Federal Retirement
Thrift Investment Board

QUARTERLY VENDOR FINANCIAL ASSESSMENT

Board Presentation: April 28, 2014

Prepared by:
Office of Enterprise Risk Management (OERM)

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BlackRock, Inc. (BLK)

Exchange: NYSE **Sector**: Financials **Industry**: Asset Management

Company Overview:

- BlackRock, Inc. (BlackRock) is the world's largest publicly traded investment management firm with portfolio managers located around the world. As of December 31, 2013, BlackRock managed $4.324 trillion of assets under management (AUM) on behalf of institutional and individual investors worldwide. BlackRock offers clients diversified access to global markets through separate accounts, collective investment trusts, open-end and closed-end mutual funds, exchange-traded products, hedge funds, and funds of funds.

Strengths

- Leading market position and reputation across asset management industry with deep, granular and global customer base
- Strong earnings and cash flow generation capacity

Challenges

- Increasing price competition in the ETF market
- Potential regulatory changes in asset management business

Services Provided:

- BlackRock is the investment manager for the Thrift Savings Plan (TSP)'s C, F, S, and I Funds. BlackRock Institutional Trust Company, N.A. (BTC) has selected State Street Corporation to provide custodial services.

Credit Ratings:

- **Moody's: A1** (Aaa–C) – Investment grade – Judged to be upper-medium grade and subject to low credit, and has best ability to repay short-term debt
- **S&P: A+** (AAA–D) – Investment grade – Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
- **D&B: 550** (101–670) – Lower risk – D&B predicts a low likelihood that BlackRock will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

Significant Events (October- December 2013):

- In October, The Financial Stability Oversight Council (the "FSOC") reviewed risks associated with the asset management industry that involved a preliminary study of some of its top players including Blackrock.
- In November, BlackRock declared a quarterly cash dividend.
- In December, BlackRock raised $3 Billion for a hedge fund to invest in credit globally.

Subsequent Events (after December 2013):

- On February 11th, BlackRock auctioned $1.72 billion of restructured short-term debt in the Canadian market.
- Asset-management firms, including BlackRock, are working to demonstrate to members of the Financial Stability Oversight Council that they should not be considered a Systemically Important Financial Institution (SIFI).

Risk Monitoring:

- *Risk of increased regulatory and compliance costs, including potential designation as a Systemically Important Financial Institution (SIFI) by the U.S. Treasury's Financial Stability Oversight Council (FSOC)* – BlackRock does not view itself as a SIFI for the following reasons: Not significantly levered, no wholesale funding, does not sell insured products to the retail market, balance sheet not reliant on government bailout, and does not take deposits. No determination has been made by Treasury.

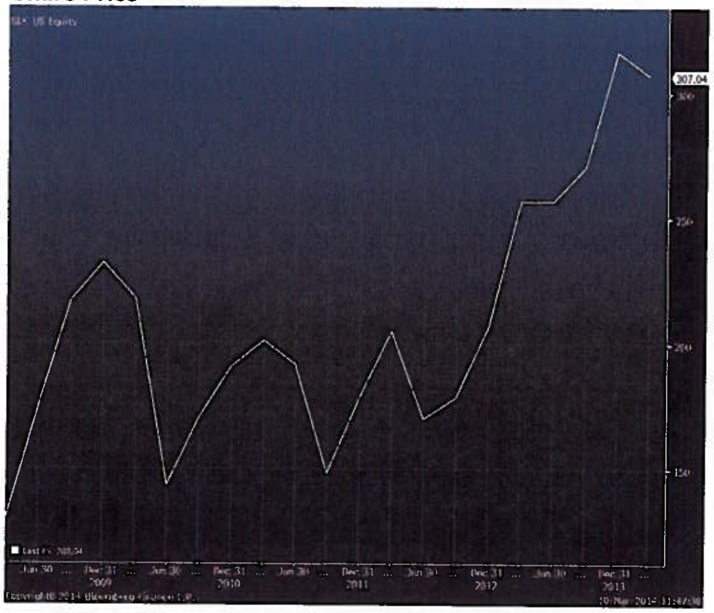
Given the current analysis of the vendor, we find no indication that BlackRock is unable to fulfill its contractual obligations to FRTIB.

Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

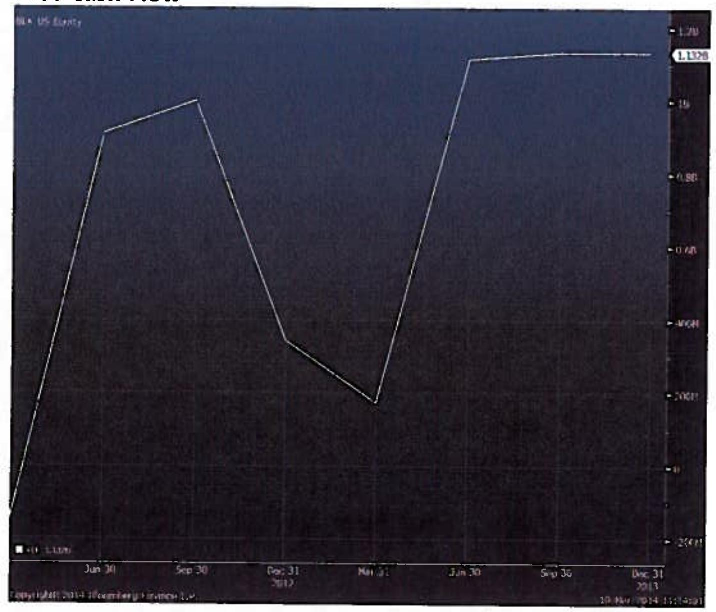
BlackRock, Inc. (BLK)

Exchange: NYSE **Sector**: Financials **Industry**: Asset Management

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and)	Q4 2012	Q4 2013	% Change	Direction
Solvency				
Debt to Equity Ratio	32.01	27.46	-17%	↓
Debt to Capital Ratio	24.25	21.54	-11%	↓
Interest Coverage Ratio	17.46	23.25	33%	↑
Enterprise Value	$39,982	$56,629	42%	↑
Liquidity				
Cash Ratio	1.81	1.61	-11%	↓
Current Ratio	2.65	2.40	-9%	↓
Quick Ratio	2.65	2.40	-9%	↓
Profitability				
Revenue	$2,539	$2,777	9%	↑
EBITDA	$1,081	$1,209	12%	↑
EBIT	$995	$1,209	22%	↑
ROA	1.29	1.40	8%	↑
ROE	9.32	10.52	13%	↑
ROIC	2.1	2.45	17%	↑
Operating Margin	39.58	40.80	3%	↑
Profit Margin	27.18	30.28	11%	↑
Revenue Growth	14.01	9.37	-33%	↓
EPS	4.02	4.98	24%	↑

Equinix, Inc. (EQIX)

Exchange: NASDAQ **Sector**: Technology **Industry**: Computer Services

Company Overview:

- Equinix, Inc. (Equinix) provides global data center services that protect and connect information assets for its clients. Global enterprises, financial services companies, and content and network service providers rely upon Equinix's data centers in over 30 markets around the world for the safe housing of their critical IT equipment and the ability to directly connect to the networks that enable today's information-driven economy. As of December 31, 2013, Equinix operated or had partner international business exchanges (IBX) data centers in the Americas, Europe-Middle East-Africa (EMEA), and the Asia-Pacific regions.

Strengths

- Diversified and global customer base
- Well positioned to take advantage of the growing cloud market

Challenges

- Debt level is high creating poor financial leverage
- ROA and EBIT margin decreased when compared to prior year

Services Provided:

- Equinix is under contractual obligation to host data center services for the FRTIB. The FRTIB's primary data center operates out of a Northern Virginia facility. In 2012, Equinix sold 16 U.S. data centers to 365 Main, Inc. for $75 million. One of the data centers sold to 365 Main is the backup data center for FRTIB in Pennsylvania. Equinix remains contractually obligated to oversee the Pennsylvania data center services through September 30, 2015.

Credit Ratings:

- **Moody's: Ba3** (Aaa–C) – Speculative grade – Judged to be speculative and is subject to significant credit risk, and does not have prime ability to repay short-term debt
- **S&P: BB** (AAA–D) – Speculative grade – Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
- **D&B: 473** (101–670) – Moderately low risk – D&B predicts a moderately low likelihood that Equinix will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

Significant Events (October - December 2013):

- In October, Equinix completed the purchase of property located in Frankfurt, Germany for approx. $90.7 million.
- In October, Equinix initiated a program to hedge its exposure to foreign currency exchange rate fluctuations.
- In December, Equinix continued expansion in Japan and opened a data center in Osaka.
- In December, Equinix authorized repurchase of $500 million of its shares from the market.

Subsequent Events (after December 2013):

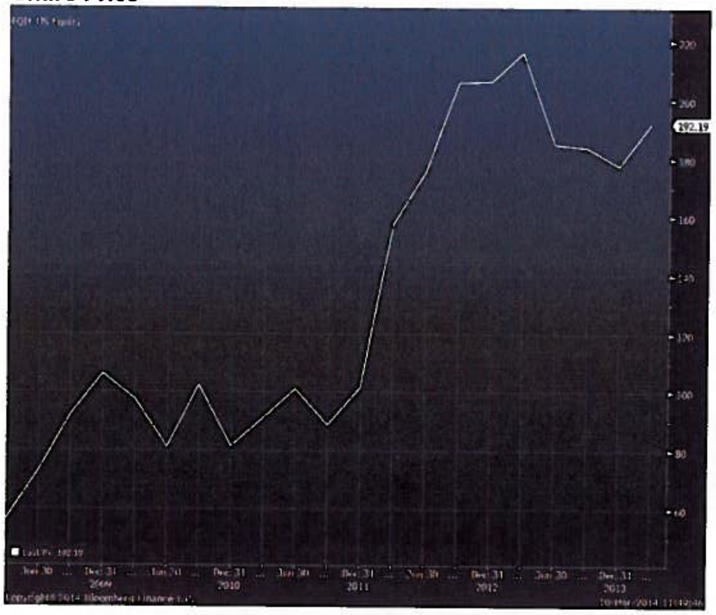
- In February, Equinix completed Statement on Standards for Attestation Engagements (SSAE) 16 Type II examinations covering 47 operational data centers across North America. The audits, which were conducted at Equinix's International Business Exchange™ (IBX®) data centers, determined that 47 sites in North America meet or surpass SSAE16 standards.

Risk Monitoring:

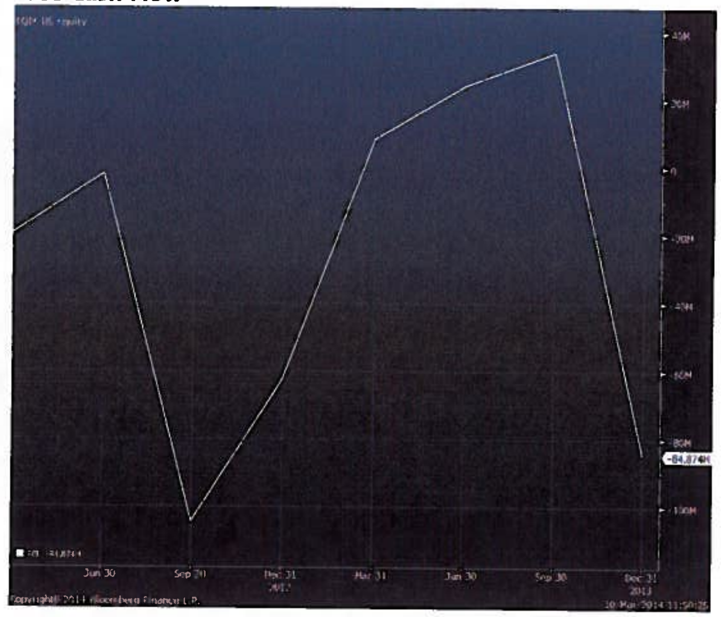
- *Risk of substantial increases in cost associated with REIT conversion (to be completed by 1/1/15)* – Equinix is using cash to pay advisors related to the Real Estate Investment Trust (REIT) conversion, and working to define its adjusted funds from operations (AFFO), which is used to estimate the value of a REIT, and will provide this calculation upon receiving approval from the IRS. IRS approval is pending.
- *Risk of excessive leverage (Debt/EBITDA is approximately 11x industry average of 7x)* – Debt levels increased from previous year and EBITDA decreased. The company's debt levels are a concern.

Given the current analysis of the vendor, we find no indication that Equinix is unable to fulfill its contractual obligations to FRTIB.

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and)	Q4 2012	Q4 2013	% Change	Direction
Solvency				
Debt to Equity Ratio	125.57	161.00	28%	↑
Debt to Capital Ratio	55.67	61.69	11%	↑
Interest Coverage Ratio	1.82	1.89	4%	↑
Enterprise Value	$12,703	$12,484	-2%	↓
Liquidity				
Cash Ratio	.76	1.16	52%	↑
Current Ratio	1.17	1.63	39%	↑
Quick Ratio	1.06	1.49	41%	↑
Profitability				
Revenue	$506	$565	12%	↑
EBITDA	$217.13	$235.90	9%	↑
EBIT	$114.50	$129.22	13%	↑
ROA	2.40	1.39	-42%	↓
ROE	6.89	7.10	3%	↑
ROIC	1.43	2.11	47%	↑
Operating Margin	22.63	22.88	1%	↑
Profit Margin	8.96	8.00	-11%	↓
Revenue Growth	19.89	11.58	-42%	↓
EPS	0.93	0.91	-2%	↓

Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

MetLife, Inc. (MET)

Exchange: NYSE **Sector**: Financials **Industry**: Life Insurance

Company Overview:

- MetLife, Inc. (MetLife) is a leading global provider of insurance, annuities, and employee benefit programs throughout the United States, Japan, Latin America, Asia, Europe and the Middle East.

Strengths

- Market leader and well diversified in individual and group life insurance as well as commercial mortgage

Challenges

- MetLife business and results of operations are materially affected by conditions in the global capital markets and the overall economy

Services Provided:

- MetLife has been the annuity provider to the TSP since 1987. The Federal Employees Retirement System Act of 1986 (FERSA) requires FRTIB to offer a participant who has separated from federal service the option of purchasing an annuity, using all or a portion of the participant's account balance.

Credit Ratings:

- **Moody's: A3** (Aaa–C) – Investment grade – Judged to be upper-medium grade and is subject to low credit risk, and has high ability to repay short-term debt
- **S&P: A-** (AAA–D) – Investment grade – Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
- **D&B: 546** (101–670) – Lower risk – D&B predicts a low likelihood that MetLife will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

Significant Events (October - December 2013):

- On October 22nd, MetLife declared fourth quarter 2013 common stock dividends payable in December.
- In December, MetLife announced it will buy into AmLife Insurance and AmFamily Takaful for $249 million for the proposed acquisition. Upon receipt of regulatory approval, MetLife will own 50% plus one share in AmLife with remaining shares to be owned by AMMB as a result of the proposal.
- In December, MetLife and Norges Bank Investment Management create a joint venture to invest in U.S. commercial real estate.
- MetLife expanded its real estate business by increasing commercial real estate loans to $42 billion and institutional investment to $7 billion by end of December.

Subsequent Events (after December 2013):

- In January, MetLife declared first quarter 2014 common stock dividend.
- In February, MetLife announced it will record a loss of at least $350 million on the sale of a U.K. unit in its first quarter results.
- In February, MetLife declared first quarter 2014 preferred stock dividends.
- In March, MetLife will pay $60 million after New York regulators found subsidiaries solicited business in the state without a license and made intentional misrepresentations to regulators.

Risk Monitoring:

- *Risk of increased regulatory and compliance costs, including potential designation as a Systemically Important Financial Institution (SIFI) by the U.S. Treasury's Financial Stability Oversight Council (FSOC)* – On July 18, MetLife was identified as a Globally Systemically Important Insurer (GSII) by the international Financial Stability Board. Being named a GSII has no legal effect unless identified as a SIFI, and would be subjected to enhanced supervision and prudential rules. MetLife is in Stage 3, the final stage, of the SIFI determination process.

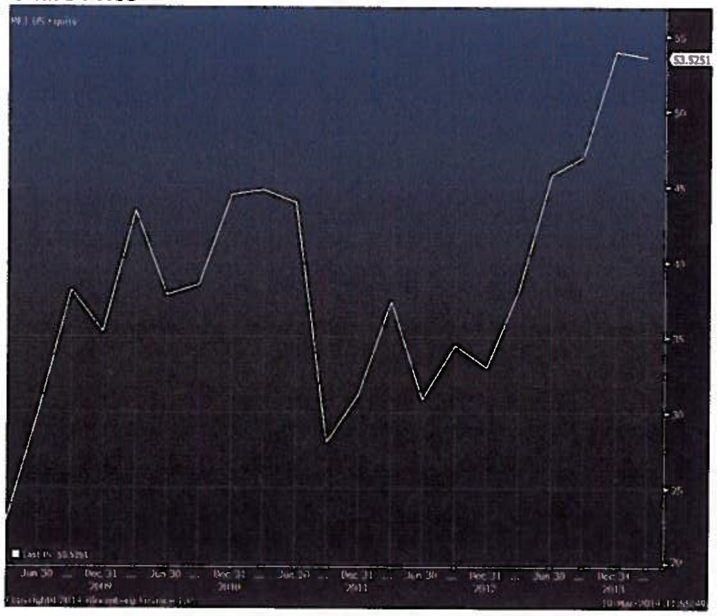
Given the current analysis of the vendor, we find no indication that MetLife is unable to fulfill its contractual obligations to FRTIB.

Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

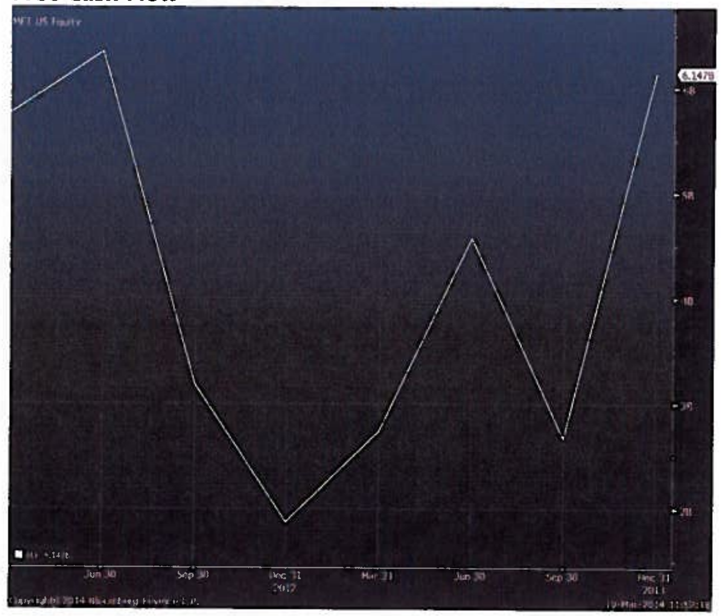
MetLife, Inc. (MET)

Exchange: NYSE **Sector**: Financials **Industry**: Life Insurance

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and)	Q4 2012	Q4 2013	% Change	Direction
Solvency				
Debt to Equity Ratio	40.87	41.63	2%	↑
Debt to Capital Ratio	29.01	29.39	1%	↑
Interest Coverage Ratio	-0.44	5.37	1317%	↑
Enterprise Value	$49,356	$82,609	67%	↑
Liquidity				
Cash Ratio	0.45	0.24	-46%	↓
Current Ratio	1.55	1.38	-11%	↓
Quick Ratio	1.07	0.94	-12%	↓
Profitability				
Revenue	$17,333	$18,458	6%	↑
EBITDA	$1,553	$3,266	110%	↑
EBIT	(129)	1591	1333%	↑
ROA	.16	.39	141%	↑
ROE	10.44	10.28	-2%	↓
ROIC	15.02	16.3	9%	↑
Operating Margin	-0.85	8.62	1116%	↑
Profit Margin	0.73	4.92	571%	↑
Revenue Growth	3.57	6.49	82%	↓
EPS	-0.09	0.77	756%	↑

R.R. Donnelley & Sons Co. (RRD)

Exchange: NASDAQ **Sector**: Industrials **Industry**: Business Support Services

Company Overview:

- R.R. Donnelley & Sons Company (RR Donnelley) is a global provider of integrated communications. The Company works collaboratively with more than 60,000 customers worldwide to develop custom communications solutions. It designs, manages, and produces words and images on paper and in digital form for customers in the publishing, healthcare, advertising, retail, technology, financial services, and other industries. RR Donnelley operates business through three segments: U.S. Print & Related Services, International, and Corporate.

Strengths

- One of the largest entities by revenue in its industry
- Diverse product and service offering

Challenges

- Operating Margin decreased compared to prior year
- Changing industry with increased use of digital technology and electronic substitution

Services Provided:

- RR Donnelley provides bulk outgoing mailing services for FRTIB from its Thurmont, MD, Logan, UT and Hyde Park, MA facilities. These services include printing and mailing FRTIB documents, education, and marketing materials to participants, beneficiaries, and third parties.

Credit Ratings:

- **Moody's: Ba2** (Aaa–C) – Negative – Judged to have speculative elements and a significant credit risk
- **S&P: BB-** (AAA–D) – Negative – Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
- **D&B: 496** (101–670) – Moderately low risk – D&B predicts a moderately low likelihood that RR Donnelley will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

Significant Events (October - December 2013):

- On November 6th, S&P credit rating changed to BB-.
- By end of Q4, RR Donnelley sold its direct mail business located in France, named MRM France, for a loss of $17.9 million.

Subsequent Events (after December 2013):

- In January, RR Donnelley declared quarterly dividends for common stock.
- In January, RR Donnelley announced it would the North American operations of Esselte, maker of Oxford index cards and other stationery and office products.
- In January, RR Donnelley completed its acquisition of Consolidated Graphics, a provider of digital and commercial printing, fulfillment services, print management, and proprietary internet-based technology solutions.
- In February, RR Donnelley announced it would acquire MultiCorpora, a translation technology solutions provider based in Canada.

Risk Monitoring:

- *Risk of not successfully integrating series of latest acquisitions* – RR Donnelley is focused on successfully integrating its acquisitions and expects to increase net sales, drive cost savings from synergies, and provide additional capacity to meet customer needs.
- *Risk of excessive leverage (Debt/EBITDA is approximately 4x industry average of 2.43x)* – Debt levels seem adequately supported by EBITDA levels but should be monitored carefully because leverage increase in the near term could raise credit concern.

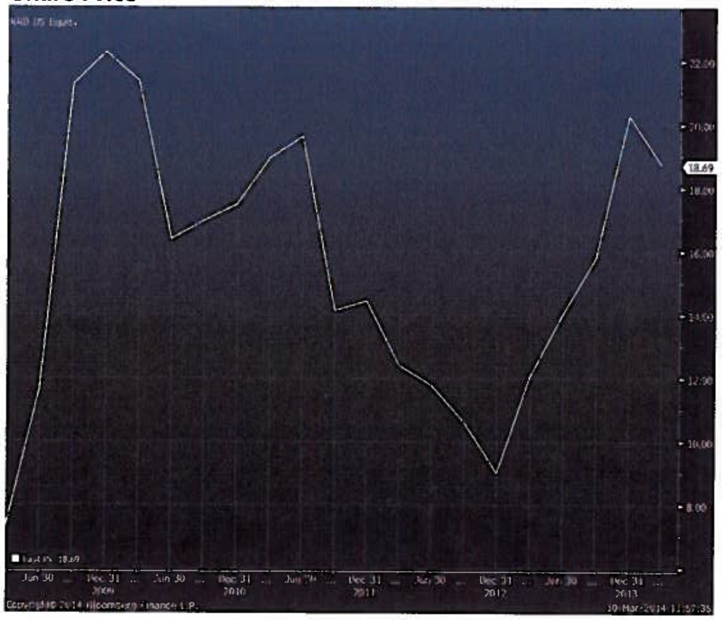
Given the current analysis of the vendor, we find no indication that RR Donnelley is unable to fulfill its contractual obligations to FRTIB.

Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

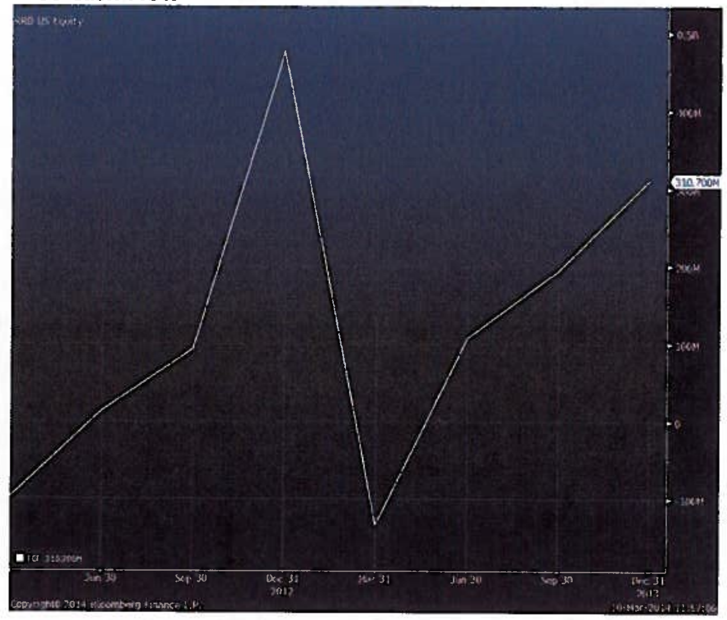
R.R. Donnelley & Sons Co. (RRD)

Exchange: NASDAQ **Sector**: Industrials **Industry**: Business Support Services

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and)	Q4 2012	Q4 2013	% Change	Direction
Solvency				
Debt to Equity Ratio	5,005.24	590.16	-88%	↓
Debt to Capital Ratio	98.04	85.51	-13%	↓
Interest Coverage Ratio	2.80	2.74	-2%	↓
Enterprise Value	$4,645	$6536	41%	↑
Liquidity				
Cash Ratio	0.21	0.46	120%	↑
Current Ratio	1.45	1.60	10%	↑
Quick Ratio	1.12	1.28	14%	↑
Profitability				
Revenue	$2,660	$2,755	4%	↑
EBITDA	$295.50	$289.90	-2%	↓
EBIT	$178.80	$185	3%	↑
ROA	-8.38	2.91	135%	↑
ROE	61.76	105.52	71%	↑
ROIC	-22.49	2.28	110%	↑
Operating Margin	6.72	6.71	-0.1%	↓
Profit Margin	-31.92	3.77	112%	↑
Revenue Growth	-2.25	3.60	260%	↑
EPS	-4.70	0.57	112%	↓

Serco Group Plc (SRP)

Exchange: LSE **Sector**: Technology **Industry**: Technology Services

Company Overview:

- Serco Group Plc, (Serco) is a public limited company based in the United Kingdom with its North American headquarters in Reston, VA. Serco N.A. is an independent subsidiary that provides professional, technology, and management services focused on U.S. federal and Canadian governments.

Strengths

- One of the largest entities by revenue in its industry
- Diverse and unique business model

Challenges

- Operating Margin decreased when compared to prior year
- Spending reductions and uncertainty around federal funding and contracts in the U.S.

Services Provided:

- Serco was the prime contractor for two major Information Technology (IT) service areas: 1) Infrastructure and Operations, which includes the IT assets in the FRTIB data centers, and 2) Software Development and Maintenance, which includes the FRTIB Recordkeeping System. On February 1, 2014, Science Applications Information Corp. (SAIC) assumed these services that were provided by Serco.
- Serco currently operates the call center, court order, death benefit and agency technical service center, as well as provides incoming mail data entry, imaging, and special processing support through its subcontractor.

Credit Ratings:

- **Moody's: NR** (Aaa–C) – N/A
- **S&P: NR** (AAA–D) – N/A
- **D&B: 497** (101–670) – Moderately low risk – D&B predicts a moderately low likelihood that Serco will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

Significant Events (October - December 2013):

- Serco was awarded new contracts and signed contract extensions with several entities.
- On December 20th, Serco was awarded a $200 Million contract extension to operate London prison.
- Serco announced it would repay $112.3 million to U.K. ministry related to probe of billing practices.

Subsequent Events (after December 2013):

- No significant events were noted.

Risk Monitoring:

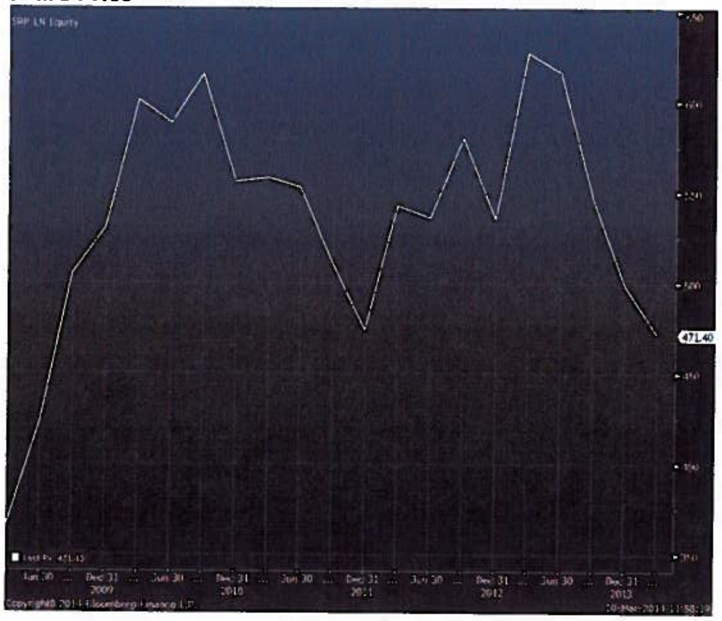
- *Risk of reputational damage and adverse financial impact* – Serco was involved in scandals in the U.K. and Australia. Serco agreed to repay the U.K. government for overcharging for prisoner electronic tags and the Australian government for the escaped detainees. The company was audited and cleared for new contract awards.

Given the current analysis of the vendor, we find no indication that Serco is unable to fulfill its contractual obligations to FRTIB.

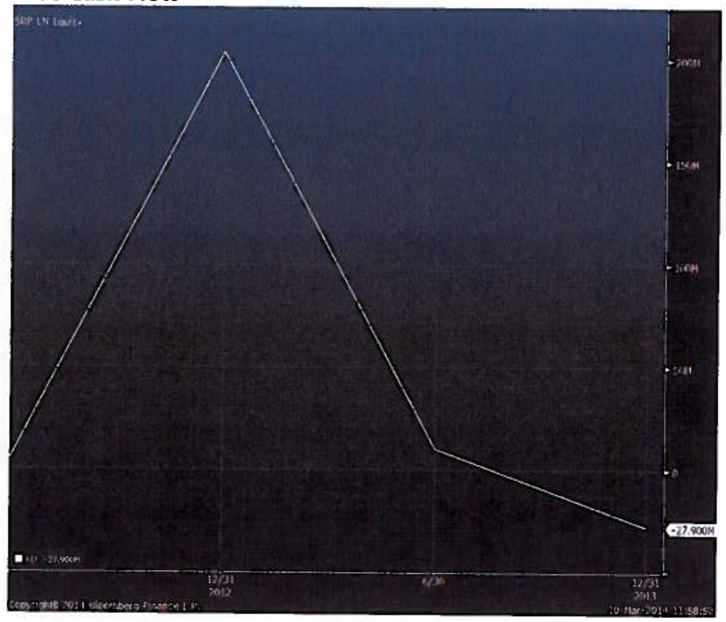
Serco Group Plc (SRP)

Exchange: LSE **Sector**: Technology **Industry**: Technology Services

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and)	Q4 2012	Q4 2013	% Change	Direction
Solvency				
Debt to Equity Ratio	64.64	73.76	14%	↑
Debt to Capital Ratio	39.26	42.45	8%	↑
Interest Coverage Ratio	17.69	0.62	-96%	↓
Enterprise Value	$5,265	$5,409	-18%	↓
Liquidity				
Cash Ratio	0.19	0.16	-18%	↓
Current Ratio	1.15	1.26	10%	↑
Quick Ratio	0.99	1.18	18%	↑
Profitability				
Revenue	$4,847	$3,585	-26%	↓
EBITDA	$430	$103	-76%	↓
EBIT	$345	$24	-93%	↓
ROA	52.35	3.99	-0.92%	↓
ROE	132.98	10.22	-0.92%	↓
ROIC	6.47	-20.02	-410%	↓
Operating Margin	4.99	0.52	-90%	↓
Profit Margin	5.12	0.86	-83%	↓
Revenue Growth	30.97	-26.04	-184%	↓
EPS	0.49	0.04	-92%	↓

* Serco reports semi-annually.

Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

SunGard (privately held company)

Company Overview:

- SunGard (SunGard) is a privately held company based in Wayne, Pennsylvania, that provides software and technology services to education, financial services, and public sector organizations. SunGard provides disaster recovery services, managed IT services, information availability consulting services and business continuity management software to its clients.

Strengths

- Diversified client base where no one customer accounts for more than 3% of sales in the last three years

Challenges

- Revenue decreased year over year
- High level of debt delaying IPO plans
- Cost cutting/spending by financial services companies which would impact revenue base

Services Provided:

- FRTIB contracts with SunGard for use of their suite of Omni software products that form the core of the FRTIB recordkeeping system.
- SunGard's Professional Services unit operated as a key subcontractor to Serco until the TESS transition to SAIC. On February 1, 2014, SunGard Professional Services started operating in a greatly diminished role as a subcontractor to Enterprise Iron, a key subcontractor to SAIC.
- SunGard's Professional Services unit also provides incoming mail data entry and imaging support as a subcontractor to Serco.

Credit Ratings:

- **Moody's: B2** (Aaa–C) – Negative – Judged to have speculative elements and a high credit risk
- **S&P: B+** (AAA–D) – Negative – More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
- **D&B: 499** (101–670) – Moderately low risk – D&B predicts a moderately low likelihood that SunGard will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

Significant Events (October - December 2013):

- On November 23rd, Delta Data Software, Inc. announced that it has completed the acquisition of the 22c2 Services solution of SunGard Data Systems Inc.,

Subsequent Events (after December 2013):

- In January, SunGard acquired XcitekSolutionsPlus, a provider of end-to-end automated corporate actions solutions.
- On January 24th, SunGard's board of directors approved to split off its Availability Services business as a separate company. SunGard's remaining software and processing businesses will consist of Financial Systems (SunGard's largest business), Public Sector, and K-12 Education. The transaction was completed on March 31, 2014.
- On March 11th, as part of the split-off of Availability Services (AS), SunGard did a debt for debt exchange with several investments banks (Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Merrill Lynch, Pierce, and Fenner & Smith), where SunGard exchanged debt in AS for $389.25mm existing SunGard bonds the investment banks held in their own account. SunGard then retired the $389.25mm of notes (a portion of the 2018 Notes that were outstanding).

Risk Monitoring:

- *Risk of SunGard not meeting its profitability goals* – Revenue for the Availability Services business decreased due to customer attrition and investments made to enhance portfolio of services provided. SunGard intends to sell this business and these expenses will no longer impact revenue after the sale.

Given the current analysis of the vendor, we find no indication that SunGard is unable to fulfill its contractual obligations to FRTIB.

Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

SunGard (privately held company)

Key Metrics Supporting Analysis:

Note: SunGard is a privately held company and, therefore, there is limited amount of information reported by financial news and data service companies, such as Bloomberg. However, due to obligations in connection with bond debt, it is a registrant with the Securities and Exchange Commission (SEC).

Based on FRTIB's semi-annual discussion with the vendor, SunGard senior management represented the following:

- The split off of SunGard's Availability Services and Financial Systems is expected to bring greater clarity and alignment to each company's mission and strategy.
- Leverage ratio after spin off was the lowest it's ever been.
- There were no changes in ownership after spin off.
- EBITDA increased with EBITDA margin improving.
- On average, for the past three fiscal years, services revenue has been a large percentage of total revenue.
- Large percentage of services revenue is highly recurring and is generated from (1) software related services including software maintenance, support, rentals and hosting, and (2) recovery-related services and managed IT services. The remaining services revenue includes (1) professional services, which are mainly generated from implementation and consulting services in connection with the sale of our products and (2) broker/dealer fees.
- Funds from continuing operations increased.
- In 2013, vendor continued to intentionally exit certain slower growing products or markets and shift investments to new product development.

The Active Network, Inc. (privately held company acquired by Vista Equity Partners)

Company Overview:

- The Active Network, Inc. (Active Network), headquartered in San Diego, CA, is a provider of organization-based cloud computing applications serving a range of customer group.

Strengths

- Leader in cloud-based Activity & Participant Management (APM) solutions.

Challenges

- Active Network's outdoor segment and marketing businesses continue to face headwinds.

Services Provided:

- Active Network and its predecessor organizations have managed the Maryland FRTIB Call center since July 2004.

Credit Ratings:

- **Moody's: B3** (Aaa–C) – Speculative grade – Judged to be speculative and is subject to significant credit risk, and does not have prime ability to repay short-term debt
- **S&P: NR** (AAA–D) – N/A
- **D&B:** 490 (101–670) – Moderately low risk – D&B predicts a moderately low likelihood that Active Network will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

Significant Events (October - December 2013):

- On October 29th, Moody's credit rating changed to B3.
- On November 15th, the Active Network was purchased by Vista Equity Partners and is no longer a public company.

Subsequent Events (after December 2013):

- In February, Active Network Business Solutions Group separated from its parent company and merged with Lanyon.

Risk Monitoring:

- *Risk of not meeting profitability goals* – Active Network has incurred net losses since its inception and anticipates operating expenses will continue to increase in the coming years as it expands. Private ownership by Vista Equity Partners may allow the company to execute on its strategy without pressure from market investors.

Given the current analysis of the vendor, we find no indication that Active Network is unable to fulfill its contractual obligations to FRTIB.

Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

The Active Network, Inc. (privately held company acquired by Vista Equity Partners)

Key Metrics Supporting Analysis:

Note: Active Network became a privately held company and, therefore, there is limited amount of information available to the general public.

Based on FRTIB's semi-annual discussion with the vendor, Active Network senior management represented the following:

- Active Network is one of Vista Equity Partners biggest acquisitions. After acquisition, there were no changes in senior management within Active Network.
- Vista's focus is to grow Active Network.
- FRTIB is one of the vendor's top 10 contracts.
- Vendor plans to have several members of Vista on its Board.
- Active Network's focus going forward is state and federal services.

Science Applications International Corp. (SAIC) **Exchange**: NYSE **Sector**: Technology **Industry**: Information

Company Overview:

- Science Applications International Corp. (SAIC), formerly SAIC Gemini, Inc., is a scientific, engineering, and technology applications company, serving the U.S. and foreign governments, and selected commercial customers. On September 27, 2013, SAIC Gemini, Inc. spun-off their enterprise IT and technical & engineering service businesses under the new SAIC, while the national security, health, and engineering service businesses was renamed to Leidos.

Strengths

- ➢ Balanced distribution of revenue sources with more than 1500 contracts and task orders
- ➢ Potential for SAIC to access $25B in new market opportunities, for a total market of $185B in government contracts

Challenges

- ➢ Decrease in sales and current customer base
- ➢ Spending reductions and pricing pressures for federal contracts.

Serviced Provided:

- FRTIB awarded its Technology and Enterprise Support Services (TESS) contract to SAIC on August 9, 2013. SAIC replaced two individual contracts with Serco: one for IT recordkeeping and the other for data center and operations. The phase-in period began October 1, 2013, and contract performance began February 1, 2014.

Credit Ratings:

- **Moody's: NR** (Aaa–C) – N/A
- **S&P: S&P: BBB** (AAA–D) – Adequate grade – Has capacity to meet financial commitments, but more subject to adverse economic conditions
- **D&B: 512** (101–670) – Lower risk – D&B predicts a low likelihood that SAIC will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

Significant Events (October - December 2013):

- On September 27th, S&P credit rating changed to BBB.
- On October 3rd, SAIC initiates quarterly cash dividend and authorizes share repurchase program.
- SAIC and Hitachi Data Systems announced strategic alliance to develop and deliver a desktop-as-a service (DTaaS) solution.

Subsequent Events (after December 2013):

- SAIC was awarded new contracts or contract extensions with the Space and Naval Warfare Systems Center and U.S. Navy.

Risk Monitoring:

- *Risk of organizational conflicts of interest (OCI)* – Spinning off SAIC will allow the company to more effectively pursue new and existing market opportunities without OCI constraints.

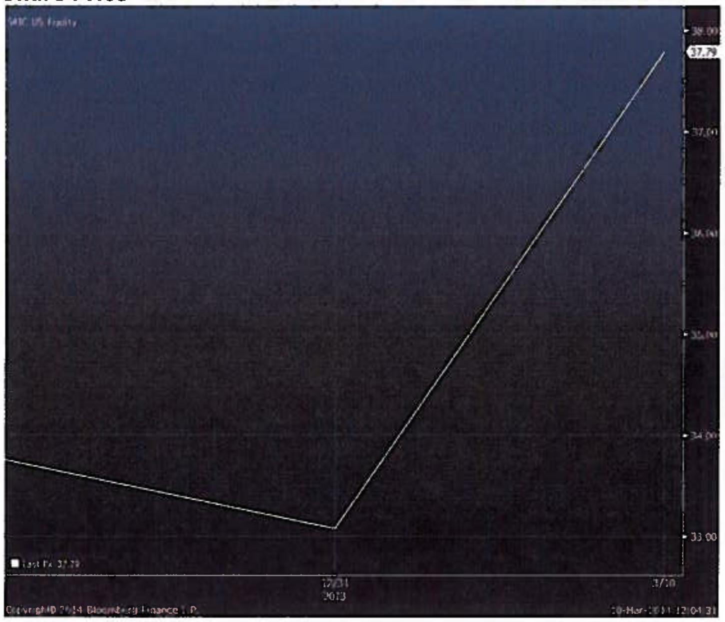
Given the current analysis of the vendor, we find no indication that SAIC is unable to fulfill its contractual obligations to FRTIB.

Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

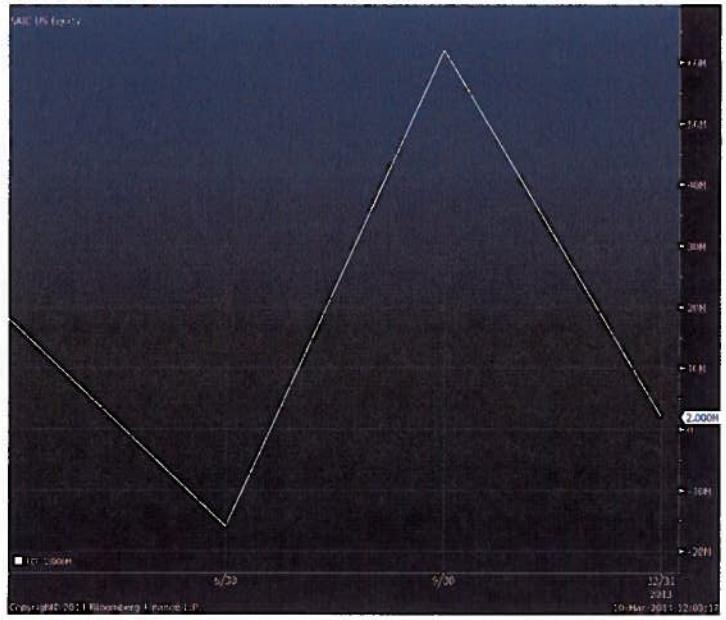
Science Applications International Corp. (SAIC)

Exchange: NYSE **Sector**: Technology **Industry**: Information

Share Price



Free Cash Flow



Key Metrics Supporting Analysis:

<u>Note</u>: SAIC is a publicly traded company; however, since it was recently spun-off and listed under a new ticker, there is limited amount of information reported by financial news and data service companies, such as Bloomberg.

365 Main, Inc. (privately held company)

Company Overview:

- 365 Main, Inc. (365 Main) is a privately held company backed by Crosslink Capital and Housatonic Partners. It is based in San Francisco, CA and is a nationwide owner and operator of 17 U.S. based data centers. 365 Main provides facilities optimized for modern data center requirements, featuring 24/7/365 power, cooling, connectivity and security capabilities to ensure mission-critical operations and business continuity.

Strengths

➢ Industry reputation for high touch customer service, satisfaction, and retention

Challenges

➢ Capitalizing on geographic demand through the acquisition of additional data centers in key markets

Services Provided:

- 365 Main owns and operates the backup data center for FRTIB in Pittsburg, PA. As part of the carve-out acquisition of data centers from Equinix in August 2012, Equinix remains contractually obligated to oversee data center services for the FRTIB at this site through the second option year, which ends on September 30, 2015.

Credit Ratings:

- **Moody's: NR** (Aaa–C) – N/A
- **S&P: NR** (AAA–D) – N/A
- **D&B: 344** (101–670) – Moderately high risk – D&B predicts a moderately high likelihood that 365 Main will pay in a severely delinquent manner (91+ days past term) over the next 12 months, seek legal relief from creditors, or cease operations without paying all creditors in full over the next 12 months

Significant Events (October - December 2013):

- On October 24th, 365 Main announced partnership with Wolfe Internet Services for expanded options to customers.
- On November 13th, 365 Main announced that NZingaNet selected the Company's Philadelphia data center to grow its business.

Subsequent Events (after December 2013):

- No significant events were noted.

Risk Monitoring:

- *Risk of challenging internal controls environment during expansion* – 365 Main completed a 2013 SSAE 16 examination that provided a clean opinion on internal controls within the organization. Scope included: examinations of customer service, physical and environmental security, technical support, equipment, and administration for each data center and its headquarters.

Given the current analysis of the vendor, we find no indication that 365 Main is unable to fulfill its contractual obligations to FRTIB.

Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

365 Main, Inc. (privately held company)

Key Metrics Supporting Analysis:

Note: 365 Main is a privately held company and, therefore, there is limited amount of information reported by financial news and data service companies, such as Bloomberg. However, due to obligations in connection with bond debt, it is a registrant with the Securities and Exchange Commission (SEC).

Based on FRTIB's semi-annual discussion with the vendor, 365 Main senior management represented the following:

- Churn Rate (proportion of contractual customers or subscribers who leave a supplier during a given time period) is below industry standard.
- Going forward, the focus will be on growth and investment in marketing (branding differently).
- Pittsburg is one of the top markets.
- Revenues with cash flows are stable.
- Working capital processes are streamlined.
- EBITDA increased with EBITDA margin improving.
- Audit Opinion and Reporting on Financial Statements are expected to be completed by late August 2014.

Glossary of Financial Terms

Cash Ratio: A liquidity ratio that measures a company's ability to pay short-term obligations.

Current Ratio: A liquidity ratio that measures a company's ability to pay short-term obligations.

Debt/Capital: A measurement of a company's financial leverage, calculated as the company's debt divided by its total capital; Debt includes all short-term and long-term obligations; Total capital includes the company's debt and shareholders' equity, which includes common stock, preferred stock, minority interest and net debt.

Debt/Equity: A measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity; It indicates what proportion of equity and debt the company is using to finance its assets.

Earnings per share (EPS): The amount of income that "belongs" to each share of common stock. An important tool for investors, EPS is often used in determining the value of a stock.

EBIT: An indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest; EBIT is also referred to as "operating earnings", "operating profit" and "operating income."

EBITDA: An indicator of a company's financial performance; EBITDA is essentially net income with interest, taxes, depreciation, and amortization added back to it, and can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.

Enterprise Value: An economic measure reflecting the market value of a whole business; It is a sum of claims of all claimants: creditors (secured and unsecured) and equity holders (preferred and common).

Interest Coverage Ratio: A ratio used to determine how easily a company can pay interest on outstanding debt; The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period.

Operating margin: A measurement the proportion of revenue left over after paying the variable costs of production. It is an important indicator of efficiency and profitability

Profit Margin: A ratio of profitability calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every dollar of sales a company actually keeps in earnings.

Quick Ratio: A solvency metric to determine a firm's ability to pay down current liabilities with its cash, short term equivalents, and accounts receivables.

Return on Asset (ROA): An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings.

Return on Equity: A measurement a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on Invested Capital (ROIC): A calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.

Revenue: The amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise; It is the "top line" or "gross income" figure from which costs are subtracted to determine net income.

Revenue Growth: An increase of a company's sales when compared to a previous period revenue performance; The current period's sales figure can be compared on a year-over-year basis or sequentially; This helps to give analysts, investors, and participants an idea of how much a company's sales are increasing over time.