



Understanding Doing Business with the US Federal Government

Challenges and Recommendations

FCEDA Seminar
July 7, 2009

Agenda



- Brief SRA Introduction
- US Government Trends, Budgets and Opportunities
- Challenges and Recommendations
- Q&A



“Now is the time to act boldly and wisely – to not only revive this economy, but to build a new foundation for lasting prosperity. Now is the time to invest in areas like energy, health care, and education that will grow our economy ...”

“My Administration is committed to creating an unprecedented level of openness in Government. We will work together to ensure the public trust and establish a system of transparency, public participation, and collaboration.”

-- President Barack Obama

Corporate Profile



- A global provider of innovative technology products, solutions and professional services to the Public Sector and commercial clients
- Founded in 1978; a deeply embedded culture focused on creating real value for customers
- FY09 revenue run rate of \$1.6B – 88% as a prime contractor
- Publicly traded company (NYSE: SRX)
- IT services employer of choice – 6,900+ employees
- SRA core values...
 - Respect for each other
 - Accountability at all Levels
 - Integrity in everything we do
 - Service to our communities
 - Excellence is our trademark

SRA aspires to be the world's best company in everything we do, guided by our unwavering commitment to honesty and service.

Our success is measured by the value we bring to our clients and stakeholders, the careers we offer our employees, and the contributions we make to our local and global communities.

**Fortune 100 "Best Companies to Work For",
ten years in a row (2000 – 2009)**

Major Operating Locations



North America

Fairfax, VA (HQ)

Arlington, VA
Alexandria, VA

Falls Church, VA
Frederick, MD
Reston, VA

McLean, VA
Vienna, VA

Rockville, MD
Washington, DC

Sierra Vista, AZ
Newport Beach, CA
Sacramento, CA
San Diego, CA
Colorado Springs, CO
Glastonbury, CT
Ft Walton Beach, FL
Atlanta, GA
Warner Robins, GA
Fairview Heights, IL
Indianapolis, IN

Louisville, KY
Boston, MA
Baltimore, MD
Columbia, MD
Frederick, MD
Landover, MD
Pax River, MD
St Louis, MI
Durham, NC
Research Triangle
Park, NC

Egg Harbor
Township, NJ
Ft Monmouth, NJ
Mt Arlington, NJ
Shrewsbury, NJ
Albuquerque, NM
Las Vegas, NV
New York, NY
Cincinnati, OH
Dayton, OH
Hatboro, PA

Providence, RI
Charleston, SC
Austin, TX
San Antonio, TX
Chesapeake, VA
Newport News, VA
Seattle, WA
Milwaukee, WI
Morgantown, WV

SRA Operating Locations



Era Customers

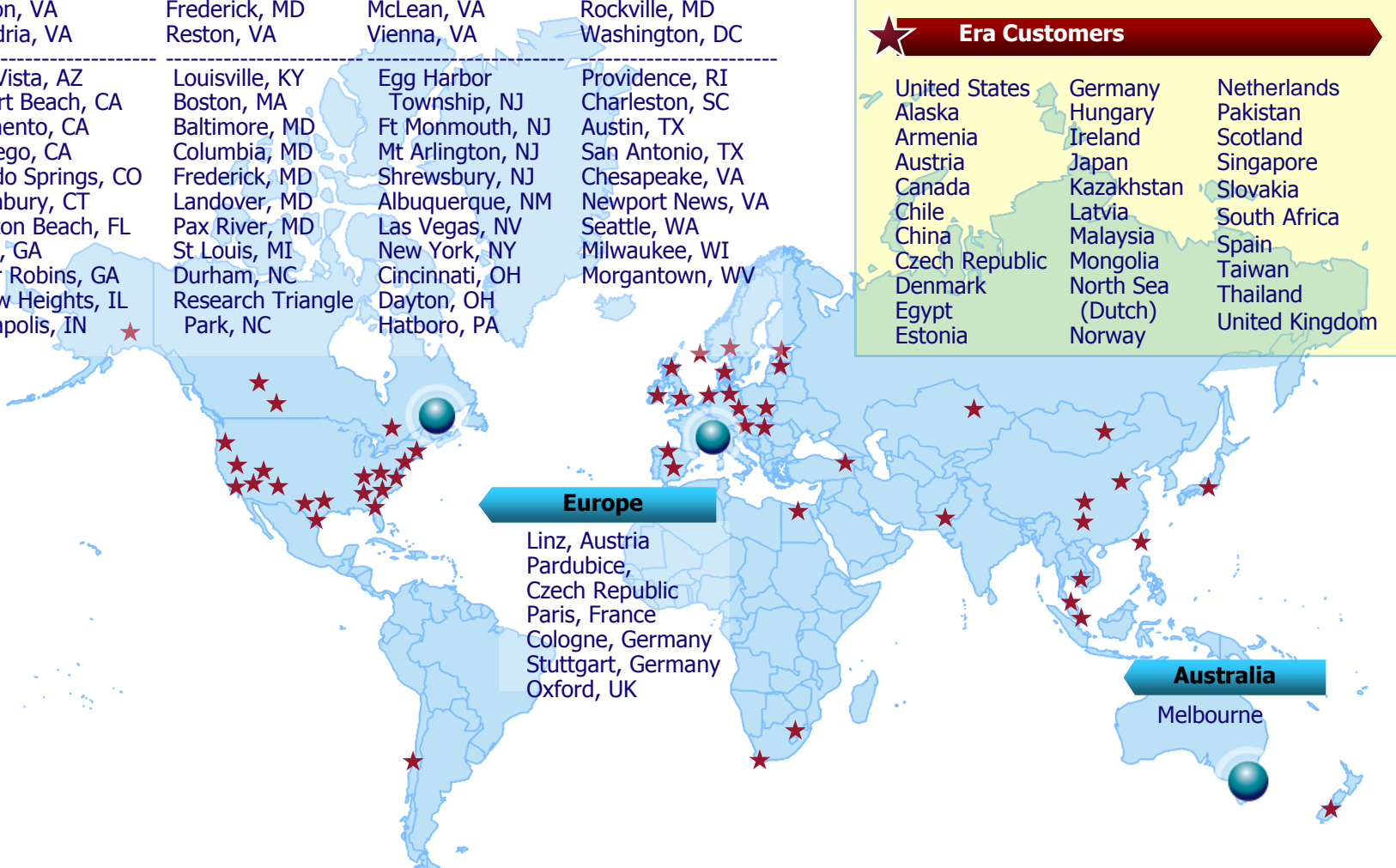
United States	Germany	Netherlands
Alaska	Hungary	Pakistan
Armenia	Ireland	Scotland
Austria	Japan	Singapore
Canada	Kazakhstan	Slovakia
Chile	Latvia	South Africa
China	Malaysia	Spain
Czech Republic	Mongolia	Taiwan
Denmark	North Sea (Dutch)	Thailand
Egypt	Norway	United Kingdom
Estonia		

Europe

Linz, Austria
Pardubice,
Czech Republic
Paris, France
Cologne, Germany
Stuttgart, Germany
Oxford, UK

Australia

Melbourne



Market Environment Overview



- The election of President Obama and transition to a new Democratic administration has had a profound and dramatic impact on the US Federal Government Services sector
 - Shift to more domestic programs (Education, Health and Clean Energy)
 - Emphasis on reducing contractor support/insourcing (decrease of ~ \$10B/yr revenues)
 - Greater transparency and oversight; OCI supplier/advisor dilemma
 - Emphasis on global diplomacy, peace keeping and nation building
- Competition has intensified as companies compete for fewer dollars and fewer new opportunities
 - Resort to capturing market share through “low-ball” pricing strategies and using protests as a strategic weapon to protect the base
- Stimulus package offers a “once in a generation” opportunity for our sector, providing \$300B in near-term discretionary spending
- Significant decrease in M&A activity and company valuations

Economic crisis ... although the government professional services market has remained resilient in the face of the current recession

- ***Record year in 2008; growing 3x the rates of total services***
- ***2/3 of annual spend is on mods/options (GWAC/IDIQ)***
- ***70% of actions are competitively awarded***
- ***Use of cost-type contract dropping (50% '06 → 45% '07)***

Obama Defense Priorities

A significant shift in market priorities (as well as available resources) is underway

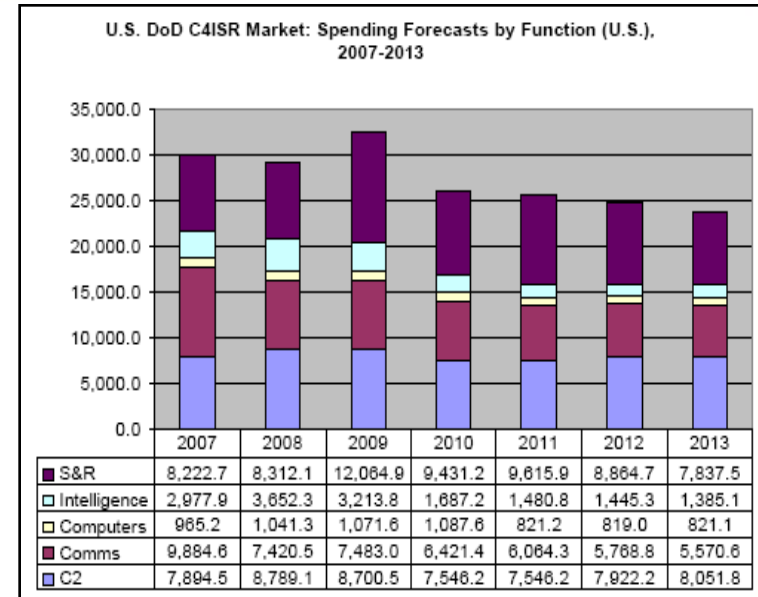


Rank	Bush	Obama
1	Fixed Wing	ISR
2	Air & Missile Defense	Cyber
3	Ships	C2
4	Contract Services	Communication
5	ISR	Training-simulators
6	Communications	Strike Missiles
7	C2	Precision Munitions
8	Helicopters	Helicopters
9	Soldier/Marine Equipment	Fixed Wing
10	Wheel Cbt Veh	Ships
11	Precision Munitions	Air & Missile Defense
12	Strike Missiles	Soldier/Marine Equipment
13	Cyber	Wheel Cbt Veh
14	Training – simulators	Track Cbt Veh
15	Track Cbt Veh	Tactical Missiles and Munitions
16	Tactical Missiles and Munitions	Contract Services

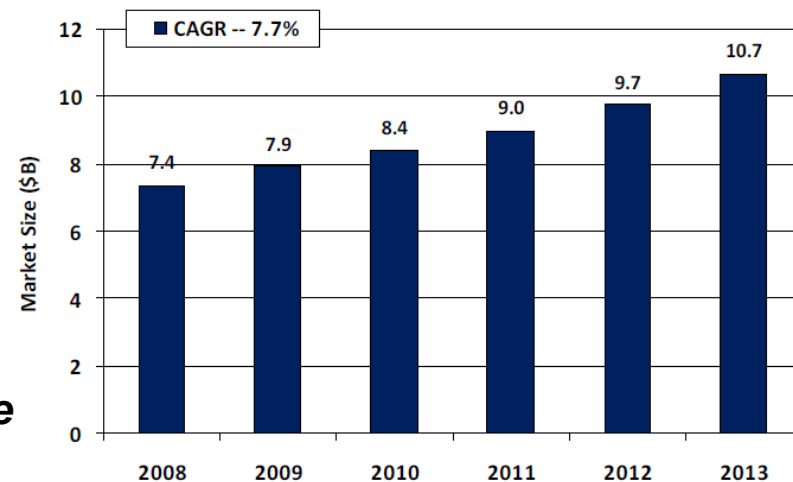
Source: Cypress International

ISR in the broadest sense will retain its recent top priority (\$+2B UAV)

Implementation costs for the Comprehensive Cyber Security Initiative (estimated at \$40B over 5 years) are not included in these budgets



Total Addressable Federal Information Security Market* 2008 – 2013



Obama Civil Priorities – Health, Education and Energy/Environment



AGENCY	2009	2010	CHNG	RECOVERY ACT	FUNDING HIGHLIGHTS
COMMERCE	\$9.3B	13.8B	+48%	\$7.9B	• 2010 Decennial Census and deploying broadband
EDUCATION	\$46.2B	\$46.7B	+13%	81.1B	• Expands access to high-quality early childhood education; strengthens and reforms schools
EPA	\$7.8B	\$10.5B	+35%	\$7.2B	• Significant increase in funding for research, regulation, and enforcement
HUD	\$40.1B	\$47.5B	+19%	\$13.6B	• Provides full funding for the Community Development Block Grant program at \$4.5B
State and International	\$47.2B	\$51.7B	+10%	\$0.6B	• Supports the worldwide operations of State/ USAID and funds key foreign policy programs
Health	\$78.4B	\$76.8B	-2%	\$22.4B	• Accelerates the adoption of health information technology and utilization of EHR
VA	\$50.4B	\$55.9B	+11%	\$1.4B	• Dramatically increases funding for veterans health care
DOT	\$70.5B	\$72.5B	+3%	\$48.1B	• Supports the Next Generation Air Transportation System to modernize the ATC system
JUSTICE	\$25.5B	\$26.5B	+4%	\$4.0B	• Provides significant increases to address the FBI National Security and Intelligence challenges

Industry and Technology Trends



INDUSTRY TRENDS

Tier 1

- Overseas Contingency Operation & Homeland Security
- Comprehensive National Cyber Security Initiative
- Global Economic Crisis and Federal Economic Stimulus Bills
- Agency IDIQ > GWAC
- Best Price > Best Value
- Fewer New Starts – Recompets and Contract Consolidation
- Increase Pace of Protests
- President's March 4th Contracting Memorandum

Tier 2

- Rising Healthcare Costs
- Climate Change/Global Warming
- Performance Based Contracting
- “More with Less” – Business Process Outsourcing
- Deobligations (agency budget cuts)
- Air Traffic Management
- RESET
- Business Transformation
- Increased Government Oversight and Transparency

Tier 3

- Increase Role of Small Business
- Softening Labor Market
- Decrease in M&A Activity
- Aging Workforce
- Immigration Reform

TECHNOLOGY TRENDS

Tier 1

- Cybersecurity
- Secure Information Sharing
- Green IT – Energy Efficiency
- Health IT – Electronic Health Records and Health Information Exchange Networks
- Privacy
- Border and Port Security
- Managed Services

Tier 2

- Wireless/Mobile Applications
- Persistent Surveillance/UAS
- Geospatial Applications
- Cloud Computing
- Data Center Optimization
- Service Oriented Architectures
- Interoperable Communications
- Biometrics/Identity Management
- Supply Chain Management and Security

Tier 3

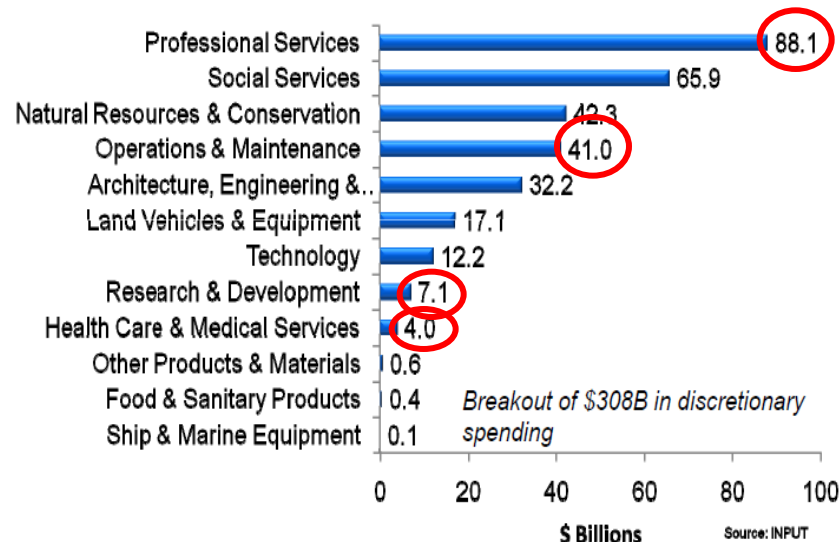
- Next Generation Training/Virtual Worlds
- 3G Networks/VOIP
- Robotics

Summary of the Stimulus Bill



- Formal name: American Recovery and Reinvestment Act of 2009 (ARRA)
- Full appropriations total \$787.2 billion
 - Tax Cuts: \$281B
 - ➔ Discretionary Spending: \$308B (\$205B S&L)
 - Direct Spending: \$198B
- Provides funding for technology, science and research, infrastructure improvements, education, energy, healthcare, and training
 - Funding distributed through new and existing programs
 - Many programs to be implemented by states with grant funds
- High level of transparency
- Quick turnaround
 - Spending plans within 30-120 days of enactment
 - Goal of using 50% of funds for activities that start within 120 days

Discretionary Spending By Segment



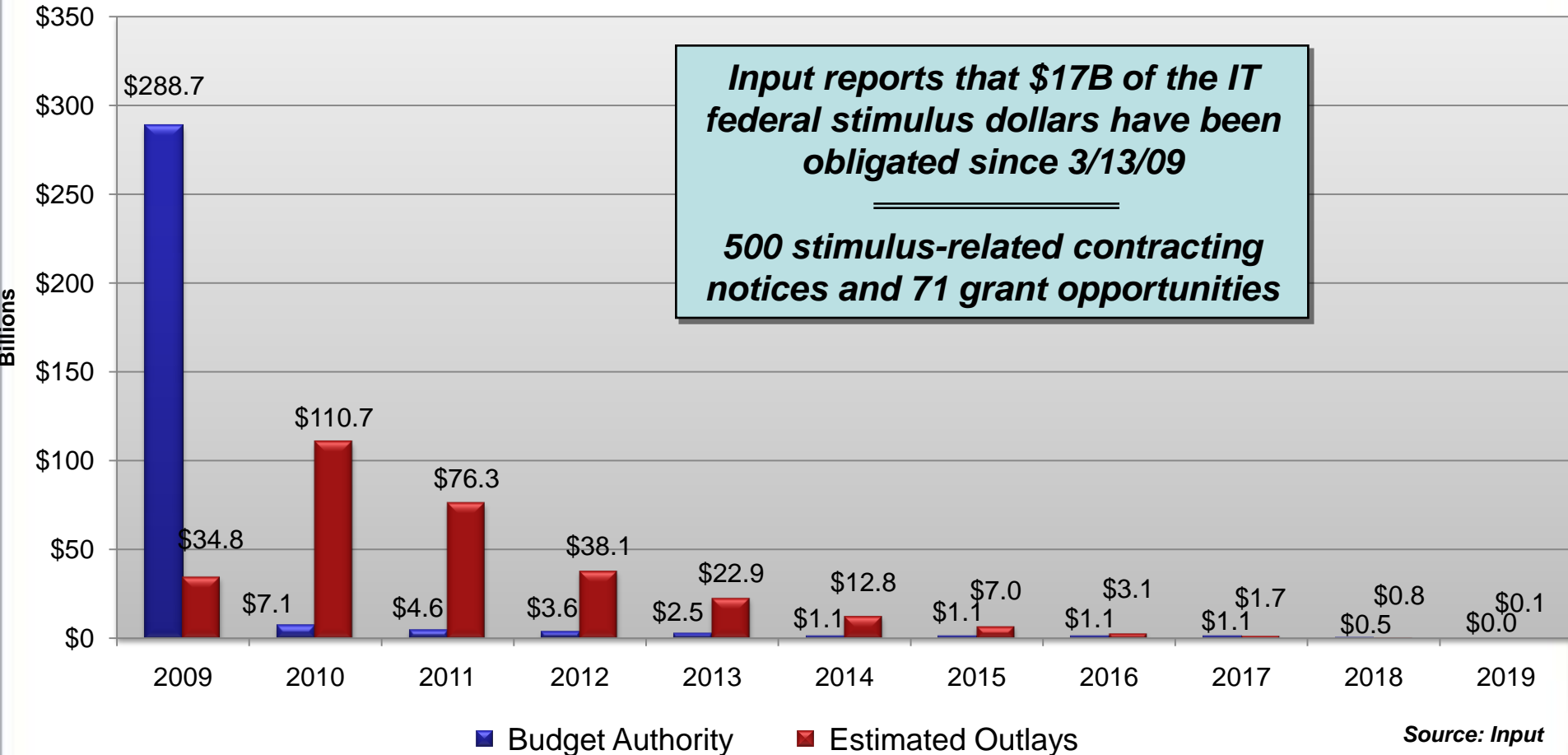
Another \$55+ Billion in technology spending is "buried" in other line items

Civilian Agencies clear winner in the stimulus spending bill – (e.g., Energy 56.3%, HHS 17.8%)

Timeline of Discretionary Spending



Estimated Costs of ARRA by Year, FY2009-FY2019



ARRA includes approximately **\$60B** in federal dollars addressable by contractors in technology, facilities modernization/construction, R&D, and training.

Summary of Major Federal Agency Initiatives

(Includes some Non-IT)



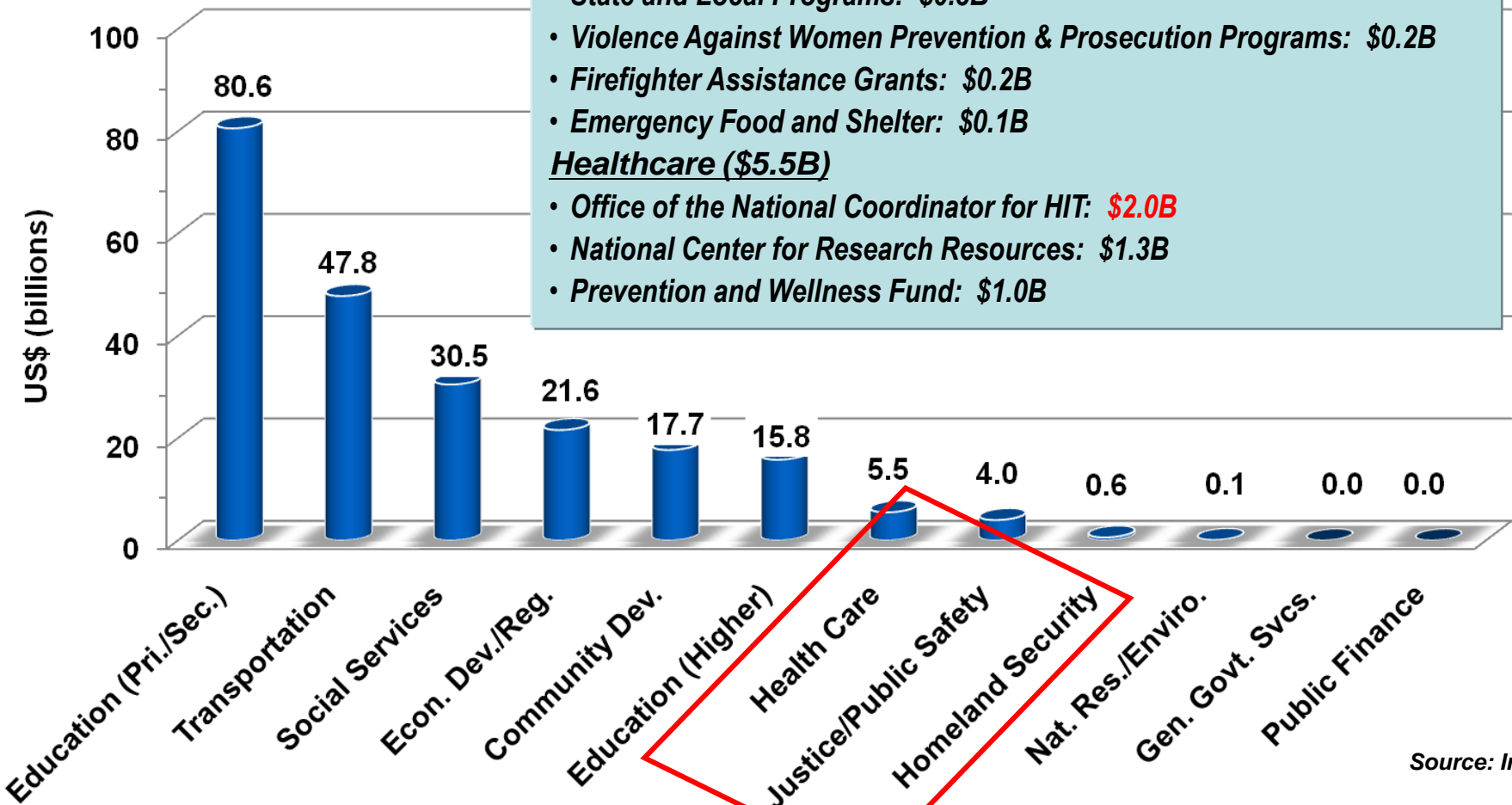
Agency	Initiative	Funding
Commerce	- Broadband (Telehealth)	\$4.7B
	- Census	\$1.0B
Defense	- Facilities Modernization	\$5.9B
Energy	- Energy efficiency & renewable energy	\$16.8B
	- Smart Grid	\$4.5B
Health and Human Services	- ONC for Health IT	\$2.0B
	- HRSA (Health IT)	\$1.5B
	- NIH (biomedical research)	\$10.0B
	- AHRQ	\$1.1B
State	- IT Security (\$38M transferred to USAID)	\$290M
NASA	- Aeronautical R&D	\$150M
Recovery Act Board	- Transparency and Management Oversight	\$80M
EPA	- Superfund/Brownfield Programs	\$7.2B
	- Environmental Cleanup	\$5.9B

Agency	Initiative	Funding
Homeland Security	- CBP	\$680M
	- TSA (security screening)	\$1.0B
	- Coast Guard	\$240M
Social Security	- DHS HQ Consolidation	\$200M
	- Replacement of National Computer Center	\$500M
Veterans	- Health IT	\$40M
	- VBA IT Systems	\$50M
GSA	- Energy efficiency projects	\$1.0B
	- Green Buildings	\$4.5B
DOT	- FAA ATC Modernization	\$200M
	- FAA Discretionary Funds (infrastructure)	\$1.1B
Agriculture	- FSA IT Modernization	\$50M
	- Distance Learning, Telemedicine, Broadband	\$2.5B

S&L Allocation by Market Vertical



Total Allocation



Justice/Public Safety and HLS (\$4.6B)

- State and Local Law Enforcement Assistance: **\$2.8B**
- Community Oriented Policing Services: **\$1.0B**
- State and Local Programs: \$0.3B
- Violence Against Women Prevention & Prosecution Programs: \$0.2B
- Firefighter Assistance Grants: \$0.2B
- Emergency Food and Shelter: \$0.1B

Healthcare (\$5.5B)

- Office of the National Coordinator for HIT: **\$2.0B**
- National Center for Research Resources: \$1.3B
- Prevention and Wellness Fund: \$1.0B

Source: Input

Major Challenges



- Slowing federal budgets ($\sim 4.5\%$)
- Following the stimulus dollars – primarily awarded through state and local grants or existing GWAC and IDIQ contracts
- Increase transparency requirements
- Strong preference for Fixed Priced contracts
- Tight labor market – virtually zero unemployment for cleared IT resources
- Industry consolidation; middle market squeeze
- Lack of enough qualified procurement officials
- Intense competition (for fewer dollars) \rightarrow low price
- Almost every award gets protested

Recommendations



- Partner with a well-established US based government contractor who “knows the ropes” (quid-pro-quo)
- Apply for a GSA Schedule and/or find a role on one of the major GWAC or IDIQ contracts
- Follow the money – business development campaigns and account management resources targeted at Obama priorities (C4ISR, State/USAID, Health, Education, Clean Energy)
 - Target “sub markets” of common US/UK problems, e.g. counter-terrorism, border security, climate change
- Pursue the fast moving streams – offer differentiated solutions targeted at the high-growth areas of the market, such as health IT, cybersecurity, managed services, Green IT
- Invest in market research tools (Input) and join industry associations (AFCEA, PSC, TechAmerica)
- Consider an acquisition – people, vehicles and references

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