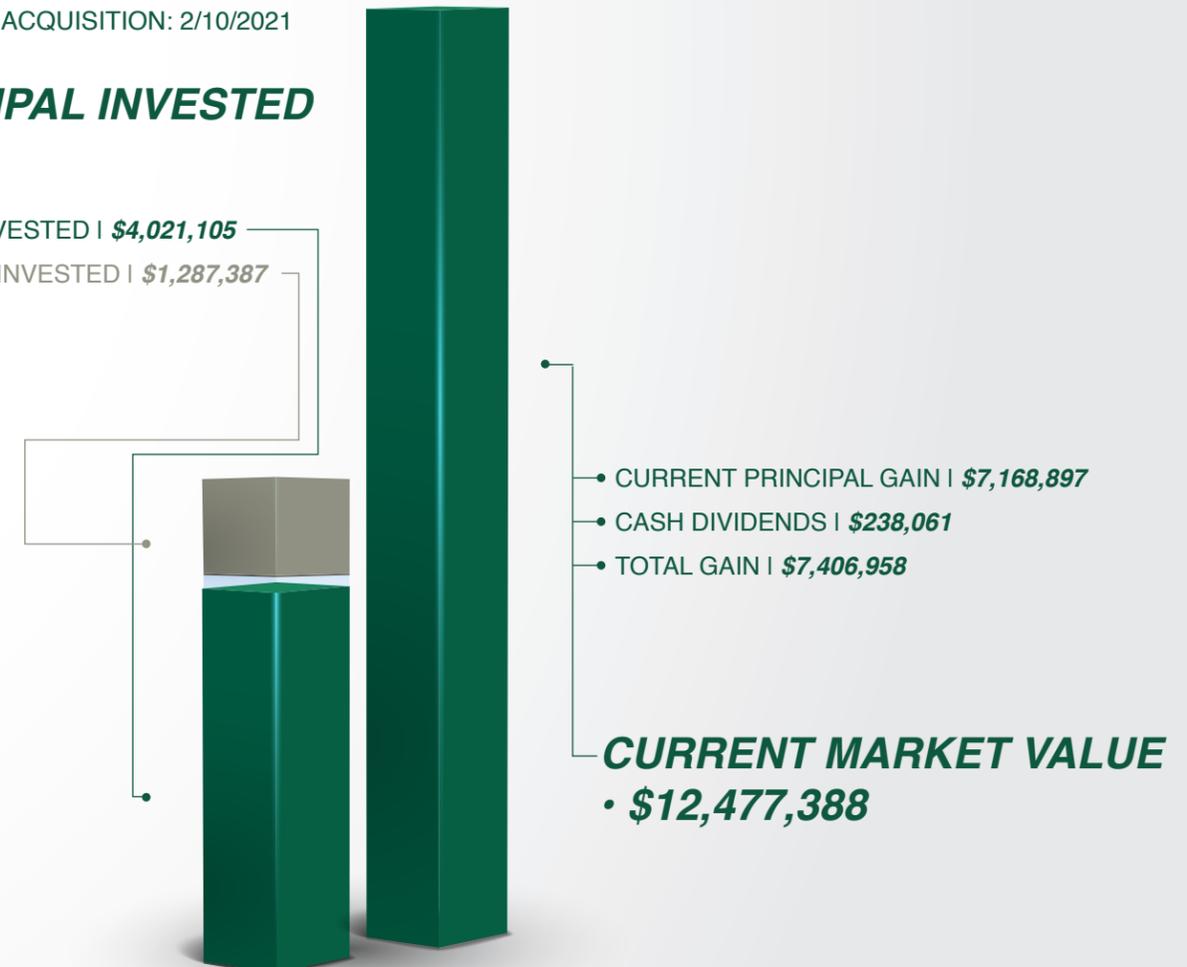


2 WALL STREET ANALYSTS (67%) RATED THE STOCK A "HOLD" AT TIME OF ACCOUNCED ACQUISITION.

ORIGINAL PURCHASE DATE: 5/15/2018
ANNOUNCED DATE OF ACQUISITION: 2/10/2021

TOTAL PRINCIPAL INVESTED
• **\$5,308,492**

ORIGINAL PRINCIPAL INVESTED | **\$4,021,105**
ADDITIONAL PRINCIPAL INVESTED | **\$1,287,387**





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INTRINSIC VALUE AND ACQUISITION VALUE

ENTERPRISE VALUE AT THE TIME OF ORIGINAL PURCHASE (5/15/2018)

\$869 MILLION ◀

TOUCHSTONE CAPITAL ESTIMATE OF INTRINSIC VALUE AT THE TIME OF ORIGINAL PURCHASE

▶ **\$1,638 MILLION**

TOUCHSTONE CAPITAL ESTIMATE OF DISCOUNT TO INTRINSIC VALUE AT THE TIME OF ORIGINAL PURCHASE

▶ **47%**

TOUCHSTONE CAPITAL ESTIMATE OF POTENTIAL APPRECIATION AT THE TIME OF PURCHASE

▶ **88%**

TRANSACTION VALUE OF ACQUISITION (2/10/2021):

\$2,084 MILLION ◀

APPRECIATION AT THE TIME OF ACQUISITION

▶ **139.5%**