Federal Retirement
Thrift Investment Board

QUARTERLY VENDOR FINANCIAL ASSESSMENT

Board Presentation: October 28, 2013

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, multinational investment manager to institutional, intermediary, and individual investors. BlackRock manages accounts, separate client-focused portfolios, mutual and offshore funds, ETFs, unit trusts, and alternatives, and provides risk management and advisory services. On behalf of its clients, BlackRock invests in global markets and companies. BlackRock's market capitalization is $43.2B and has $3.9T in assets under management (AUM).
- 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) acts as custodian for all assets held in its funds, and has appointed State Street Corporation as its custodial agent to hold such assets.

Strengths

- Proven ability to leverage scale: Increases of 34% in adjusted EPS and 2.1% in operating margin, quarter over quarter for Q2 FY 2013
- World's largest asset manager: Higher AUM contributes to higher base fees; Long-term AUM of $3.6T and long-term base fees of $2.1B for Q2 FY 2013

Challenges

- Current market volatility: Seeking broader diversity of business as well as stable and significant cash flows in times of

Key Events (past 6 months)

- On May 12, BlackRock announced it would acquire MGPA, an independently-managed private equity real estate investment advisory company in Asia-Pacific and Europe.
- On April 17, BlackRock issued FY 2013 revenue guidance below analysts' estimates.
- On March 18, BlackRock laid off nearly 300 employees.
- On January 16 and May 30, BlackRock declared a quarterly cash dividend.

Credit Ratings

- **Moody's: A1** (Aaa–C) – Investment grade – Judged to be upper-medium grade and subject to low credit, and has best ability to repay short-term debt
- **S&P: A+** (AAA–D) – Investment grade – Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
- **Fitch: NR** (AAA–D) – N/A
- **D&B: 486** (101–670) – Moderate risk – Likelihood that a company 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

Key Catalysts (next 6 months)

- BlackRock completes acquisition of Credit Suisse Group AG's ETF business.
- Blackrock declares a quarterly cash dividend on July 25.

Company-level Risks and Mitigation

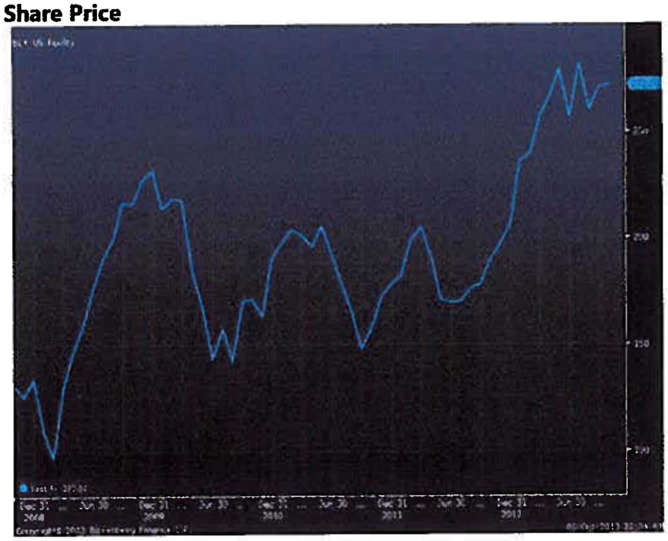
- *Risk of increased regulatory and compliance costs, including potential designation as a Systemically Important Financial Institution (SIFI) by the U.S. Treasury's Financial Stability Oversight Council (FSOC)* – BlackRock does not view itself as a SIFI for the following reasons: Not significantly levered, no wholesale funding, does not sell insured products to the retail market, balance sheet not reliant on government bailout, and does not deposits. No determination has been made by Treasury.
- *Risk of decline in the defined benefits marketplace (66% of BlackRock's AUM and base fees)* – BlackRock is focusing on specific specialized institutional client segment, leveraging existing client relationships by cross-selling services and products, and building and leading the industry in outcome oriented solutions to its clients.

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

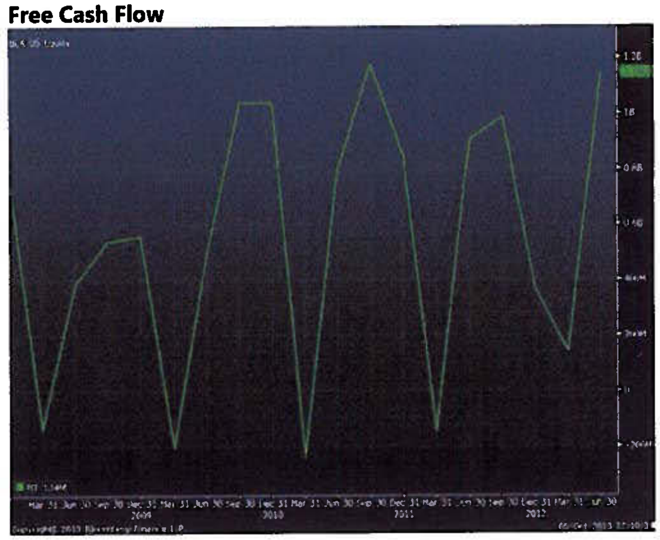
BlackRock, Inc. (BLK)

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

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and estimates)	Q2 2012	Q2 2013	% Change	Direction	Q3 2013 (Est.)	Q4 2013 (Est.)
Solvency						
Debt to Equity Ratio	31.0	27.5	-11%	↓	-	-
Debt to Capital Ratio	23.7	21.6	-9%	↓	-	-
Interest Coverage Ratio	15.2	17.3	14%	↑	-	-
Dividend Yield	3.4	2.5	-27%	↓	-	-
Forward Dividend Yield	3.6	2.7	-25%	↓	2.6	2.6
Enterprise Value	$32,764	$46,770	43%	↑	-	-
Liquidity						
Cash Ratio	1.8	1.7	-6%	↓	-	-
Current Ratio	2.9	2.7	-7%	↓	-	-
Activity						
Receivables Outstanding	$2,084	$2,249	8%	↑	-	-
Payables Outstanding	$1,029	$1,271	24%	↑	-	-
Profitability						
EBITDA	$901	$921	2%	↑	-	-
EBIT	$829	$849	2%	↑	-	-
Return on Capital Ratio	7.2	8.2	14%	↑	-	-
Revenue	$2,229	$2,482	11%	↑	$2,470	$2,659
Revenue Growth Estimate	-5.0	11.4	328%	↑	6.5	4.7
5Yr Revenue Growth Estimate	15.2	12.3	-19%	↓	-	-
EPS Growth Estimate	-4.0	36.4	1,010%	↑	-	-

Equinix, Inc. (EQIX)

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

Company Overview

- Equinix, Inc. (Equinix) combines international business exchanges (IBX) data centers, a global footprint, and ecosystems to protect and connect the information assets for enterprises, financial services companies, and content and network providers in 31 markets across 15 countries in the Americas, Europe-Middle East-Africa (EMEA), and the Asia Pacific. Equinix's market capitalization is $9.1B.
- Equinix hosts data center services for FRTIB. FRTIB's primary data center operates out of Northern Virginia. In 2012, Equinix sold 16 U.S. data centers to 365 Main, Inc. for $75M. Equinix remains contractually obligated to oversee data center services for the FRTIB at this site through the second option year, which ends in September 30, 2015.

Strengths

- Tax advantages by REIT conversion: Expected to save Equinix between $55M and $130M a year on taxes
- Differentiation in global markets: Successful integration of Ancotel acquisition serves as differentiator in Europe

Challenges

- Current reductions in average deal sizes, lacking sales force execution on "legacy" business, and longer sales cycle in the enterprise segment

Key Events (past 6 months)

- On July 24, Equinix issued Q3 2013 guidance below analysts' estimates, lowered FY 2013 guidance (included in Q2 reporting)
- On June 5, Equinix reaffirmed FY 2013 guidance.
- On February 28, Equinix proposed $1B public offering of senior notes.

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
- **Fitch: NR** (AAA–D) – N/A
- **D&B: 465** (101–670) – Moderate high risk – Likelihood that a company 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

Key Catalysts (next 6 months)

- In the Americas: Equinix plans to build IBX data centers in Rio de Janeiro (Q3 2013) and in Silicon Valley (Q4 2013).
- In the EMEA: Equinix plans to build IBX data centers following 2012's Ancotel acquisition (Q3 2013) and in London (Q4 2013).
- In Asia-Pacific: Equinix announces plans to expand its IBX data center in Tokyo (Q3 2013) and in Singapore (Q4 2013).

Company-level Risks and Mitigation

- *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 REIT conversion, and diligently working to define their adjusted funds from operations (AFFO), used to estimate the value of a REIT, and will provide this calculation upon receiving approval from the IRS.
- *Risk of continuing to operate in a volatile currency environment* – Equinix issued Q3 2013 guidance below analysts' estimates and lowered FY 2013 guidance, but is building into the forecast an additional $11M in negative impact from currency fluctuations.

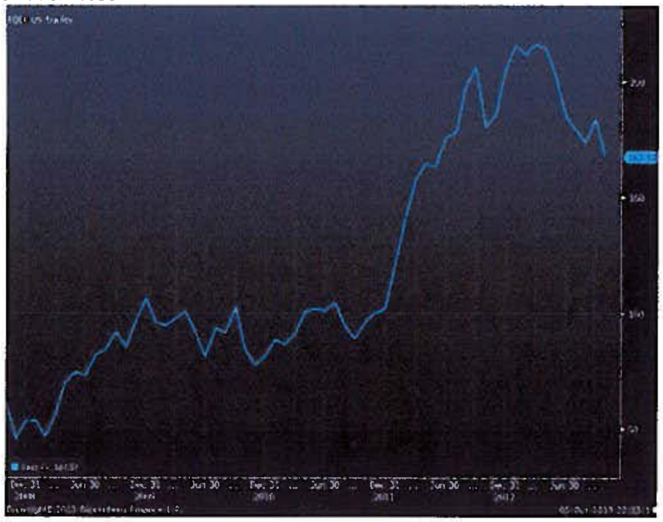
Given the current analysis of the vendor, we find no indication that Equinix is unable to fulfill its contractual obligations to FRTIB.

Sources: Company filings, Yahoo! Finance, Morningstar, Financial Times, Dun & Bradstreet ratings, and Bloomberg data estimates

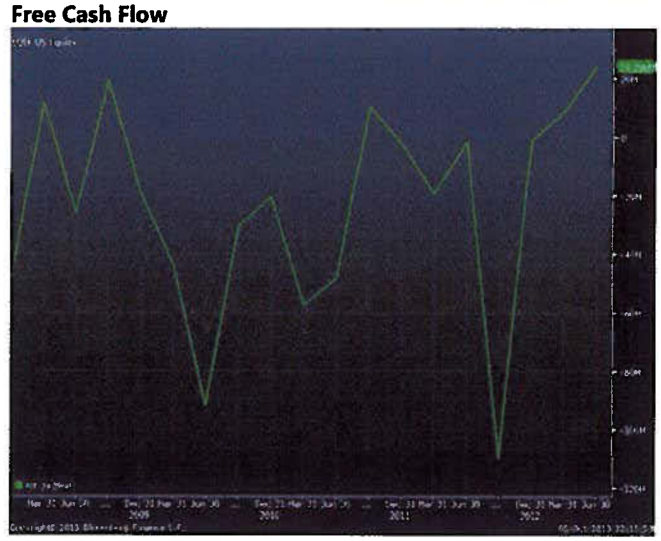
Equinix, Inc. (EQIX)

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

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and estimates)	Q2 2012	Q2 2013	% Change	Direction	Q3 2013 (Est.)	Q4 2013 (Est.)
Solvency						
Debt to Equity Ratio	135.0	163.7	21%	↑	-	-
Debt to Capital Ratio	57.4	62.1	8%	↑	-	-
Interest Coverage Ratio	1.2	-0.6	-150%	↓	-	-
Dividend Yield	-	-	-	-	-	-
Forward Dividend Yield	0.8	-0.6	-175%	↓	-0.3	-
Enterprise Value	$10,663	$12,326	16%	↑	-	-
Liquidity						
Cash Ratio	1.3	0.9	-31%	↓	-	-
Current Ratio	2.1	1.8	-14%	↓	-	-
Activity						
Receivables Outstanding	$170	$201	18%	↑	-	-
Payables Outstanding	$225	$258	15%	↑	-	-
Profitability						
EBITDA	$199	$219	10%	↑	-	-
EBIT	$104	$110	6%	↑	-	-
Return on Capital Ratio	5.3	4.2	-21%	↓	-	-
Revenue	$457	$526	15%	↑	$540	$556
Revenue Growth Estimate	15.8	15.0	-5%	↓	10.4	9.8
5Yr Revenue Growth Estimate	39.9	25.4	-36%	↓	-	-
EPS Growth Estimate	15.4	-	-	-	-	-

Sources: Company filings, Yahoo! Finance, Morningstar, Financial Times, Dun & Bradstreet ratings, and Bloomberg data estimates

MetLife, Inc. (MET)

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

Company Overview

- MetLife, Inc. (MetLife) is among the largest global provider of insurance, annuities, and employee benefit programs, with 90 million customers in over 50 countries. Through its subsidiaries and affiliates, MetLife operates in the United States, Japan, Latin America, Asia Pacific, Europe, and the Middle East. MetLife's market capitalization is $52.3B.
- 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.

Strengths

- ➢ Strong financials and fundamentals among insurers: Solid balance sheet and capital position, franchise and business diversification, and sizable investment portfolio

Challenges

- ➢ Lowering their risk profile
- ➢ Improving operating ROE by focusing on areas for growth
- ➢ Focusing on free cash generation to return to shareholders

Key Events (past 6 months)

- On June 5, Metlife reaffirmed FY 2013 EPS guidance.
- On May 21, Metlife announced merging of its offshore reinsurance unit with 3 U.S. subsidiaries.
- On May 9, Manulife Financial Corp. and Metlife said to bid for AMMD Holdings Bhd life insurance unit.
- On April 23, Metlife declared 2Q 2013 common stock dividend.
- On February 5, Moody's Investor Service affirmed senior debt credit rating on Metlife.
- On February 1, Metlife announced acquisition of BBVA's Chilean pension business for approximately $2 Billion.
- On January 29, Metlife in talks to buy Banco Bilbao Vizcaya Argentaria S.A. (BBVA)'s Chilean pension unit.
- On January 6, Metlife and other banks to pay $8.5 billion to end foreclosure reviews.

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
- **Fitch: A** (AAA–D) – Investment grade – Expectations of low default risk; Capacity for payment of financial commitments is considered strong, but may be more vulnerable to adverse business or economic conditions
- **D&B: 562** (101–670) – Low risk – Likelihood that a company 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

Key Catalysts (next 6 months)

- MetLife to exceed top end of prior FY 2013 EPS guidance (August 1st)
- AMMD Holdings Bhd's looking to sell 51% in life insurance unit; Sees Metlife, Manulife Financial Corp., and ACE Group as probably buyers (September 18th)
- Metlife and the Bank for Investment & Development in Vietnam (BIDV) sign joint venture agreement to form a life insurance company (September 26th)

Company-level Risks and Mitigation

- *Risk of increased regulatory and compliance costs, including potential designation as a Systemically Important Financial Institution (SIFI) by the U.S. Treasury's Financial Stability Oversight Council (FSOC)* – On July 18, MetLife was identified as a Globally Systemically Important Insurer (GSII) by the international Financial Stability Board. Being named a GSII has no legal effect unless identified as a SIFI, and would be subjected to enhanced supervision and prudential rules. MetLife is in Stage 3, the final stage, of the SIFI determination process.
- *Risk that variable annuity risk is undermanaged* – MetLife is merging offshore captive reinsurer into a U.S. regulated entity to increase transparency, and shifting from higher risk variable annuity products to lower risk products.

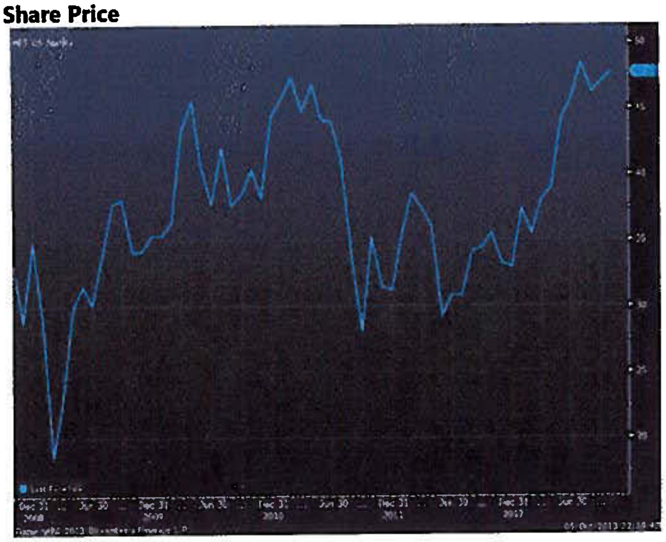
Given the current analysis of the vendor, we find no indication that MetLife is unable to fulfill its contractual obligations to FRTIB.

Sources: Company filings, Yahoo! Finance, Morningstar, Financial Times, Dun & Bradstreet ratings, and Bloomberg data estimates

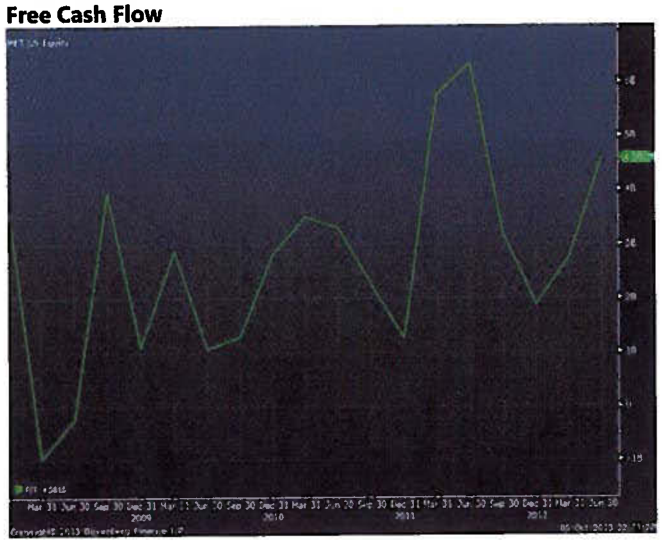
MetLife, Inc. (MET)

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

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and estimates)	Q2 2012	Q2 2013	% Change	Direction	Q3 2013 (Est.)	Q4 2013 (Est.)
Solvency						
Debt to Equity Ratio	42.0	43.1	3%	⇧	-	-
Debt to Capital Ratio	29.6	30.1	2%	⇧	-	-
Interest Coverage Ratio	9.2	1.8	-80%	⇩	-	-
Dividend Yield	2.4	2.6	8%	⇧	2.5	2.5
Forward Dividend Yield	3.3	2.5	-24%	⇩	2.5	-
Enterprise Value	$45,620	$69,698	53%	⇧	-	-
Liquidity						
Cash Ratio	-	-	-	-	-	-
Current Ratio	-	1.5	-	-	-	-
Activity						
Receivables Outstanding	$23,974	$23,283	-3%	⇩	-	-
Payables Outstanding	$40,302	$33,247	-18%	⇩	-	-
Profitability						
EBITDA	-	-	-	-	-	-
EBIT	$3,680	$882	-76%	⇩	-	-
Return on Capital Ratio	8.5	-	-	-	-	-
Revenue	$18,398	$15,721	-15%	⇩	$17,023	$17,369
Revenue Growth Estimate	7.3	-14.6	-300%	⇩	3.2	0.2
5Yr Revenue Growth Estimate	6.8	5.5	-19%	⇩	-	-
EPS Growth Estimate	117.4	-79.8	-168%	⇩	-	-

Sources: Company filings, Yahoo! Finance, Morningstar, Financial Times, Dun & Bradstreet ratings, 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, and operates in the printing industry, managed as one integrated platform, with logistics, pre-media, print management and print related services. RR Donnelly's market capitalization is $2.5B.
- RR Donnelley provides bulk printing and mailing services for FRTIB out of Thurmont, MD. These services include printing and mailing FRTIB documents, education, and marketing materials to participants, beneficiaries, and third parties.

Strengths

- Blue chip relationships: Serves 100% of Fortune 100 companies, 97% of Fortune 500, and 95% of Fortune 1000
- Leading industry by scale: Largest U.S. printer in highly fragmented market with platform flexibility
- Adaptive to change: Transition from niche commercial printer to global integrated communications provider
- Stable through economic cycles: Strong free cash flow generation and growth rate exceeds broader print market

Challenges

- Successfully integrating latest series of acquisitions, and achieving cost and revenue synergies
- Leveraging product breadth to increase customer penetration and generate organic growth

Key Events (past 6 months)

- On May 28, RR Donnelley awarded multi-year multi-million dollar agreement by Williams-Sonoma, Inc.
- On February 26, RR Donnelley issues FY 2013 revenue guidance above analysts' estimates.

Credit Ratings

- **Moody's: Ba2** (Aaa–C) – Negative – Judged to have speculative elements and a significant credit risk
- **S&P: BB** (AAA–D) – Negative – An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to obligor's inadequate capacity to meet its financial commitments
- **Fitch: NR** (AAA–D) – N/A
- **D&B: 518** (101–670) – Moderate risk – Likelihood that a company 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

Key Catalysts (next 6 months)

- RR Donnelley awarded U.S. patent for system and method for rendering data (July 10th).
- RR Donnelley reiterates FY 2013 revenue guidance (September 12th).

Company-level Risks and Mitigation

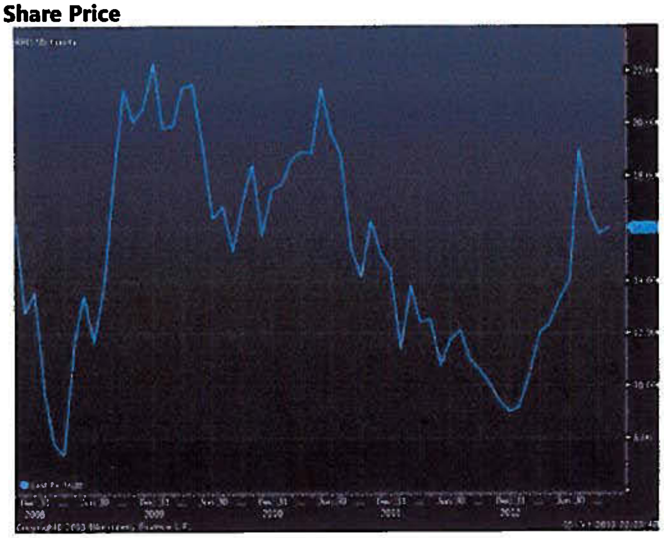
- *Risk of not successfully integrating series of latest acquisitions* – RR Donnelley is continuing to show improvement in days sales outstanding (DSO) on working capital, and states it has a very good management team integrating acquisitions and harmonizing the process. In addition, revenues sequentially increased 1.7% due, in part, to last year's acquisitions.
- *Risk of excessive leverage (Debt/EBITDA is approximately 20x industry average)* – RR Donnelley recently closed a $400 million debt offering to fund tender offers and to repay borrowings under its revolving credit facility. As indicated in their Q2 2013 guidance, management anticipates lowering their leverage for FY 2013 by year end.

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

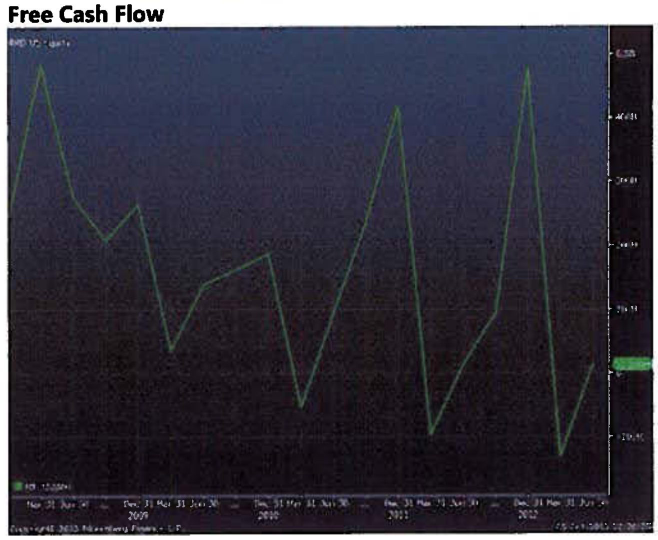
R.R. Donnelley & Sons Co. (RRD)

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

Share Price



Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and estimates)	Q2 2012	Q2 2013	% Change	Direction	Q3 2013 (Est.)	Q4 2013 (Est.)
Solvency						
Debt to Equity Ratio	348.4	6,379.9	1,731%	↑	-	-
Debt to Capital Ratio	77.7	98.5	27%	↑	-	-
Interest Coverage Ratio	1.5	1.6	7%	↑	-	-
Dividend Yield	8.8	7.4	-16%	↓	-	-
Forward Dividend Yield	0.1	-	-	-	-	-
Enterprise Value	$5,535	$5,721	3%	↑	-	-
Liquidity						
Cash Ratio	0.2	0.2	0%	NC	-	-
Current Ratio	1.5	1.5	0%	NC	-	-
Activity						
Receivables Outstanding	$1,971	$1,805	-8%	↓	-	-
Payables Outstanding	$947	$961	2%	↑	-	-
Profitability						
EBITDA	$319	$304	-5%	↓	-	-
EBIT	$198	$193	-3%	↓	-	-
Return on Capital Ratio	-	-	-	-	-	-
Revenue	$2,529	$2,572	2%	↑	$2,533	$2,649
Revenue Growth	-3.6	1.7	147%	↑	1.0	-0.4
5Yr Revenue Growth Estimate	-	-	-	-	-	-
EPS Growth Estimate	716.7	-26.5	-104%	↓	-	-

Sources: Company filings, Yahoo! Finance, Morningstar, Financial Times, Dun & Bradstreet ratings, and Bloomberg data estimates

Serco Group Plc (SRP.L)

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

Company Overview

- Serco Group Plc, (Serco) is a business services company based in the U.K., with North American headquarters in Reston, VA, and provides professional, technology, and management services focused on U.S. federal and Canadian governments and municipal governments. Serco's market capitalization is $3.1B.
- Serco provides a range of services in support of FRTIB, including: operation of the Clintwood, VA call center; administration of the court ordered payments, death benefits, and payroll office liaison functions; and, through its subcontractor, SunGard, incoming mail, data entry, and imaging support. Through September 30, 2013, Serco provided IT recordkeeping and data center infrastructure and operation services to FRTIB. The current provider of these services is the Science Applications Information Corp. (SAIC). The phase-out period began October 1, 2013 and will end March 31, 2014.

<u>Strengths</u>

- Organic revenue growth: Overall global growth in revenues (8.8%) delivers strong financial results, particularly larger revenues (19%) in the Middle East, Africa, Asia Pacific, and Australia markets

<u>Challenges</u>

- Corporate renewal program implementation
- Ongoing reviews by central governments

Key Events (past 6 months)

- On June 28, Serco and Plenary Group reach financial close on Ontario's driver examination services contract.
- On May 16, Serco is awarded the new $355M Virginia traffic management contract.

Credit Ratings

- **Moody's: NR** (Aaa–C) – N/A
- **S&P: NR** (AAA–D) – N/A
- **Fitch: NR** (AAA–D) – N/A
- **D&B: 530** (101–670) – Moderate low risk – Likelihood that a company 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

Key Catalysts (next 6 months)

- Serco awarded $1.2B Center for Medicare and Medicaid contract supporting health benefit exchanges (July 11th).
- Further progress on contract awards and strategic position (Q2 2013), including new wins in the U.S. and many small and medium-sized wins, highlight further diversification in the Americas division. Serco is selected and signed for new business valued at £2.1B.

Company-level Risks and Mitigation

- *Risk of reputational damage* –Since July 15th, Serco is under investigation in the U.K. for overbilling the government, by tens of millions of pounds, under a contract to monitor offenders on parole and individuals released on bail. On September 13, Ireland's National Asset Management Agency cancelled Serco's contract over allegations Serco committed fraud on two U.K. Ministry of Justice contracts. Serco is fully cooperating with central government customers on their ongoing reviews. In addition, Serco is undertaking an internal review.

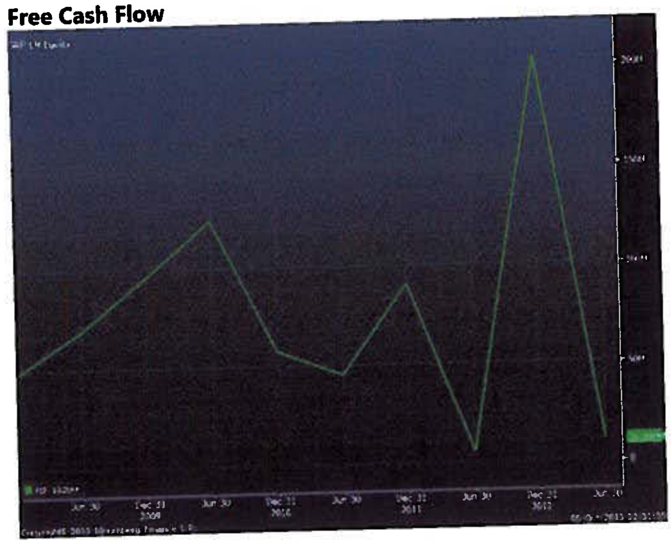
Given the current analysis of the vendor, we find no indication that Serco is unable to fulfill its contractual obligations to FRTIB.

Serco Group Plc (SRP.L)

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

Share Price

Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and estimates)	*S1 2012	*S1 2013	% Change	Direction	*S2 2013 (Est.)	*S1 2014 (Est.)
Solvency						
Debt to Equity Ratio	83.1	83.9	1%	⇧	-	-
Debt to Capital Ratio	45.4	45.6	0.4%	⇧	-	-
Interest Coverage Ratio	-	-	-	-	-	-
Dividend Yield	1.6	1.7	6%	⇧	-	-
Forward Dividend Yield	0.2	0.3	50%	⇧	-	-
Enterprise Value	$3,364	$3,835	14%	⇧	-	-
Liquidity						
Cash Ratio	-	-	-	-	-	-
Current Ratio	-	-	-	-	-	-
Activity						
Receivables Outstanding	-	-	-	-	-	-
Payables Outstanding	-	-	-	-	-	-
Profitability						
EBITDA	$117	$148	27%	⇧	-	-
EBIT	$73	$102	40%	⇧	-	-
Return on Capital Ratio	13.5	13.5	0%	NC	-	-
Revenue	$1,906	$2,113	11%	⇧	$2,590	-
Revenue Growth Estimate	-15.2	10.9	172%	⇧	0.7	-
5Yr Revenue Growth Estimate	8.2	8.3	1%	⇧	-	-
EPS Growth Estimate	15.5	-11.2	-172%	⇩	-	-

* Serco reports semi-annually.

Sources: Company filings, Yahoo! Finance, Morningstar, Financial Times, Dun & Bradstreet ratings, and Bloomberg data estimates

SunGard (privately held company)

Company Overview

- SunGard Availability Services (SunGard) is a privately held multinational company based in Wayne, Pennsylvania, which provides software and technology services to education, financial services, and public sector organizations in more than 70 countries. SunGard provides disaster recovery services, managed IT services, information availability consulting services and business continuity management software. SunGard has approximately $5.0B in revenues and 17,000 employees, and made the U.S. Fortune 500 list in 2012.
- FRTIB contracts directly with SunGard for their suite of Omni software products that form the core of the FRTIB recordkeeping system. SunGard's Professional Services unit operated as a key subcontractor to Serco, FRTIB's prime contractor for (1) software development and maintenance including recordkeeping software, and (2) incoming mail, data entry, and imaging support.

<u>Strengths</u>

- ➢ Differentiation by high revenues: Annual revenues of over $4B, driven by acquisitions and internal growth.

<u>Challenges</u>

- ➢ Cost cutting/spending by financial services companies.
- ➢ Public and private sector budget restraints, which might impact the purchasing of new software services and software upgrades.

Key Events (past 6 months)

- On March 11, SunGard selected J.P. Morgan Clearing Corp. to add access to centralized custody and settlement capabilities for short-term cash management.
- On January 7, SunGard acquired XcitekSolutionsPlus, LLC (the terms of the acquisition have not been disclosed).

Credit Ratings

- **Moody's: NR** (Aaa–C) – N/A
- **S&P: NR** (AAA–D) – N/A
- **Fitch: NR** (AAA–D) – N/A
- **D&B: 511** (101–670) – Moderate risk – Likelihood that a company 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 monthslikelihood of paying bills severely delinquent, obtaining legal relief, or ceasing operations

Key Catalysts (next 6 months)

- SunGard's Availability Services segment records strong first-half growth in new customers (August 27th).

Company-level Risks and Mitigation

- *Risk of the remaining, largest segment (Financial Systems segment) will not be profitable enough after the sale of its Availability Services segment* – As of September 7, SunGard is in talks to sell its data unit to Apax. SunGard revenues sequentially decreased 4% due mainly to a decrease in Financial Systems software license revenue, and to a lesser degree, a decrease in professional services revenue and managed services revenue in the Financial Systems segment. Recovery for this segment will partially depend on inorganic growth through current and future acquisitions, which will help to diversify the company's service offerings. Also, the recovery for this segment will partially depend on confidence to spend by major financial services clients who were affected by the financial crisis of 2008.

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, Yahoo! Finance, Morningstar, Financial Times, Dun & Bradstreet ratings, 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, Inc. (ACTV)

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

Company Overview

- The Active Network, Inc. (Active Network), headquartered in San Diego, CA, is a provider of organization-based cloud computing applications serving a range of customer groups, including business solutions, community activities, outdoors, and sports. On September 30th, Active Network announced the sale of all shares to Vista Equity Partners, which will convert Active Network to a privately held company. Active Network's market capitalization is $0.5B.
- Active Network, and predecessor organizations, manages FRTIB's Frostburg, MD call center, and have done so since July 2004.

Strengths

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

Challenges

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

Key Events (past 6 months)

- On April 11, Ironman and Active Network expanded relationship globally across all brands.
- On February 12, Active Network entered ticketing space with WannaDo, and on June 12, sued for trademark infringement.
- On January 8, Active Network announced strategic alliance with Run Ireland.

Credit Ratings

- **Moody's: NR** (Aaa–C) – N/A
- **S&P: NR** (AAA–D) – N/A
- **Fitch: NR** (AAA–D) – N/A
- **D&B: 441** (101–670) – High risk – Likelihood that a company 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

Key Catalysts (next 6 months)

- Active Network and RaceHQ announce strategic partnership to support software solutions that help race directors build and deliver great events (July 7th).

Company-level Risks and Mitigation

- *Risk of investors will not regain confidence in the company due to recent management change and track record of not meeting guidance* – Active Network formed a strategic transactions committee to consider and evaluate strategic alternatives, including sale of the company. With the sale of Active Network to Vista Equity Partners, this represents a positive event for shareholders and allows the company to execute on its strategy, further enhancing industry leadership.

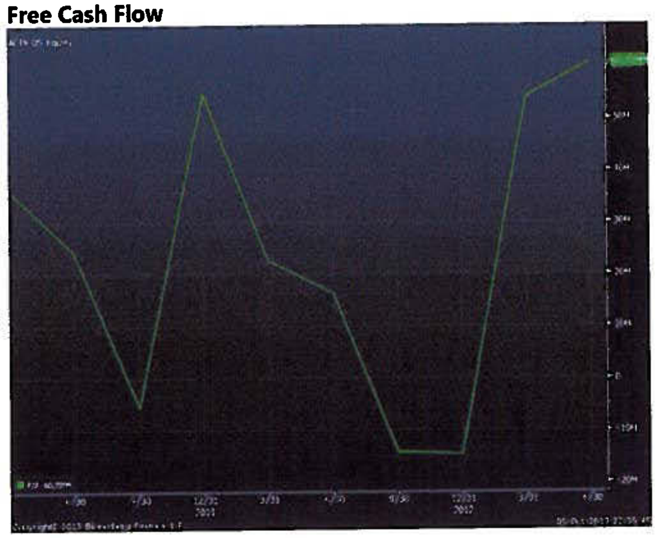
Given the current analysis of the vendor, we find no indication that Active Network is unable to fulfill its contractual obligations to FRTIB.

The Active Network, Inc. (ACTV)

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

Share Price

Free Cash Flow



Key Metrics Supporting Analysis

($ In Millions, except ratios, yields, and estimates)	Q2 2012	Q2 2013	% Change	Direction	Q3 2013 (Est.)	Q4 2013 (Est.)
Solvency						
Debt to Equity Ratio	3.6	1.3	-64%	↓	-	-
Debt to Capital Ratio	3.5	1.3	-63%	↓	-	-
Interest Coverage Ratio	1.6	-21.9	-1,469%	↓	-	-
Dividend Yield	0.0	0.0	0%	NC	-	-
Forward Dividend Yield	-	-	-	-	-	-
Enterprise Value	$814	$367	-55%	↓	-	-
Liquidity						
Cash Ratio	0.5	0.4	-20%	↓	-	-
Current Ratio	0.83	0.84	1%	↑	-	-
Activity						
Receivables Outstanding	$81	$53	-35.%	↓	-	-
Payables Outstanding	$6.9	$6.4	-7%	↓	-	-
Profitability						
EBITDA	$16	$28	75%	↑	-	-
EBIT	$0.7	-$2.7	-486%	↓	-	-
Return on Capital Ratio	-	-	-	-	-	-
Revenue	$122	$132	8%	↑	$115	$102
Revenue Growth	22.8	8.9	-61%	↓	5.3	8.4
5Yr Revenue Growth Estimate	-	-	-	-	-	-
EPS Growth Estimate	-	-75.0	-	-	-	-

Sources: Company filings, Yahoo! Finance, Morningstar, Financial Times, Dun & Bradstreet ratings, and Bloomberg data estimates

Science Applications International Corp. (SAIC)

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

Company Overview

- Science Applications International Corp. (SAIC), formerly SAIC Gemini, Inc., is a scientific, engineering, and technology applications company, serving U.S. and foreign governments, and selected commercial customers. On September 27, 2013, SAIC Gemini, Inc. spun-off their enterprise IT and technical & engineering service businesses under the new SAIC, while the national security, health, and engineering service businesses was renamed to Leidos. SAIC's market capitalization is $1.6B.
- FRTIB awarded its Technology and Enterprise Support Services (TESS) contract to SAIC on August 9, 2013. SAIC replaces two individual contracts with Serco, one for IT recordkeeping and the other for data center and operations. The phase-in period will begin October 1, 2013, and contract performance will begin February 1, 2014.

Strengths

- Balanced distribution of revenue sources, more than 1500 contracts and task orders, and a prime contractor on 91% of its contracts
- Potential for SAIC to access $25B in new market opportunities, for a total market of $185B in government contracts

Challenges

- Following the recent spin-off, SAIC will be tested to maintain its current customer base and to drive organic growth by cross-selling and growing in new markets

Key Events (past 6 months)

- N/A – Due to the recent company split

Credit Ratings

- **Moody's: NR** (Aaa–C) – N/A
- **S&P: NR** (AAA–D) – N/A
- **Fitch: NR** (AAA–D) – N/A
- **D&B: 548** (101–670) – Moderate low risk – Likelihood that a company 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

Key Catalysts (next 6 months)

- Business plans for Leidos and SAIC take shape as split is set (September 27th)
- SAIC initiates quarterly cash dividend and authorizes share repurchase program (October 3rd)

Company-level Risks and Mitigation

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

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

Sources: Company filings, Yahoo! Finance, Morningstar, Financial Times, Dun & Bradstreet ratings, and Bloomberg data estimates

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

Key Metrics Supporting Analysis:

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

365 Main, Inc. (privately held company)

Company Overview

- 365 Main, Inc. (365 Main), a privately held company based in San Francisco, CA, is a nationwide owner and operator of 17 U.S.-based data centers, and provides continuity of mission-critical operations for retail customers. 365 Main's financial partners include: Housatonic Partners, a private equity firm, Crosslink Capital, a venture capital and growth equity firm, and Brightwood Capital Advisors, a middle market investment firm.
- 365 Main 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.

Strengths

- ➢ Industry reputation for high touch customer service, satisfaction, and retention: Onvia renewed with 365 Main for an additional 3 years due to 365 Main's customer service, data center experience, and management team

Challenges

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

Key Events (past 6 months)

- On May 22, 365 Main successfully completed SSAE examination of its 16 data centers.
- On May 15, 365 Main customer InfoRelay expanded to New York.
- On April 30, 365 Main expanded New York data center to meet growing demand.
- On February 27, 365 Main is selected as top pick for Onvia.

Credit Ratings

- **Moody's: NR** (Aaa–C) – N/A
- **S&P: NR** (AAA–D) – N/A
- **Fitch: NR** (AAA–D) – N/A
- **D&B: 422** (101–670) – High risk – Likelihood that a company 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

Key Catalysts (next 6 months)

- 365 Main adds iRis networks to Nashville data center (August 27th).
- 365 Main adds San Francisco Bay Area data center as 17th site nationwide (July 11th).

Company-level Risks and Mitigation

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

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

365 Main, Inc. (privately held company)

Key Metrics Supporting Analysis:

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

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

Dividend Yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price; In the absence of any capital gains, the dividend yield is the return on investment for 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)

EPS Growth Estimate: The growth of earnings per share over time; EPS growth rates help investors identify stocks that

Five-Year Revenue Growth Estimate: The compounded annualized rate of growth of a company's revenues projected over five years

Free Cash Flow: A measure of how much cash can be extracted from a company without causing issues to its day to day operations

Forward Dividend Yield: An estimation of a year's dividend expressed as a percentage of current stock price; The year's projected dividend is measured by taking a stock's most recent actual dividend payment and annualizing it; Forward dividend yield is calculated by dividing a year's worth of future dividend payments by a stock's current share price

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

Payables Outstanding: An entity's obligation to pay off a short-term debt to its creditors; The accounts payable entry is found on a balance sheet under the heading current liabilities

Receivables Outstanding: An asset designation applicable to all debts, unsettled transactions or other monetary obligations owed to a company by its debtors or customers; Receivables are recorded by a company's accountants and reported on the balance sheet, and they include all debts owed to the company, even if the debts are not currently due

Return on Capital: A return from an investment that is not considered income; The return of capital is when some or all of the money an investor has in an investment is paid back to him or her, thus decreasing the value of the investment

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

are increasing or decreasing in profitability	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