Federal Retirement
Thrift Investment Board

QUARTERLY VENDOR FINANCIAL ASSESSMENT

Board Presentation: January 25, 2016

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 September 30, 2015, BlackRock managed $4.506 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 risk, 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: 533** (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 (July – September 2015):

- In July, BlackRock declared a quarterly cash dividend of $2.18 per share of common stock, payable September 22, 2015.

Subsequent Events (after September 2015):

- In November, BlackRock declared a quarterly cash dividend of $2.18 per share of common stock, payable December 23, 2015.

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, has no wholesale funding, does not sell insured products to the retail market, its balance sheet is not reliant on government bailout, and does not take deposits. No determination has been made by Treasury.

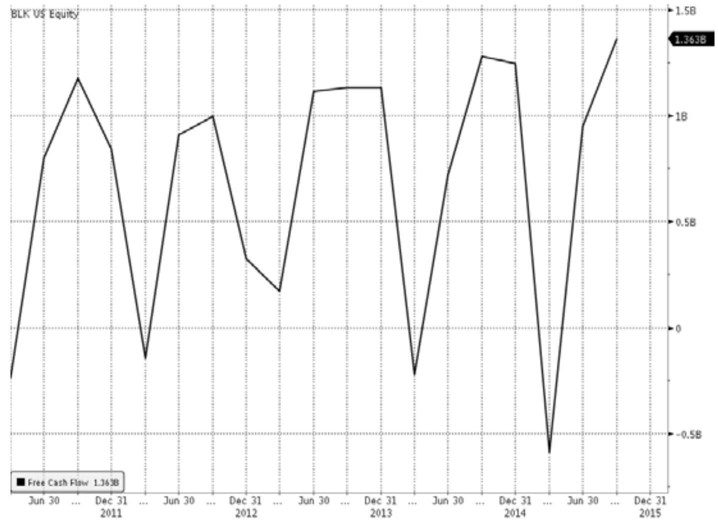
Given the current analysis of the vendor, we find no indication that BlackRock is unable to fulfill its contractual obligations to FRTIB.

BlackRock, Inc. (BLK)

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

Share Price

Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields)	Q3 2014	Q3 2015	% Change	Direction
Solvency				
Debt to Equity Ratio	32.41	17.38	-46%	↓
Debt to Capital Ratio	24.48	14.81	-40%	↓
Interest Coverage Ratio	22.86	32.21	41%	↑
Enterprise Value	$58,004	$48,934	-15%	↓
Liquidity				
Cash Ratio	2.07	1.98	-4%	↓
Current Ratio	2.92	2.86	-2%	↓
Quick Ratio	2.92	2.86	-2%	↓
Profitability				
Revenue	$2,849	$2,910	2%	↑
EBITDA	$1,273	$1,294	2%	↑
EBIT	$1,203	$1,226	2%	↑
ROA	1.53	1.48	-3%	↓
ROE	11.96	11.93	-.25%	↓
ROIC	-	-	-	-
Operating Margin	40.96	41.12	.39%	↑
Profit Margin	32.19	28.97	-10%	↓
Revenue Growth	2.14	2.14	-	-
EPS	5.46	5.08	-7%	↓

Broadridge Financial Solutions (BR)

Exchange: NYSE **Sector**: Industrials **Industry**: Business Services

Company Overview:

- Broadridge Financial Solutions, Inc. provides investor communications and technology-driven solutions to banks, broker-dealers, mutual funds and corporate issuers. Its services include investor communication solutions, and securities processing and business process outsourcing. It operates through two business segments: Investor Communication Solutions and Securities Processing Solutions.

Strengths
- Leading share in the proxy distribution market
- Long-term customer contracts and customer relationships

Challenges
- Changing regulations impacting proxy distribution business
- Integration and execution risks with acquisition growth strategy

Services Provided:

- Broadridge Financial Solutions provides bulk outgoing mailing services for FRTIB from its Columbus, Ohio, Coppell, Texas, and Edgewood, New York facilities. These services include printing and mailing FRTIB documents, education, and marketing materials to participants, beneficiaries, and third parties.
- New contract was awarded to Broadridge Financial Solutions (BR) on February 27, 2015. Broadridge Financial Solutions started sending out TSP mail on May 1, 2015.

Credit Ratings:

- **Moody's: Baa1** – Judged to have speculative elements and a moderate credit risk
- **S&P: BBB+** – Adequate capacity to meet its financial commitments but adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments
- **D&B: 534** (101– 670) – Lower risk – D&B predicts a low likelihood that Broadridge Financial Solutions 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 (July – September 2015):

- No significant events were noted.

Subsequent Events (after September 2015):

- In November, Broadridge Financial Solutions declared a quarterly cash dividend of $0.30 per share of common stock, payable January 4, 2016.

Risk Monitoring:

- *Risk of not successfully integrating and executing series of latest mergers and acquisitions* – Broadridge Financial Solutions is focused on successfully integrating its mergers and acquisitions and expects to increase net sales, drive cost savings from synergies, and provide additional capacity to meet customer needs. Reported financial results for the first quarter (three months ended September 30, 2015) of its fiscal year 2016: Total revenues increased 7% to $595 million. The increase in higher recurring fee revenues of 35 million, or 10% was driven by: 1) contributions from recent acquisitions and 2) Net New Business from increases in revenues from closed sales, which were offset by a decrease in internal growth as a result of lower fund fulfillment revenues. Net New Business is defined as recurring revenue from closed sales less recurring revenue from client losses.

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

Broadridge Financial Solutions (BR)

Exchange: NYSE **Sector**: Industrials **Industry**: Business Services

Share Price

Free Cash Flow

Key Metrics Supporting Analysis

($ In Millions, except ratios, yields)	Q3 2014	Q3 2015	% Change	Direction
Solvency				
Debt to Equity Ratio	58.30	70.02	20%	⬆
Debt to Capital Ratio	36.83	41.18	11%	⬆
Interest Coverage Ratio	13.4	14	4%	⬆
Enterprise Value	$4,716	$6,967	48%	⬆
Liquidity				
Cash Ratio	.50	.60	16%	⬆
Current Ratio	1.65	1.76	7%	⬆
Quick Ratio	1.36	1.50	10%	⬆
Profitability				
Revenue	$606	$634	5%	⬆
EBITDA	$108	$116	7%	⬆
EBIT	$83.10	$89.60	8%	⬆
ROA	12.71	11.85	-6%	⬇
ROE	31.24	29.08	-7%	⬇
ROIC	19.67	17.71	-10%	⬇
Operating Margin	13.71	14.13	3%	⬆
Profit Margin	8.38	8.51	-7%	⬇
Revenue Growth	5.13	4.6	-10%	⬇
EPS	0.42	.45	7%	⬆

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. Equinix has extensive operations in North America, Europe, Asia, United Arab Emirates, and Brazil.

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.

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: 498** (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 (July – September 2015):

- In July, Equinix declared a quarterly cash dividend of $1.69 per share of common stock, payable September 16, 2015.
- In September, Equinix declared a special distribution of $627M (about $10.95/share) for common stockholders, tied to its conversion to a REIT effective last Jan. 1.

Subsequent Events (after September 2015):

- In October, Equinix declared a quarterly cash dividend of $1.69 per share of common stock, payable December 16, 2015.

Risk Monitoring:

- *Risk of excessive leverage* – Equinix's long-term debt to total assets ratio increased from Sep. 2014 (0.52) to Sep. 2015 (0.57), which may suggest that Equinix is progressively becoming more dependent on debt to grow their business. Equinix's Debt/Equity for the last 3 years (from earliest to the most recent *fiscal* year) was 1.27%, 1.66%, 2.03%. The company's debt levels are a concern.

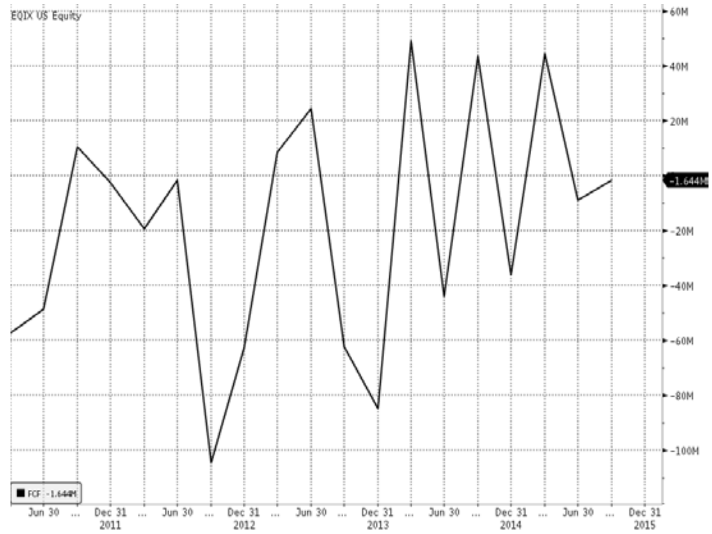
We will continue to monitor Equinix's financial performance. At this point in time, we find no indication that Equinix is unable to fulfill its contractual obligations to FRTIB given the current analysis of the vendor.

Equinix, Inc. (EQIX)

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

Share Price

Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields)	Q3 2014	Q3 2015	% Change	Direction
Solvency				
Debt to Equity Ratio	153.35	311.45	103%	⇧
Debt to Capital Ratio	60.53	75.70	25%	⇧
Interest Coverage Ratio	1.95	1.80	-8%	⇩
Enterprise Value	$14,801	$19,873	34%	⇧
Liquidity				
Cash Ratio	.073	0.23	-68%	⇩
Current Ratio	1.28	0.85	-34%	⇩
Quick Ratio	1.14	0.43	-62%	⇩
Profitability				
Revenue	$620	$687	11%	⇧
EBITDA	$255.28	$274.15	7%	⇧
EBIT	$135.13	$140.88	4%	⇧
ROA	1.90	-2.35	-224%	⇩
ROE	7.40	11.02	49%	⇧
ROIC	6.20	-8.53	-238%	⇩
Operating Margin	21.78	20.52	-6%	⇩
Profit Margin	6.90	5.99	-13%	⇩
Revenue Growth	14.24	10.68	-25%	⇩
EPS	0.81	0.72	-11%	⇩

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 the 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: 550** (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 (July – September 2015):

- In July, MetLife declared third quarter 2015 dividend, payable September 11, 2015.

Subsequent Events (after September 2015):

- In October, MetLife declared fourth quarter 2015 dividend, payable December 11, 2015.
- In January, MetLife announced a plan to pursue the separation of a substantial portion of its U.S. Retail segment. MetLife is currently evaluating structural alternatives for such a separation, including a public offering of shares in an independent, publicly traded company, a spin-off, or a sale.

Risk Monitoring:

- *Risk of increased regulatory and compliance costs* – On December 18, 2014, MetLife was designated a Systemically Important Financial Institution (SIFI) by the U.S. Treasury's Financial Stability Oversight Council (FSOC). Designation as SIFI would subject MetLife to regulation by the Federal Reserve, which has not yet crafted final rules for the supervision. 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.

  On January 12, 2016, MetLife announced a plan to pursue the separation of its U.S. Retail segment. Currently, U.S. Retail is part of a Systemically Important Financial Institution (SIFI). Even though MetLife is appealing its SIFI designation in court and does not believe any part of MetLife is systemic, the risk of increased capital requirements may have contributed to their decision to pursue the separation of the business. The parts of the U.S. Retail segment that would stay with MetLife are: Group, Voluntary and Worksite benefits (GVWB), Corporate Benefit Funding (CBF), Asia, Latin America, and Europe, the Middle East and Africa (EMAE). In the U.S. market, MetLife will remain the leader in employee benefits through its GVWB business and a major provider of pension and retirement products through its CBF business. CBF, MetLife's institutional retirement business, is the group through which MetLife manages the TSP Annuity Program.

  MetLife's announcement has no impact on the TSP Annuity Program 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.

MetLife, Inc. (MET)

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

Share Price

Free Cash Flow

Key Metrics Supporting Analysis

($ In Millions, except ratios, yields)	Q3 2014	Q3 2015	% Change	Direction
Solvency				
Debt to Equity Ratio	33.44	34.05	2%	↑
Debt to Capital Ratio	25.06	25.40	1%	↑
Interest Coverage Ratio	-	-	-	-
Enterprise Value	$78,211	$69,310	-11%	↓
Liquidity				
Cash Ratio	0.23	0.25	9%	↑
Current Ratio	1.19	1.24	4%	↑
Quick Ratio	1.19	1.24	4%	↑
Profitability				
Revenue	$18,846	$18,031	-4%	↓
EBITDA	$18,846	$18,031	-4%	↓
EBIT	3.25	2.47	-24%	↓
ROA	0.66	0.67	2%	↑
ROE	9.97	9.01	-10%	↓
ROIC	33.75	-4.54	-113%	↓
Operating Margin	17.23	13.67	-21%	↓
Profit Margin	11.11	6.67	-40%	↓
Revenue Growth	15.36	-4.32	-128%	↓
EPS	1.83	1.07	-42%	↓

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: 540** (101–670) – Lower 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 (July – September 2015):

- No significant events were noted.

Subsequent Events (after September 2015):

- In December, Serco issued a profit warning centered on lower-than-expected profits for 2016, largely the result of the sale of its UK call center and business outsourcing arm.

Risk Monitoring:

- *Risk of Serco not meeting its profitability goals* – On December 2015, Serco issued a profit warning centered on lower-than-expected profits for 2016, largely the result of the sale of its UK call center and business outsourcing arm. The impact of exiting that business may influence ongoing performance, reducing profit flow and overhead recovery in 2016. Revenue from new contracts may increase but with limited progress on new growth in 2016. Revenue declined as the value of contracts won over the year declined and the value of larger contracts in the bid pipeline declined.
- *Risk Mitigation Strategy:* In the unlikely event Serco is unable to provide support and services to FRTIB, as a contingency measure, FRTIB could take steps to directly hire, on a temporary basis (or if needed, permanent basis) key Serco staff to continue processing legal and death cases as well as agency technical services. Also, for services such as special processing and incoming mail data entry, the FRTIB can look at setting up emergency contracts directly with Serco subcontractors. For call center operations, FRTIB may be able to temporarily absorb added workload at the second call center and can work with the second call center to add needed staff.

We will continue to monitor Serco's financial performance. At this point in time, we find no indication that Serco is unable to fulfill its contractual obligations to FRTIB given the current analysis of the vendor.

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)	S1 2014	S1 2015	% Change	Direction
Solvency				
Debt to Equity Ratio	65.67	119.17	81%	↑
Debt to Capital Ratio	39.64	54.37	37%	↑
Interest Coverage Ratio	16.88	-2.35	-114%	↓
Enterprise Value	$2,594	$1,574	-39%	↓
Liquidity				
Cash Ratio	0.27	0.17	-39%	↓
Current Ratio	1.33	1.29	-3%	↓
Quick Ratio	0.26	0.16	-39%	↓
Profitability				
Revenue	$2,026	$1,789	-12%	↓
EBITDA	$56	-$13.40	-124%	↓
EBIT	$14.30	-$38.70	-371%	↓
ROA	0.77	-56.48	-7372%	↓
ROE	11.19	-89.88	-904%	↓
ROIC	1.01	-100.27	-10028%	↓
Operating Margin	0.71	-2.16	-404%	↓
Profit Margin	1.69	1.43	-15%	↓
Revenue Growth	-4.12	-11.70	-184%	↓
EPS	0.01	-.01	-1100%	↓

***Serco reports semi-annually.**

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
- 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: 513** (101–670) – Lower 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 (July – September 2015):

- In August, Fidelity National Information Services Inc., a provider of banking and payments technology, agreed to buy software maker SunGard Data Systems Inc. in a deal valued at $9.1 billion, including the assumption of debt. Fidelity National Information Services Inc., as of September 30, 2015: Cash balances were $442 million and total debt was $5.0 billion. Capital expenditures totaled $309 million, resulting in FCF of $522 million for the first nine months of 2015.

Subsequent Events (after September 2015):

- In November, Fidelity National Information Services Inc. announced the closing of its acquisition of SunGard.

Risk Monitoring:

- *Risk of not successfully integrating and executing series of latest mergers and acquisitions* – The SunGard merger may provide Fidelity National Information Services Inc. with a strong entry into adjacent markets (serving financial institutions). From a product-set basis there is minimal overlap, although the two companies serve and/or target many of the same institutions. Ownership by Fidelity National Information Services Inc. may allow the company to execute on its strategy without pressure from market investors. FIS is focused on successfully integrating its merger and acquisition and expects to increase net sales, drive cost savings from synergies, and provide additional capacity to meet customer needs. SunGard's reported financial results as of September 30, 2015: Total debt was $4.7 billion and cash was $591 million. The Company's leverage ratio, as defined in its senior secured credit agreement, was 4.81x, down from 5.41x. During this period, SunGard spent $25 million on acquisitions. 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.

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).

The Active Network, LLC. (privately held company)

Company Overview:

- The Active Network, LLC. (Active Network), headquartered in Dallas, TX, is a provider of organization-based cloud computing applications serving a range of customer group. It is owned by Vista Equity Partners LLC, a private equity firm that offers portfolio management and advisory services to private investment funds. Vista focuses on investing in software and technology enabled businesses.

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 has 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:** 475 (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 (July – September 2015):

- No significant events were noted.

Subsequent Events (after September 2015):

- No significant events were noted.

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.
- *Risk Mitigation Strategy:* In the unlikely event that Active Network was unable to operate the Frostburg, Maryland Call Center, the Serco Call Center in Clintwood, Virginia could handle all calls pending establishment of a new call center. Although Clintwood would be able to handle all calls, service quality would be negatively affected temporarily.

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, LLC. (privately held company)

Key Metrics Supporting Analysis:

Note: Active Network became a privately held company in 2013 and, therefore, there is limited amount of information available to the general public.

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: B1** – Speculative grade – Has speculative elements and moderate credit risk.
- **S&P: S&P: BB** – Adequate grade – Has capacity to meet financial commitments, but more subject to adverse economic conditions.
- **D&B: 522** (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 (July – September 2015):

- In September, SAIC awarded $210 Million Supply Chain Management contract by Defense Logistics Agency (DLA).
- In September, SAIC declared quarterly 2015 dividend, payable October 15, 2015.
- In September, SAIC awarded Air Force NETCENTS-2 to provide life cycle IT support under $7.9 billion contract.

Subsequent Events (after September 2015):

- In October, SAIC awarded $109 Million Aviation Systems and Computer Resources Support contract by the U.S. Army Contracting Command.
- In December, SAIC declared quarterly cash dividend of $0.31, payable January 29, 2016.
- In December, SAIC awarded $156 Million full life cycle information technology services contract by USDA Risk Management Agency.

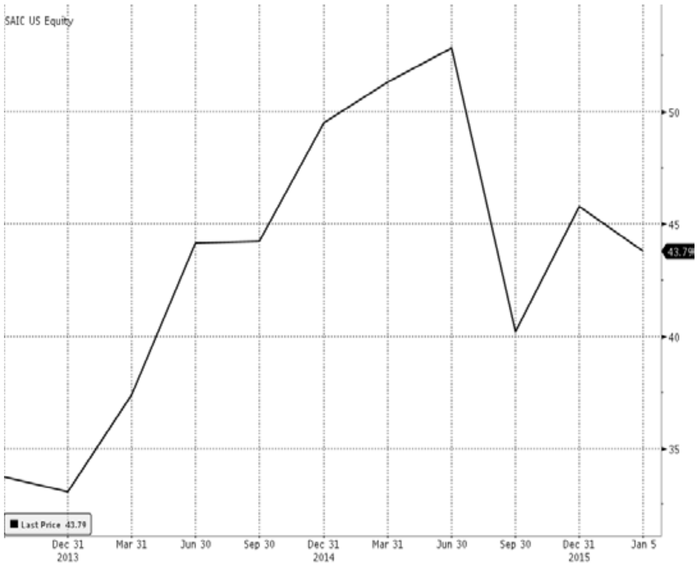
Risk Monitoring:

- *Risk of not meeting profitability goals* – SAIC profit margins are low but has increased from the same period last year. SAIC financial results for the third quarter of fiscal year 2016: Revenues were $1,129 million compared to $993 million during the prior year quarter, which equates to revenue growth of 14%. The increase in revenue was due to the acquisition of Scitor, which generated $148 million in revenue during the quarter. This increase was partially offset by lower material volume on supply chain contracts ($19 million). Total cash flows were $68 million, a decrease of $14 million from the comparable prior year quarter. The decrease in operating cash over the prior year quarter was primarily due to higher interest expense on incremental borrowings due to the Scitor acquisition ($10 million).

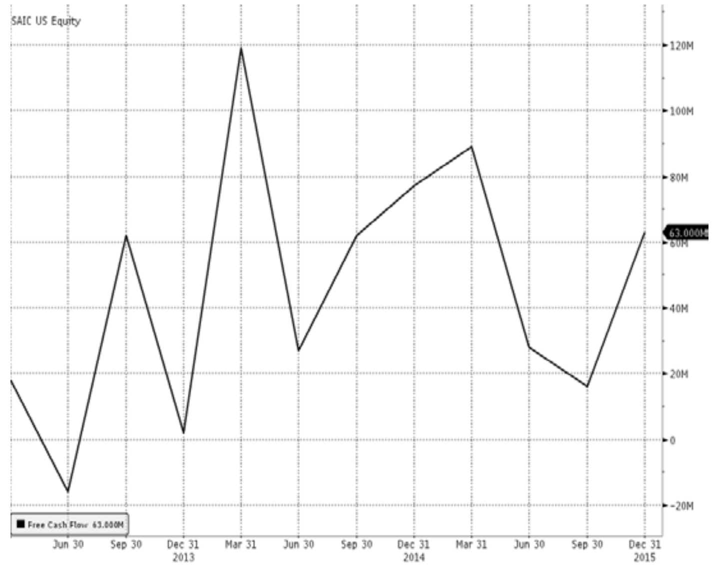
Given the current analysis of the vendor, we find no indication that SAIC is unable to fulfill its contractual obligations to FRTIB.

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

Share Price



Free Cash Flow



Note: This information is reported for third quarter ended October 30, 2015.

Key Metrics Supporting Analysis

($ In Millions, except ratios, yields)	Q3 2014	Q3 2015	% Change	Direction
Solvency				
Debt to Equity Ratio	145.59	283.67	95%	↑
Debt to Capital Ratio	59.28	73.94	25%	↑
Interest Coverage Ratio	15.75	4.57	-71	↓
Enterprise Value	$2.49	$3.07	23%	↑
Liquidity				
Cash Ratio	0.43	0.26	-40%	↓
Current Ratio	1.65	1.40	-15%	↓
Quick Ratio	1.50	1.21	-19%	↓
Profitability				
Revenue	$1,004	$1,136	13%	↑
EBITDA	$69	$82	19%	↑
EBIT	$63	$64	2%	↑
ROA	$9.66	$6.96	-28%	↓
ROE	41.08	36.95	-10%	↓
ROIC	17.69	12.57	-29%	↓
Operating Margin	6.27	5.63	-10%	↓
Profit Margin	2.99	2.98	-0.33%	↓
Revenue Growth	-0.3	13.15	-4483%	↓
EPS	0.80	0.74	-8%	↓

365 Data Centers (privately held company)

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 Pittsburgh, PA. As part of the carve-out acquisition of data centers from Equinix in August 2012, Equinix was contractually obligated to oversee data center services for the FRTIB at this site through the second option year, which ended September 30, 2015. Equinix no longer has contractual obligations with relation to this contract. 365 Data Centers remains contractually obligated to oversee the Pennsylvania data center services.

Credit Ratings:
- **Moody's: NR** (Aaa–C) – N/A
- **S&P: NR** (AAA–D) – N/A
- **D&B: 440** (101–670) – Moderately low risk – D&B predicts a moderately low likelihood that 365 Data Centers 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 (July – September 2015):
- No significant events were noted.

Subsequent Events (after September 2015):
- No significant events were noted.

Risk Monitoring:
- *Risk of not meeting profitability goals* – Audit Opinion: consolidated financial statements (December 31, 2014 and 2013) present fairly, in all material respects, the financial position of vendor. Given the analysis of 365 Data Centers consolidated financial statements and FRTIB's semi-annual discussion with 365 Data Centers senior management, the company's seemingly high level debts and unprofitable structure are a concern.
- *Risk Mitigation Strategy:* In the unlikely event 365 Data Centers is unable to provide support to the Pittsburgh data center, as a contingency measure, FRTIB could issue letter contracts (an agreement to be negotiated at a later point) to another data center hosting company, if it was determined that the transfer to an alternate 365 Data Centers colocation site was not in the FRTIB's best interest.

We will continue to monitor 365 Data Centers' financial performance. At this point in time, we find no indication that 365 Data Centers is unable to fulfill its contractual obligations to FRTIB given the current analysis of the vendor.

365 Data Centers (privately held company)

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).

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.

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