Federal Retirement Thrift Investment Board

QUARTERLY VENDOR FINANCIAL ASSESSMENT

Board Presentation: October 27, 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 March 31, 2014, BlackRock managed $4.401 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: AA-** (AAA–D) – Investment grade – Very 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 (April - June 2014):

- In May, BlackRock declared a quarterly cash dividend.
- In May, BlackRock credit rating upgraded at S&P. Standard & Poor's Rating Services Rating Services raised its issuer credit rating on BlackRock to 'AA-/A-1+' from 'A+/A-1'. The outlook is stable. The upgrade reflects the improvements in BlackRock's cash flow generation and key credit metrics.
- In June, BlackRock announced cash distributions for the iShares Funds.
- 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). No determination has been made by Treasury and there is no clear timeline for action.
- In June, BlackRock received a Wells notice from the U.S. Securities and Exchange Commission warning it of a possible lawsuit over potential conflicts of interest concerning a former portfolio manager at the BlackRock Energy & Resources Portfolio. BlackRock plans to cooperate with the SEC investigation and doesn't believe it violated provisions mentioned by the SEC or expects resolution of the matter to have an impact on its financial results.

Subsequent Events (after June 2014):

- In July, BlackRock declared a quarterly cash dividend of $1.93 per share of common stock, payable September 22, 2014.

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: It is 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.

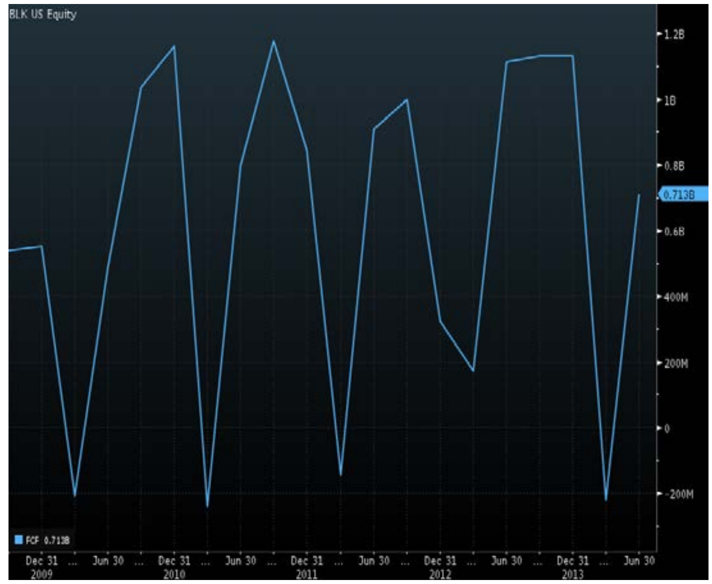
Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

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)	Q2 2013	Q2 2014	% Change	Direction
Solvency				
Debt to Equity Ratio	27.50	31.96	16%	↑
Debt to Capital Ratio	21.57	24.22	12%	↑
Interest Coverage Ratio	18.32	17.07	-7%	↓
Enterprise Value	$47,405	$56,403	19%	↑
Liquidity				
Cash Ratio	1.71	1.31	-23%	↓
Current Ratio	2.72	2.33	-14%	↓
Quick Ratio	2.72	2.33	-14%	↓
Profitability				
Revenue	$2,429	$2,718	12%	↑
EBITDA	$921	$1,194	30%	↑
EBIT	$971	$1,120	15%	↑
ROA	1.43	1.47	3%	↑
ROE	9.88	11.31	14%	↑
ROIC	8.18	9.24	13%	↑
Operating Margin	32.77	39.07	19%	↑
Profit Margin	29.07	30.94	6%	↑
Revenue Growth	16.40	9.70	-41%	↓
EPS	4.27	4.79	12%	↑

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 (April - June 2014):

- No significant events were noted.

Subsequent Events (after June 2014):

- No significant events were noted.

Risk Monitoring:

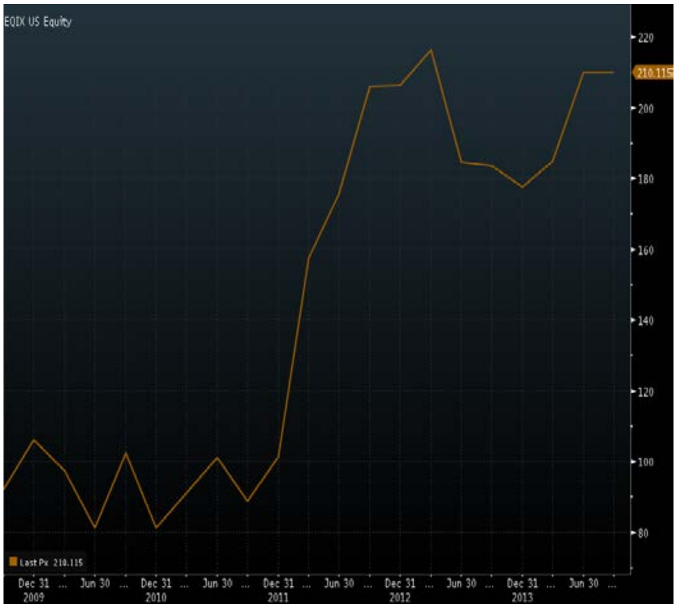
- *Risk of substantial increases in cost associated with REIT conversion (to be completed by 1/1/15)* – Equinix is using cash to pay advisors related to the Real Estate Investment Trust (REIT) conversion, and working to define its adjusted funds from operations (AFFO), which is used to estimate the value 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.

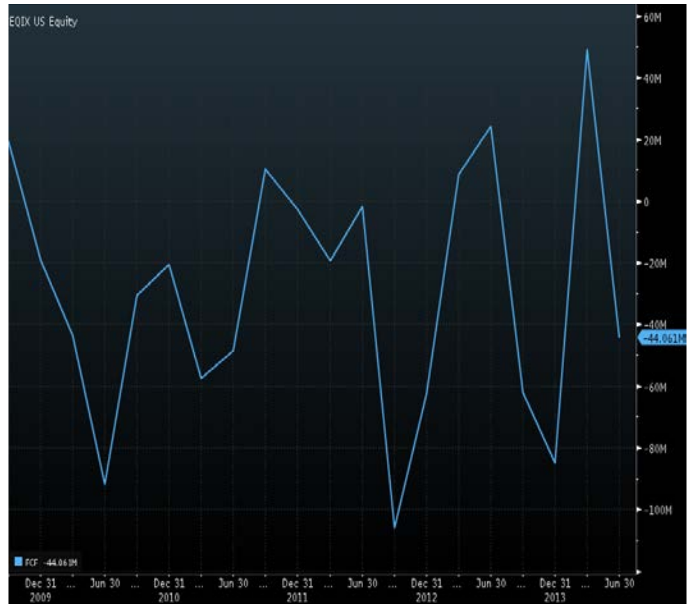
Equinix, Inc. (EQIX)

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

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and)	Q2 2013	Q2 2014	% Change	Direction
Solvency				
Debt to Equity Ratio	163.66	135.25	-17%	↓
Debt to Capital Ratio	62.07	57.49	-7%	↓
Interest Coverage Ratio	1.79	1.77	-1%	↓
Enterprise Value	$12,722	$14,496	14%	↑
Liquidity				
Cash Ratio	1.38	1.09	-21%	↓
Current Ratio	1.81	1.69	-7%	↓
Quick Ratio	1.72	1.52	-12%	↓
Profitability				
Revenue	$529	$605	14%	↑
EBITDA	$222.77	$241.02	8%	↑
EBIT	$113.65	$125.37	10%	↑
ROA	1.24	1.91	54%	↑
ROE	6.35	7.53	19%	↑
ROIC	1.54	2.51	63%	↑
Operating Margin	21.93	20.61	-6%	↓
Profit Margin	-4.88	1.87	-138%	↑
Revenue Growth	15.66	14.43	-8%	↓
EPS	-.52	.22	-152%	↑

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 (April - June 2014):

- In April, MetLife announced a loss of $343 million (after tax) on the sale of their UK pension risk transfer business.
- In May, MetLife declared second quarter 2014 preferred stock dividends.
- In June, MetLife announced $1B share buyback, first time since 2008.
- MetLife working to demonstrate to members of the Financial Stability Oversight Council that they should not be considered a non-bank Systemically Important Financial Institution (SIFI). No determination has been made by Treasury. As a result, MetLife will continue to take a conservative approach to capital management until there is clarity on these matters.

Subsequent Events (after June 2014):

- In July, MetLife declared third quarter 2014 common stock dividend.
- In September, Financial Stability Oversight Council (FSOC) notified MetLife that it has been preliminarily designated a non-bank Systemically Important Financial Institution (SIFI). MetLife strongly disagrees with the Financial Stability Oversight Councils preliminary designation of MetLife as a SIFI.
- In October, MetLife requested a hearing before the Financial Stability Oversight Council, or FSOC, to explain why the firm shouldn't be considered a systemic risk.

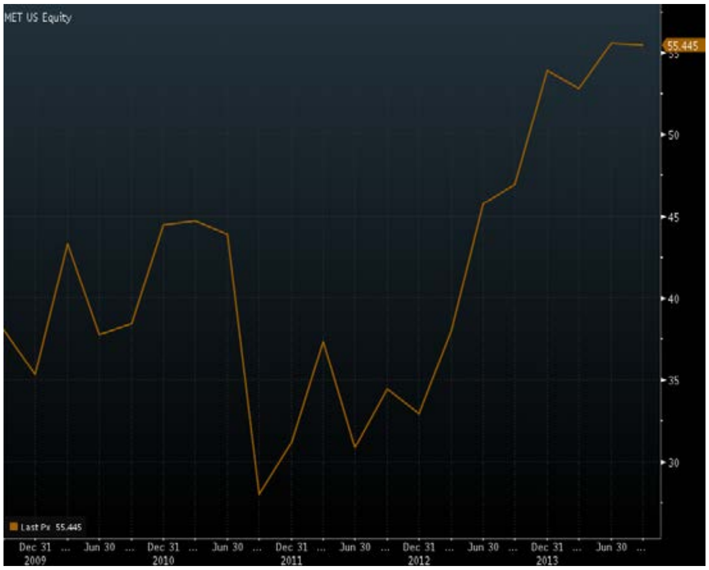
Risk Monitoring:

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. In September, Financial Stability Oversight Council (FSOC) notified MetLife that it has been preliminarily designated a non-bank SIFI. MetLife has requested a hearing before the Financial Stability Oversight Council (FSOC) to explain why the firm should not be considered a systemic risk. Three other nonbank institutions (AIG, Prudential and General Electric Capital) have already been designated as systemically important financial institution or SIFIs. If MetLife's bid to escape the SIFI designation is rejected at this stage, the firm could challenge the designation in court. Designation as SIFI would subject MetLife to regulation by the Federal Reserve, which has not yet crafted final rules for the supervision.

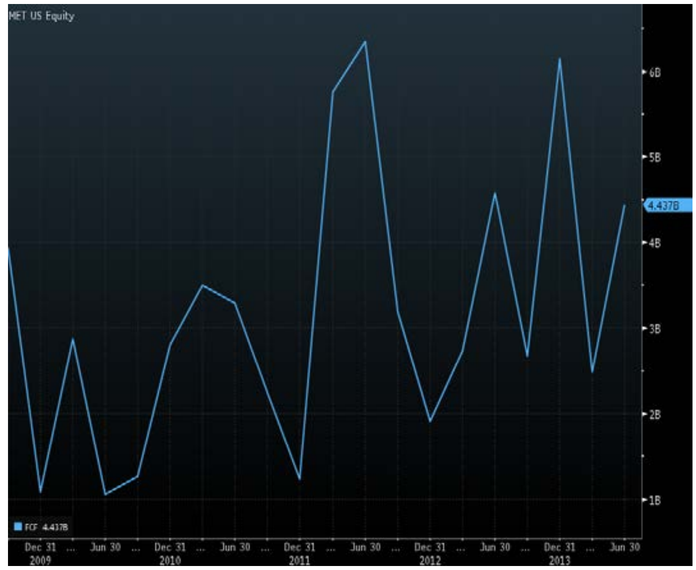
I. *MetLife perspective on preliminarily SIFI designation* – FRTIB's discussion with MetLife officials revealed that the firm is pushing back against increased U.S. oversight as that could weigh on profits and impact their stock price. Increased regulation may require them to hold more capital impacting dividends and hurt them competitively as compared to other insurance companies. Further, MetLife feels that they are already regulated by the states and the additional oversight is not value added.

II. *Insurance Industry Analyst perspective and our analysis of preliminary SIFI designation* – SIFI designation may be followed by regulators testing capital compliance scenarios at various stress levels that may require MetLife to increase its capital-adequacy levels. However, even with the potential increased regulation, there appears to be minimal risk of a significant impact on MetLife's bottom line. TSP participants in the immediate future are not likely to be impacted but we will monitor the situation on a quarterly basis by tracking changes in MetLife's business strategy due to additional regulations. Given the current analysis of the vendor, we find no indication that MetLife is unable to fulfill its contractual obligations to FRTIB.

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and)	Q2 2013	Q2 2014	% Change	Direction
Solvency				
Debt to Equity Ratio	40.34	36.55	-9%	↓
Debt to Capital Ratio	28.75	26.76	-7%	↓
Interest Coverage Ratio	-	-	-	-
Enterprise Value	$48,909	$67, 689	38%	↑
Liquidity				
Cash Ratio	.27	.20	-26%	↓
Current Ratio	1.32	1.17	-11%	↓
Quick Ratio	.95	.84	-12%	↓
Profitability				
Revenue	$15,721	$18,266	16%	↑
EBITDA	$882	$2,262	156%	↑
EBIT	.30	.43	43%	↑
ROA	.30	.43	43%	↑
ROE	11.17	10.04	-10%	↓
ROIC	21.74	25.05	15%	↑
Operating Margin	3.57	10.68	199%	↑
Profit Margin	3.19	7.48	134%	↑
Revenue Growth	-14.55	16.19	211%	↑
EPS	.43	1.17	172%	↑

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

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 (April - June 2014):

- In April, RR Donnelley declared quarterly dividend for common stock.
- In April, RR Donnelley was awarded a $175 million multi-year agreement by F+W Media, Inc. expanding the companies' relationship through 2021.
- In May, RR Donnelley completed its acquisition of Vancouver-based signage solutions provider True Colours, a supplier of wide format print solutions in Western Canada. The acquisition expands RR Donnelley's capabilities to support clients' signage requirements across North America.
- In June, RR Donnelley announced it entered into an agreement to provide global supply chain solutions to ZAGG Inc.

Subsequent Events (after June 2014):

- In July, RR Donnelley declared quarterly dividend for common stock.
- In September, RR Donnelley was awarded a $60 million multi-year agreement by Crain Communications expanding the companies' relationship through 2020.

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.

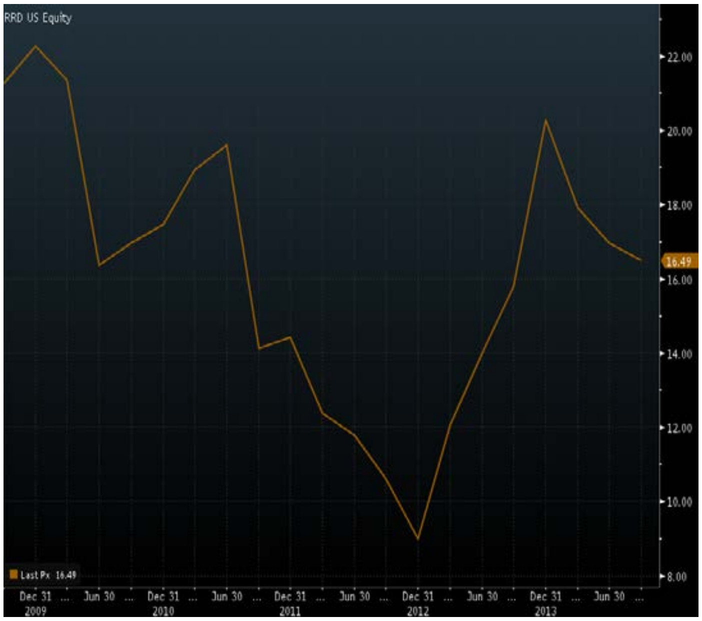
Given the current analysis of the vendor, we find no indication that RR Donnelley is unable to fulfill its contractual obligations to FRTIB.

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

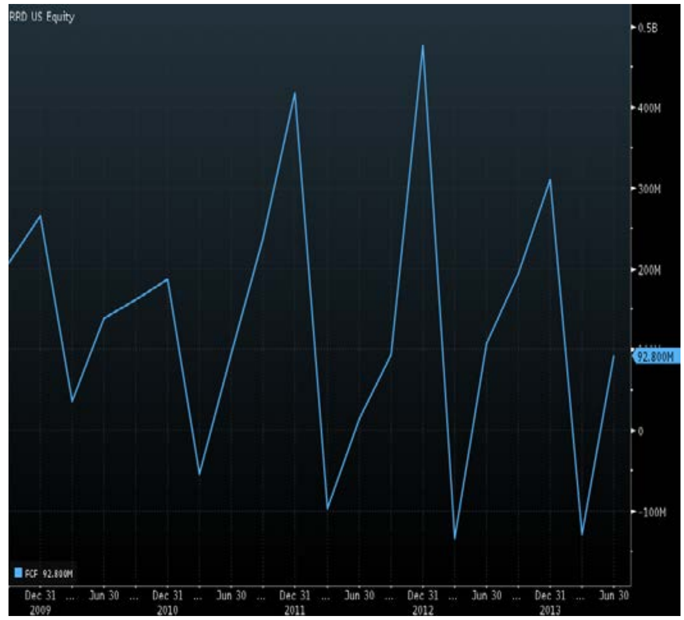
R.R. Donnelley & Sons Co. (RRD)

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

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and)	Q2 2013	Q2 2014	% Change	Direction
Solvency				
Debt to Equity Ratio	7011.51	441.05	-94%	⇩
Debt to Capital Ratio	98.59	81.52	-17%	⇩
Interest Coverage Ratio	-	-	-	-
Enterprise Value	$5,787	$6,955	20%	⇧
Liquidity				
Cash Ratio	0.17	.014	-18%	⇩
Current Ratio	1.6	1.45	-9%	⇩
Quick Ratio	1.23	1.06	-14%	⇩
Profitability				
Revenue	$2,572	$2,902	13%	⇧
EBITDA	$253.40	$212	-17%	⇩
EBIT	$139.80	$96.00	-31%	⇩
ROA	-8.70	2.12	-124%	⇧
ROE	61.51	82.37	34%	⇧
ROIC	-	-	-	-
Operating Margin	6.74	6.93	3%	⇧
Profit Margin	2.54	2.23	-12%	⇩
Revenue Growth	1.70	12.87	657%	⇧
EPS	.36	.32	-11%	⇩

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

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 currently operates a 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 (April - June 2014):

- In May, Serco Plc was awarded the 15-year; £800m contract to run the Caledonian Sleeper service between Scotland and London.

Subsequent Events (after June 2014):

- In July, Serco N.A. announced the award of a new $25 Million contract to provide parking enforcement, management of parking meter operations and traffic control operations for the City of Inglewood, California.
- In September, Serco N.A. announced the award of a $14 Million contract to support the United States Navy Reserve Psychological Health Outreach Program (PHOP).

Risk Monitoring:

- *Risk of reputational damage and adverse financial impact* – As stated by the Huffington Post UK, "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.

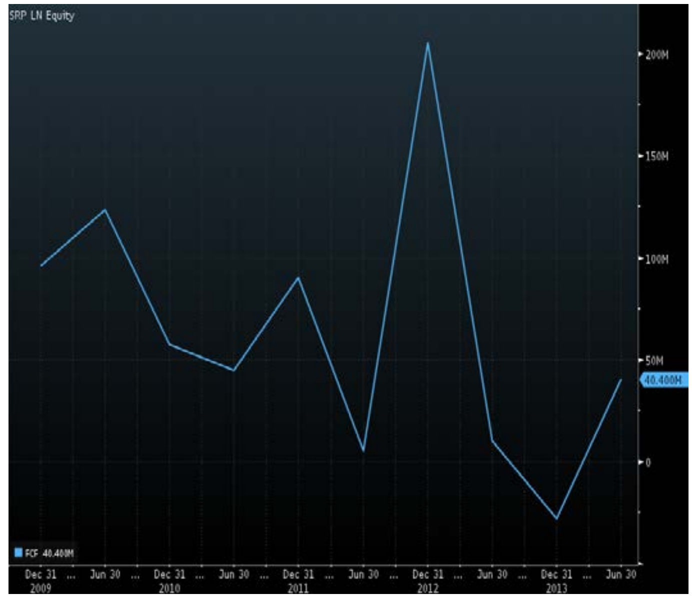
Given the current analysis of the vendor, we find no indication that Serco is unable to fulfill its contractual obligations to FRTIB.

Serco Group Plc (SRP LN)

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

Share Price

Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and)	Q2 2013	Q2 2014	% Change	Direction
Solvency				
Debt to Equity Ratio	83.93	65.67	-22%	⬇
Debt to Capital Ratio	45.63	39.63	-13%	⬇
Interest Coverage Ratio	16.88	1.295	-92%	⬇
Enterprise Value	$3,834	$2,595	-32%	⬇
Liquidity				
Cash Ratio	.23	.27	17%	⬆
Current Ratio	1.33	1.25	-6%	⬇
Quick Ratio	1.21	1.24	2%	⬆
Profitability				
Revenue	$3,247	$3,397	5%	⬆
EBITDA	$192	$18	-91%	⬇
EBIT	$148	$68	-54%	⬇
ROA	7.87	.16	-98%	⬇
ROE	21.26	.41	-98%	⬇
ROIC	11.06	-	-	-
Operating Margin	4.83	1.28	-73%	⬇
Profit Margin	3.98	-.32	-108%	⬇
Revenue Growth	-	-	-	-
EPS	.17	-.01	-106%	⬇

***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 provides incoming mail data entry and imaging support as a subcontractor to Serco.
- SunGard's Professional Services unit provides recordkeeping business process services as a subcontractor to SAIC.

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 (April - June 2014):

- In April, SunGard announced that it completed the tax-free split-off of its Availability Services (AS) business. SunGard Availability Services (AS) is now a separate, independent company with $1.4 billion in annual revenue and its own Board of Directors.

Subsequent Events (after June 2014):

- SunGard's Omni was selected by a leading provider of investment services in Saudi Arabia for five-year deal enabling them to deliver recordkeeping services for the thrift savings plans for their institutional clients.

Risk Monitoring:

- *Risk of SunGard not meeting its profitability goals* – SunGard is highly leveraged as a result of the leveraged buy-out ("LBO"),but has been consistently and significantly reducing its debt levels through cash generated from operations, the AS split-off, and the sale of certain non-strategic businesses. As of June 30, 2014: Cash was $314 million and total debt was $4.7 billion. The Company's leverage ratio, as defined in its senior secured credit agreement, was 5.64x. SunGard has ample ability to service its debt and over $900 million of liquidity. No material debt maturities until 2017.

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

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:

- Revenue growth increased in the first half of 2014 as the result of SunGard's investments in new technologies and infrastructure, fueled by growth in the emerging markets, and supported by the improving global economy and improved customer retention.
- EBITDA declined in the first half of 2014 and the margin declined, driven by SunGard's investments in customer sales and support, development and the infrastructure to support faster services growth.
- About 80% of SunGard's revenue is highly recurring under multi-year contracts or recurring in nature.
- Customer retention rates are improving.
- SunGard is investing in product development, maintenance and their business with strong sales, development and support personnel.
- License growth was up in first quarter and down in second quarter. Relatively low level of software license fees, largely due to the timing of renewals which tend to vary from quarter to quarter.
- SunGard is bringing more technology to market as reflected in the year over year increase in their gross development investments (includes software capitalization which is part of capital spending).
- SunGard is experiencing growth in emerging markets.
- SunGard's Cash Flow is strong with $422 million in Cash Flow from Continuing Operations and $311 million in Free Cash Flow in 2013.
- SunGard is highly leveraged as a result of the LBO, but has been consistently and significantly reducing its debt levels through cash generated from operations, the AS split-off, and the sale of certain non-strategic businesses. As of June 30, 2014:
  - Cash was $314 million and total debt was $4.7 billion
  - The Company's leverage ratio, as defined in its senior secured credit agreement, was 5.64x
  - SunGard has ample ability to service its debt and over $900 million of liquidity
  - No material debt maturities until 2017
- SunGard is well capitalized with consistent and stable debt ratings from Standard & Poor's and Moody's. Corporate credit ratings are B+ (Stable) and B2 (Stable) by S&P and Moody's, respectively. No change to credit ratings or outlook over the last year.

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

<u>Company Overview:</u>

- The Active Network, Inc. (Active Network), headquartered in Dallas, TX, 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.

<u>Services Provided:</u>

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

<u>Credit Ratings:</u>

- **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

<u>Significant Events (April - June 2014):</u>

- No significant events were noted.

<u>Subsequent Events (after June 2014):</u>

- In July, Active Network announced the relocation of its global headquarters to Dallas, TX.
- Vista Equity Partners completed its acquisition of AgData, a provider of strategic data and analytical solutions to agricultural, crop protection and animal health manufacturers.

<u>Risk Monitoring</u>:

- *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.

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 relocating its global headquarters to Dallas, TX. The Active call centers are not affected from the move and there should be no impact for FRTIB.
- There is no major change in strategy. Vista's focus is to grow Active Network.
- Active Network is exploring ways to grow and extend business with current customers.
- FRTIB is one of the vendor's top 10 contracts. Vendor is exploring ways they can enhance technologies, services, processes and tools they bring to FRTIB.
- Active Network is finalizing their scope for SSAE-16 audit. SOC 1 report expected the end of 2014.

Science Applications International Corp. (SAIC)

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

Company Overview:

- Science Applications International Corp. (SAIC) is a scientific, engineering, and technology applications company, serving the U.S. and foreign governments, and selected commercial customers.

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:

- SAIC provides software development, business process services, data center and operations, under the Technology and Enterprise Support Services (TESS) contract.

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 (April - June 2014):

- SAIC was awarded $14 Million task order by U.S. Transportation Command (USTRANSCOM).

Subsequent Events (after June 2014):

- SAIC declared a regular quarterly cash dividend of $0.28 per share payable on October 30, 2014.
- SAIC was awarded $424M Defense Logistics Agency Maintenance, Operations Contract and $408 Million Blanket Purchase Agreement by GSA FEDSIM On Behalf Of DoD.

Risk Monitoring:

- *Risk of organizational conflicts of interest (OCI)* – Spinning off SAIC may 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.

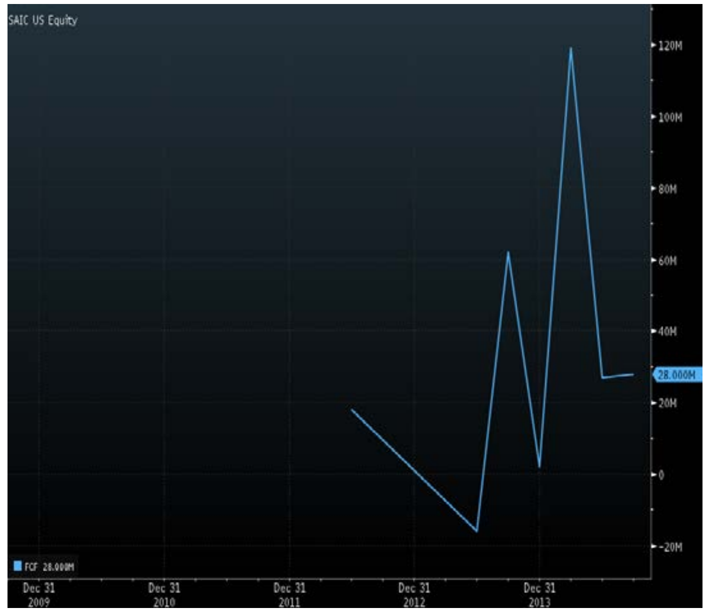
Sources: Company filings, Moody's, YCharts, News Articles, Dun & Bradstreet, and Bloomberg data estimates

Science Applications International Corp. (SAIC)

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

Share Price

Free Cash Flow



Key Metrics Supporting Analysis:

Note: This information is reported for second quarter ended August 1, 2014

Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and)	Q2 2013	Q2 2014	% Change	Direction
Solvency				
Debt to Equity Ratio	.004	1.38	28650%	↑
Debt to Capital Ratio	.48	57.97	11977%	↑
Interest Coverage Ratio	-	14.75	-	-
Enterprise Value	-	$2,259	-	-
Liquidity				
Cash Ratio	.003	.43	12930%	↑
Current Ratio	1.35	1.72	27%	↑
Quick Ratio	1.19	1.56	31%	↑
Profitability				
Revenue	$1,034	$952	-8%	↓
EBITDA	$39	$64	64%	↑
EBIT	$38	$59	55%	↑
ROA	-	9.2	-	-
ROE	-	24.82	-	-
ROIC	0	17.79	-	-
Operating Margin	3.68	6.20	68%	↑
Profit Margin	2.42	3.57	48%	↑
Revenue Growth	-16	-7.93	-50%	↑
EPS	.50	.70	40%	↑

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

365 Data Centers (privately held company renamed/rebranded from 365 Main)

Company Overview:

- 365 Data Centers (renamed/rebranded from 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 Data Centers 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 Data Centers 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 (April - June 2014):
- On April 29th, 365 Main announced that they rebranded/renamed company to 365 Data Centers.

Subsequent Events (after June 2014):
- In September, 365 Data Centers announced that it raised $16 million in Series B funding from existing investors Crosslink Capital and Housatonic Partners and has secured a $55 million credit facility from Fortress Credit Corp.

Risk Monitoring:
- *Risk of challenging internal controls environment during expansion* – 365 Data Centers 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. 365 Data Centers completed Audit Opinion and Reporting on Financial Statements. Audit Opinion: consolidated financial statements (December 31, 2013 and 2012) present fairly, in all material respects, the financial position of vendor.

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

365 Data Centers (privately held company renamed/rebranded from 365 Main)

Key Metrics Supporting Analysis:

Note: 365 Data Centers 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 Data Centers senior management represented the following:

- 365 Data Centers received certifications for HIPAA and SSAE 16 compliance.
- Vendor raised $16 million in funding and gained access to additional $55 million credit facility to support sustained growth. The financing will be used for ongoing operations and to help the company realize its growth strategy as a provider of colocation services in tier 1 and tier 2 U.S. markets. The funds will also be used to develop new data center products, as well as expanding its cloud and managed services offerings.
- 365 Data Centers achieved triple-digit percentage YOY sales growth and broken its all-time quarterly sales record by over 20 percent.
- Audit Opinion and Reporting on Financial Statements completed September 2014. Audit opinion: consolidated financial statements (December 31, 2013 and 2012) present fairly, in all material respects, the financial position of vendor.

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.