

Stifel Nicolaus Equity Research

TechAmerica Foundation Federal IT Strategic Outlook Forum

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Long-Term Outlook Positive, But Near-Term Headwinds

- Near term (12-18 months) we believe Fed IT stocks will underperform (excluding takeouts) due to strong headwinds including:
 - slow award activity likely continuing due to political and budget uncertainty
 - various DoD initiatives to reduce costs and contractors
 - pricing pressures from both customers and competitors
 - slowing organic growth rates and margin pressure

- Long term (2-5 years) we believe Fed IT stocks will outperform similar to how they did in the 1990s due to the following:
 - Focus of government will be reducing costs and doing more with less
 - Current technology cycle plays into gov't goals – lower cost, incremental development, big data analytics, mobile apps, wider reach to citizens
 - As more is done online, cybersecurity demand will only increase
 - With occupation and nation building out, focus will be on efforts using IT based ISR usage instead of new platforms
 - Infrastructure (including service support) increasingly commoditized with little margin
 - Value seen in mission systems using innovative technologies to reduce costs (time, facilities, people) and improve efficiency

What The Stocks Are Telling Us

- Weak stock performance over past year due to slower growth and headwinds.

- YTD:

- Fed IT down 3.9%.
- S&P up 11.1%.
- A&D up 9.7%.

IT Services Price Performance (through 3/23/12)				
Index	QTD %	YTD %	1-Year %	CY12E P/E
S&P 500	11.1%	11.1%	7.7%	13.6x
NASDAQ	17.8%	17.8%	13.7%	NA
Commercial ITS	17.0%	17.0%	-2.6%	11.4x
Federal ITS	-3.9%	-3.9%	-13.9%	10.0x
Aerospace & Defense	9.7%	9.7%	3.3%	11.1x

Past performance should not and cannot be viewed as an indicator of future performance

Source: FactSet Research Systems Inc., ThomsonOne Analytics, and Stifel Nicolaus estimates.

QTD and YTD performance as of 3-23-12

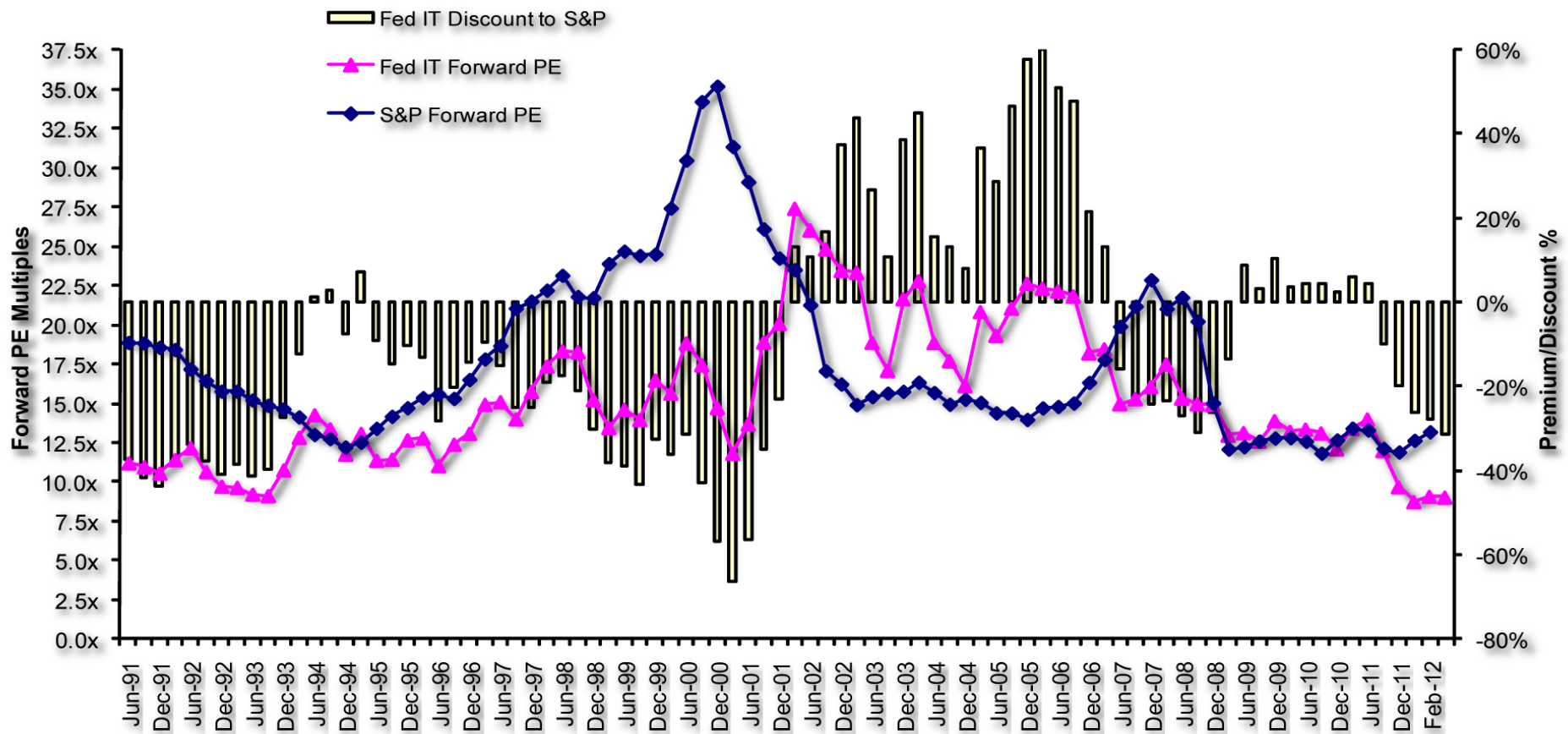
¹ Commercial ITS Index is an equally weighted portfolio of the following stocks: ACN, CSC, GIB, IBM, and UIS.

² Federal ITS Index is an equally weighted portfolio of the following stocks: BAH, CACI, DRCO, ICFI, MANT, NCIT, SAI, and VSEC.

³ Defense Index is an equally weighted portfolio of the following stocks: BA, BEAV, GD, LLL, LMT, NOC, RTN, and SPR.

Valuations At 20-Year Low (But Is The "E" In P/E Too High?)

Historical Federal IT Industry Valuations Relative to S&P 500



Source: FactSet Research Systems, company data, Stifel Nicolaus estimates

The Panelists

Moderator: Bill Loomis, Managing Director, Stifel Nicolaus

Tim Atkin, Executive Vice President & Chief Operating Officer, SRA

Dan Chenok, Senior Fellow, IBM Center for The Business of Government

Tim Hoechst, Chief Technology Officer, Agilex Technologies, Inc.

Molly O'Neill, VP and CGI Initiative for Collaborative Government Fellow

Tim Young, Senior Manager, Deloitte Consulting LLP

Discussion Topics For Panel

- Budget Thoughts and Budget Control Act Impact
 - Timing, RFP and award flow, funding of programs or holding back
- Can History Offer A Guide?
 - Any lessons from the 1990s or 2000s or is this time “different”
- Is A Big Change In How Government Does Business Really Likely?
 - Perfect storm of tight budgets, policy, technology and demographics
- Dealing with pricing pressure and the new realities
 - Cost structure, fixed price, innovative solutions, help shape RFP
- An Exciting Technology Cycle, But What Is Most Impactful?
 - Cloud, mobile, data analytics, Web 2.0, cyber
- Positioning Your Company, How To Differentiate
 - Advantage of being public or private?
- How could the elections impact Gov’t IT?
 - Potential changes under new Congress, and same or different President
- Does Slower Growth Lead To Consolidation Of Companies?
 - Is bigger really better in the new environment?
- Government Workforce And Outsourcing
 - Do retirements and tight budgets drive outsourcing?

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Of the securities we rate, 51% are rated Buy, 47% are rated Hold, and 2% are rated Sell.

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