



**Federal Retirement  
Thrift Investment Board**

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## **QUARTERLY VENDOR FINANCIAL ASSESSMENT**

Board Presentation: July 27, 2015

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, 2014, BlackRock managed \$4.652 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: 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 (January – March 2015):**

- In January, BlackRock declared a quarterly cash dividend of \$2.18 per share of common stock, payable March 24, 2015.

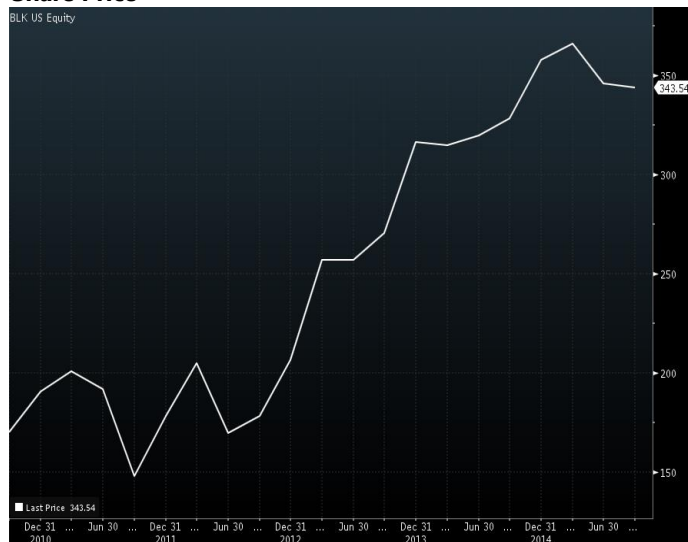
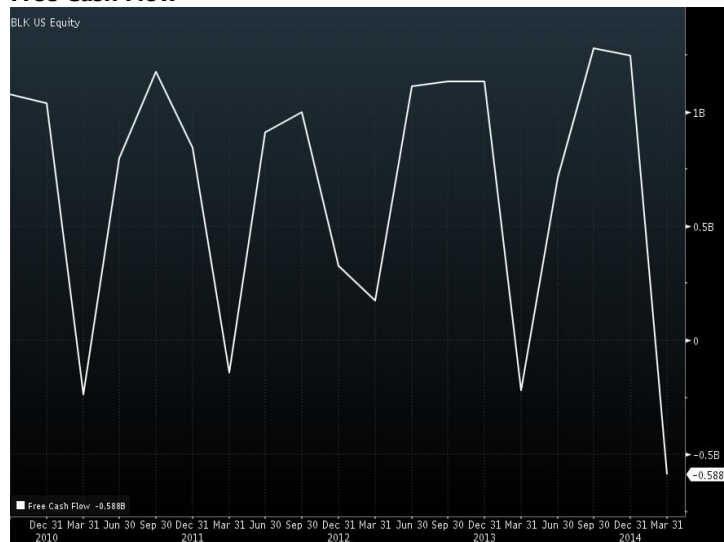
**Subsequent Events (after March 2015):**

- In May, BlackRock declared a quarterly cash dividend of \$2.18 per share of common stock, payable June 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, 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.

**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 )	Q1 2014	Q1 2015	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	30.74	32.40	5%	↑
Debt to Capital Ratio	23.51	24.47	4%	↑
Interest Coverage Ratio	25.19	21.96	-13%	↓
Enterprise Value	\$57, 271	\$66, 003	15%	↑
<b>Liquidity</b>				
Cash Ratio	1.61	2.07	29%	↑
Current Ratio	2.40	2.80	17%	↑
Quick Ratio	2.40	2.80	17%	↑
<b>Profitability</b>				
Revenue	\$2,670	\$2,723	2%	↑
EBITDA	\$1,200	\$1,193	-0.60%	↓
EBIT	\$1,127	\$1,130	0.30%	↑
ROA	1.47	1.46	-0.11%	↓
ROE	10.82	12.18	12.6%	↑
ROIC	-	-	-	-
Operating Margin	41.04	40.73	-1%	↓
Profit Margin	27.23	29.53	8%	↑
Revenue Growth	9.02	1.99	-78%	↓
EPS	4.47	4.92	10%	↑

**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 systems and services include investor communication solutions, and securities processing and business process outsourcing services. 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' Phase-In Period (and thus, RR Donnelley's Phase-Out Period) began March 1, 2015 and ended April 30, 2015. Broadridge Financial Solutions started sending out TSP mail on May 1, 2015 (first day of full contract performance).

**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: 1514** (1001– 1875) – Low 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 (January – March 2015):**

- In March, Broadridge Financial Solutions acquired Direxxis, a provider of cloud-based marketing solutions and services for wealth and asset managers.

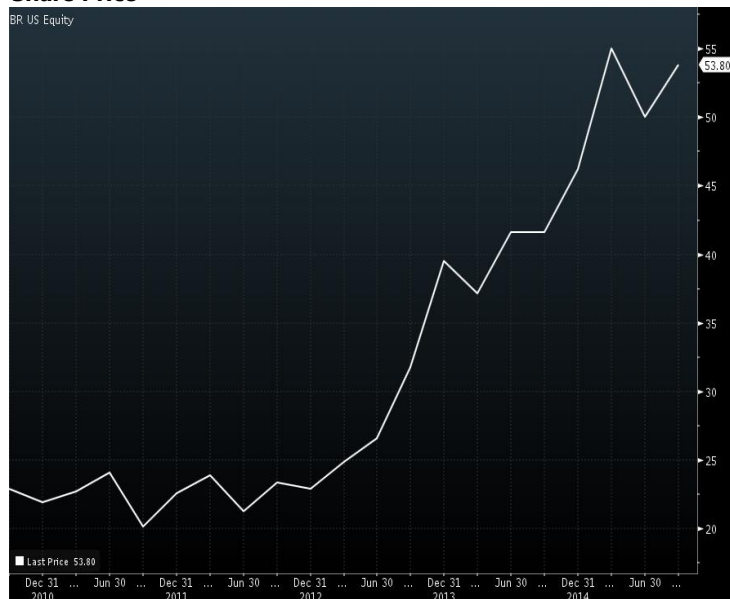
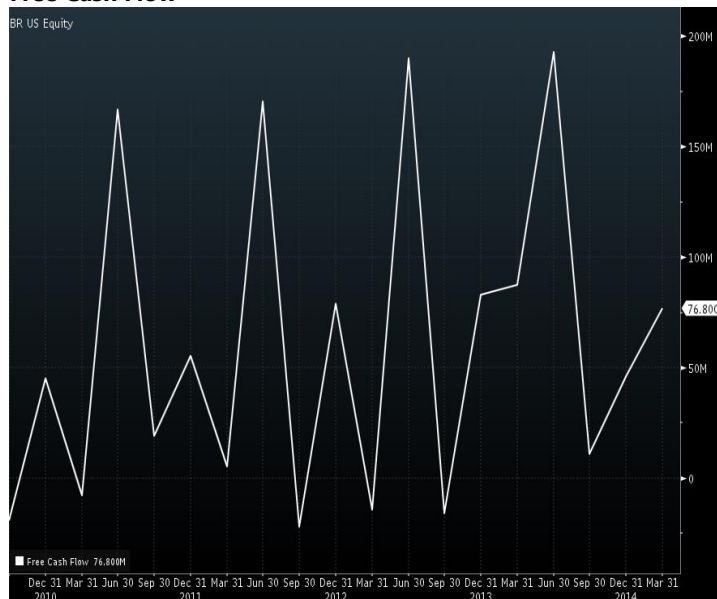
**Subsequent Events (after March 2015):**

- In April, Broadridge Financial Solutions completed its previously announced acquisition of the trade processing business of M&T Bank Corporation's Wilmington Trust Retirement and Institutional Services unit.
- In May, Broadridge Financial Solutions declared a quarterly cash dividend of \$0.27 per share of common stock, payable July 1, 2015.

**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.

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, and )	Q1 2014	Q1 2015	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	62.53	53.99	-13.7%	↓
Debt to Capital Ratio	38.47	35.06	-8.9%	↓
Interest Coverage Ratio	16.13	8.06	-50.00%	↓
Enterprise Value	\$4,121	\$5,169	25%	↑
<b>Liquidity</b>				
Cash Ratio	0.54	0.91	68%	↑
Current Ratio	1.94	2.13	9.7%	↑
Quick Ratio	1.64	1.90	-15.80%	↓
<b>Profitability</b>				
Revenue	\$545	\$556	2%	↑
EBITDA	\$97.20	\$75.30	-22.5%	↓
EBIT	\$74.20	\$50.00	-32.6%	↓
ROA	12.75	12.60	-1.2%	↓
ROE	30.27	27.76	-8.3%	↓
ROIC	18.23	17.85	-2%	↓
Operating Margin	13.61	9.00	-34%	↓
Profit Margin	8.14	5.85	-28%	↓
Revenue Growth	9.96	1.94	-81%	↓
EPS	0.37	0.27	-27%	↓

**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 (January – March 2015):**

- In January, Equinix Board of Directors approved Equinix's conversion to a real estate investment trust ("REIT"). Equinix believes that the REIT structure will help the company achieve its desired profitability along with growth in the domestic and international markets. Additionally, Equinix believes that this restructuring will not have any impact on the service delivery or the performance of the data center.

**Subsequent Events (after March 2015):**

- In May, Equinix acquired Telecity, UK firm that runs high-speed data centers for Spotify and Facebook.

**Risk Monitoring:**

- Risk of substantial increases in cost associated with REIT conversion (effective 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 5.47x but below median industry leverage ratio of 5.95x)* – Debt levels increased from previous year and EBITDA increased. The company's debt levels are a concern.

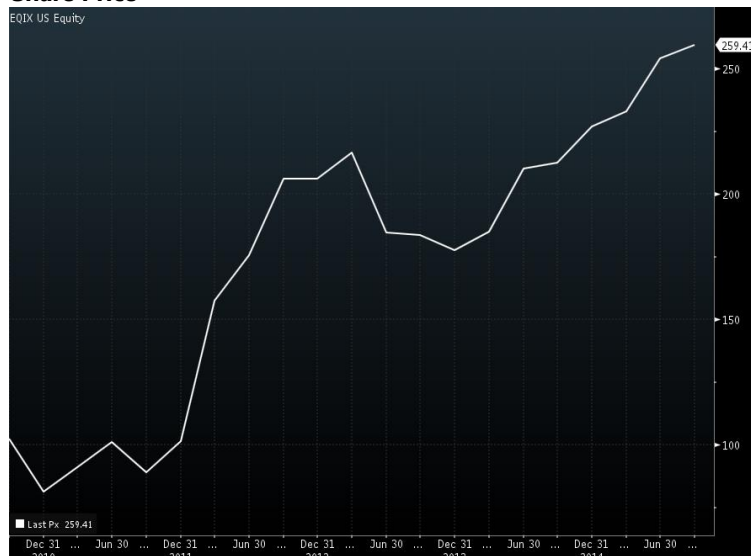
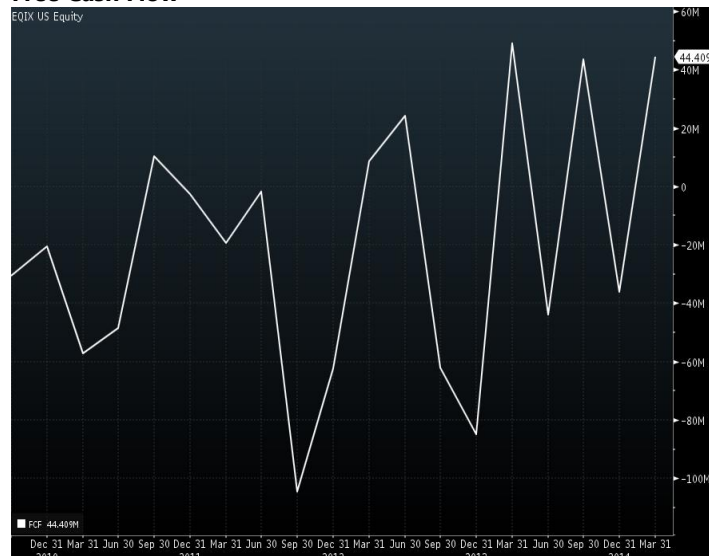
Given the current analysis of the vendor, we find no indication that Equinix is unable to fulfill its contractual obligations to FRTIB.

**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 )	Q1 2014	Q1 2015	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	161.85	215.88	33.4%	↑
Debt to Capital Ratio	61.81	68.34	10.6%	↑
Interest Coverage Ratio	1.68	2.10	24.9%	↑
Enterprise Value	\$12,721	\$16,757	32%	↑
<b>Liquidity</b>				
Cash Ratio	1.37	1.59	15.7%	↑
Current Ratio	1.82	2.16	18.4%	↑
Quick Ratio	1.73	2.01	15.8%	↑
<b>Profitability</b>				
Revenue	\$580	\$643	11%	↑
EBITDA	\$235.54	\$273.09	16%	↑
EBIT	\$121.61	\$151.45	24.5%	↑
ROA	1.35	-2.90	-315.9%	↓
ROE	7.22	8.43	16.8%	↑
ROIC	5.51	-8.53	-255%	↓
Operating Margin	20.97	23.55	12%	↑
Profit Margin	7.16	12.00	68%	↑
Revenue Growth	12.38	10.88	-12%	↓
EPS	0.83	1.35	63%	↑



**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: 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 (January – March 2015):**

- In January, MetLife filing seeks to overturn Financial Stability Oversight Council's (FSOC) designation of the company as a non-bank "Systemically Important Financial Institution" (SIFI).

**Subsequent Events (after March 2015):**

- In June, MetLife filing seeks FSOC disclosure of papers supporting "Systemically Important Financial Institution" (SIFI) designation.
- In July, MetLife declared third quarter 2015 dividend.

**Risk Monitoring:**

*Risk of increased regulatory and compliance costs* – On December 19, MetLife was designated a Systemically Important Financial Institution (SIFI) by the U.S. Treasury's Financial Stability Oversight Council (FSOC). Three other nonbank institutions (AIG, Prudential and General Electric Capital) have already been designated as systemically important financial institution or SIFIs. 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. 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.

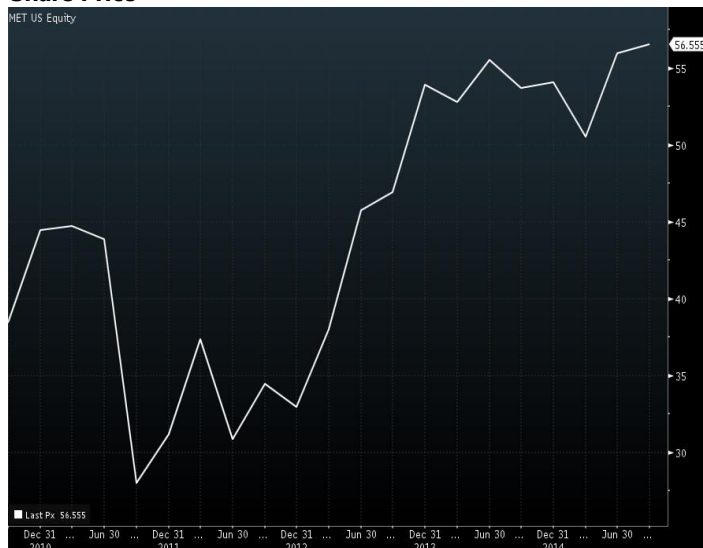
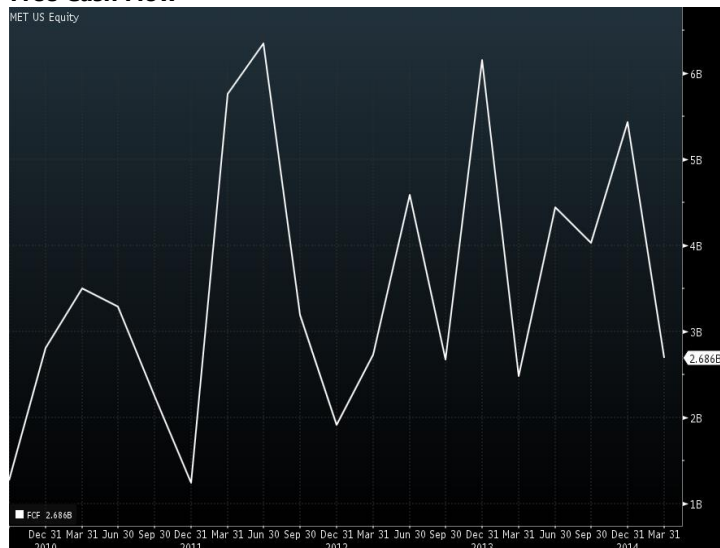
Given the current analysis of the vendor, we find no indication that MetLife is unable to fulfill its contractual obligations to FRTIB.

**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 )	Q1 2014	Q1 2015	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	36.55	33.90	-7.3%	↓
Debt to Capital Ratio	26.77	25.30	-5.5%	↓
Interest Coverage Ratio	-	-	-	-
Enterprise Value	\$77,982	\$76,393	-2%	↓
<b>Liquidity</b>				
Cash Ratio	-	-	-	-
Current Ratio	-	-	-	-
Quick Ratio	-	-	-	-
<b>Profitability</b>				
Revenue	\$17,085	\$18,710	10%	↑
EBITDA	-	-	-	-
EBIT	-	-	-	-
ROA	0.43	0.79	84.1%	↑
ROE	10	9.6	-4.7%	↓
ROIC	15.79	19.67	25%	↑
Operating Margin	12.51	17.94	43%	↑
Profit Margin	5.49	9.53	74%	↑
Revenue Growth	-3.38	9.51	381%	↑
EPS	1.15	1.89	64%	↑

**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 (January – March 2015):**

- In February, Serco was awarded \$185 million Saudi rail contract.

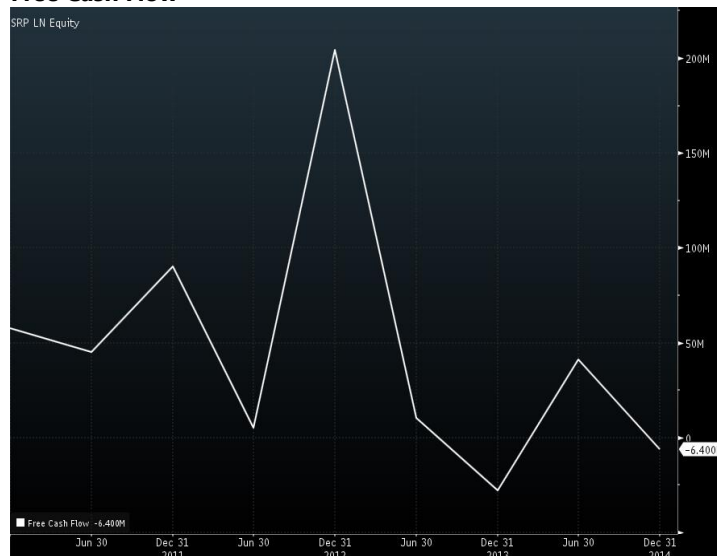
**Subsequent Events (after March 2015):**

- No significant events were noted.

**Risk Monitoring:**

- Risk of losses not supporting leverage (Debt/EBITDA is approximately -0.63x, the industry median leverage is 0.83x) – negative ratio could indicate company is recording a net loss before interest, taxes, and depreciation. Debt levels should be monitored carefully and raises credit concerns.*

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 )	S2 2013	S2 2014	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	79.96	-12.04	-115%	↓
Debt to Capital Ratio	44.43	108.74	145%	↑
Interest Coverage Ratio	16.88	-46.21	-374%	↓
Enterprise Value	\$3,244	\$1,528	-53%	↓
<b>Liquidity</b>				
Cash Ratio	0.16	0.17	6%	↑
Current Ratio	1.25	1.19	-5%	↓
Quick Ratio	0.43	0.30	-30%	↓
<b>Profitability</b>				
Revenue	\$2,170	\$1,937	-11%	↓
EBITDA	\$154	-\$673	-537%	↓
EBIT	\$107	-\$712	-763%	↓
ROA	3.46	-53.54	-1647%	↓
ROE	16.26	-	-	-
ROIC	9.93	-	-	-
Operating Margin	4.95	-36.74	-842%	↓
Profit Margin	2.3	-47.9	-2183%	↓
Revenue Growth	0.76	-10.76	-1516%	↓
EPS	0.03	-2.49	-106%	↓

**\*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: 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 (January – March 2015):

- In March, SunGard made first-of-its kind deal with Barclays. Barclays is handing over some of its post-trade processing and regulatory reporting obligations to SunGard.

### Subsequent Events (after March 2015):

- In May, SunGard announced that it is considering pursuing an initial public offering of common stock in 2015.

### 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, SunGard Availability Services' (AS) split-off, and the sale of certain non-strategic businesses. As of March 31, 2015: Cash balances were \$555 million and total debt was \$4.7 billion. The Company's leverage ratio, as defined in its senior secured credit agreement, was 5.04x. SunGard has ample ability to service its debt. 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)

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### 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, Inc. (privately held company acquired by Vista Equity Partners)

### Company Overview:

- 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.

### 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 (January – March 2015):

- No significant events were noted.

### Subsequent Events (after March 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.

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)**

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### **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.



**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: 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 (January – March 2015):**

- SAIC declared a regular quarterly cash dividend of \$0.28 per share payable on January 30, 2015.
- In February, SAIC was awarded \$62M Task Order by Navy's Space and Naval Warfare Systems Command (SPAWAR).
- In March, SAIC was awarded \$165 Million Supply Chain Management Contract by Defense Logistics Agency (DLA).
- In March, SAIC inked an agreement to buy Reston-based Scitor for \$790 million, marking its re-entry into the intelligence market and its first acquisition since its spin-off from namesake parent company in 2013.

**Subsequent Events (after March 2015):**

- In May, SAIC finished its \$790 million purchase of intelligence company Scitor.

**Risk Monitoring:**

- Risk of organizational conflicts of interest (OCI)* – It is speculated that spinning off SAIC may allow the company to more effectively pursue new and existing market opportunities without OCI constraints.

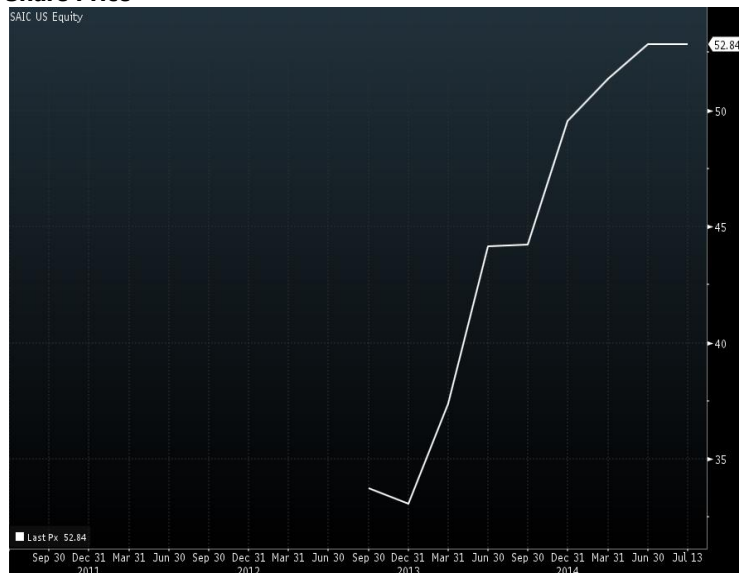
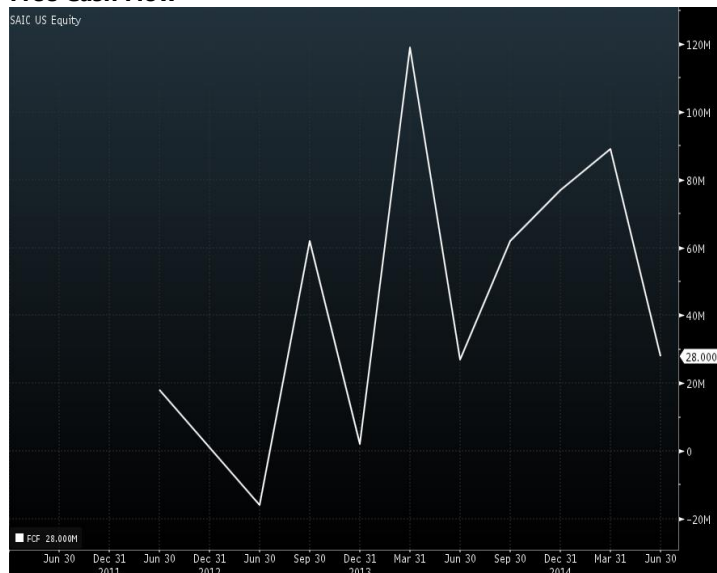
Given the current analysis of the vendor, we find no indication that SAIC is unable to fulfill its contractual obligations to FRTIB.

**Science Applications International Corp. (SAIC)**

Exchange: NYSE

Sector: Technology

Industry: Information

**Share Price****Free Cash Flow**

**Note:** This information is reported for fourth quarter ended January 30, 2015. Filing was completed on March 31, 2015 for Q4.

**Key Metrics Supporting Analysis**

(\$ In Millions, except ratios, yields, and )	Q1 2014	Q1 2015	% Change	Direction
<b>Solvency</b>				
Debt to Equity Ratio	-	134.2	-	-
Debt to Capital Ratio	0.46	57.3	12430.9	↑
Interest Coverage Ratio	-	11.8	-	-
Enterprise Value	-	\$2,113	-	-
<b>Liquidity</b>				
Cash Ratio	0.0016	0.46	28650%	↑
Current Ratio	1.39	1.81	30%	↑
Quick Ratio	1.22	1.62	32%	↑
<b>Profitability</b>				
Revenue	\$1,139	\$977	-14%	↓
EBITDA	\$55	\$64	16%	↑
EBIT	\$52	\$59	13%	↑
ROA	-	8.54	-	-
ROE	-	27.51	-	-
ROIC	-	-	-	-
Operating Margin	4.57	6.04	32%	↑
Profit Margin	3.81	3.48	-9%	↓
Revenue Growth	-3.64	-14.22	-291%	↓
EPS	0.69	0.71	3%	↑

## 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 Pittsburgh, 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 (January – March 2015):

- No significant events were noted.

### Subsequent Events (after March 2015):

- No significant events were noted.

### 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)

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### 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

<b>Cash Ratio:</b> A liquidity ratio that measures a company's ability to pay short-term obligations.	<b>Operating margin:</b> A measurement the proportion of revenue left over after paying the variable costs of production. It is an important indicator of efficiency and profitability
<b>Current Ratio:</b> A liquidity ratio that measures a company's ability to pay short-term obligations.	<b>Profit Margin:</b> 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.
<b>Debt/Capital:</b> 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.	<b>Quick Ratio:</b> A solvency metric to determine a firm's ability to pay down current liabilities with its cash, short term equivalents, and accounts receivables.
<b>Debt/Equity:</b> 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.	<b>Return on Asset (ROA):</b> 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.
<b>Earnings per share (EPS):</b> 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.	<b>Return on Equity:</b> A measurement a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.
<b>EBIT:</b> 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."	<b>Return on Invested Capital (ROIC):</b> A calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.
<b>EBITDA:</b> 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.	<b>Revenue:</b> 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.
<b>Enterprise Value:</b> 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).	<b>Revenue Growth:</b> 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.
<b>Interest Coverage Ratio:</b> 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.	