# SRA Holding Its Own In Today's Challenging Federal Marketplace

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At FIA, we are always checking out how various vendors are performing in the federal contracting marketplace, and keeping track of how these firms are executing on their various strategies to achieve success going forward.

In this week's installment, we would like to highlight SRA International Inc., which provides technology and strategic consulting services and solutions primarily to U.S. government clients (accounted for 98% of SRA's total revenues for the quarter ended March 31, 2012).

Based in Fairfax, VA., SRA provides services, systems, and solutions that enable mission performance, improve efficiency of operations, and/or reduce operating costs. Currently, the company has a balanced portfolio of clients and is organized into four business groups: Civil, Defense, Health, and Intelligence, Homeland Security and Special Operations.

FIA Perspective:

**SRA has a nice blend of contracts, which includes several top-tier programs.** SRA's contract portfolio encompasses a nice mix of IDIQs, GWACs, and IQCs, which gives the company a solid overall balance in today's competitive market. SRA's top contracts include spots on the GSA's $50 billion Alliant program, DHS's $45 billion EAGLE program, GSA's $25 billion MILLENNIA program, and the Army's $23 billion R2 program, among others.

In addition, SRA was also recently named as an awardee on the National Institutes of Health's (NIH) $20 billion CIO-SP3 contract vehicle, a follow-on to the CIO-SP2 contract. This 10-year, multiple-award IDIQ contract supports the Federal Enterprise Architecture, the Department of Defense Enterprise Architecture, and the Federal Health Architecture. Under the predecessor contract (CIO-SP2), SRA performed admirably, winning about 14% of the work, or $404 million in revenues from 2001 to 2012.

In April, SRA also was awarded a spot on the VA's $12 billion T4 program, which is expected to run for 5 years. Thus far, SRA has won 8 task orders under the new program, recording about $12.5 million in total revenues.

In mid-June, the U.S. Transportation Command (USTRANSCOM) also awarded SRA its Defense Personal Property System (DPS) contract, which carries a total value of $17.6 million if all options are exercised. Under the contract, SRA will manage two major DPS software releases, in addition to providing training and learning management, engineering services, configuration management and operations maintenance support.

Elsewhere, SRA also received (in May) the sole award for the U.S. FBI's operational response and investigative online network (ORION) program. The award includes one base year plus seven options for one year each, and carries a value of $19 million if all options are exercised. ORION is the FBI's next generation crisis information management system.

SRA's top federal customers currently include the Defense Department, Air Force, Marine Corps, Defense Logistics Agency, Agriculture Department, Food and Drug Administration, Federal Aviation Administration, and Homeland Security Department, among others.

**Going private will allow the SRA to cut costs, while the company aims to improve efficiencies.** In July 2011, Providence Equity Partners completed the acquisition of SRA for $1.88 billion. Since the acquisition, SRA has brought in a new CEO in Bill Ballhaus and has divested several businesses so it can focus on the core IT services business. Looking ahead, SRA should benefit from being a private company, as the company will no longer be required to make SEC-related disclosures, which should allow the company to cut costs while it looks for further operating efficiencies.

To maintain a competitive cost position in this challenging market environment, SRA said it continually looks to improve the efficiency of its internal operations. As part this effort, SRA has initiated a reduction in its indirect labor force during the fourth quarter of fiscal 2012. This will result in indirect cost savings for SRA, some of which will be reinvested in the company's corporate growth initiatives moving forward.

**SRA posts solid top line results, while bottom line struggles.** From July 31, 2011 through March 31, 2012, SRA reported a net loss of $21.5 million on revenues of $1.15 billion, according to the company latest quarterly report. During that same time frame, SRA said its organic growth rate slipped 3.4%.

In the report, SRA noted that it received approximately $227.1 million and $1.11 billion of total contract awards during the three and nine months ended March 31, 2012, respectively. At the end of March, SRA also had a total backlog of $3.86 billion, of which $877 million was funded. SRA said it expects to recognize approximately 26% of the above backlog as revenue within the next twelve months.

Looking ahead, SRA's growth strategy includes investing in existing services while expanding its offerings and customer base worldwide through strategic mergers and acquisitions.

While SRA expects the federal government to make continued investments in areas such as cyber security, operating efficiency, intelligence, surveillance and reconnaissance, and to continue supporting the intelligence community as well as special forces capabilities, the company maintains its belief that the constrained government spending environment will result in "modest market growth for the foreseeable future requiring an increase in market share to achieve more robust growth.”

**Our Take:**

Overall, we like that SRA is looking to broaden its client base and expand its offerings, while taking steps to improve its operating efficiency. Looking ahead, we believe SRA may face difficulties in competing with larger, more well-established contractors in today’s evolving federal market.

Within the federal market, we expect mid-tier contractors like SRA to face increasing challenges in winning new contracts due to tightening budgets and intense competition from top-tier rivals. While SRA has had success winning numerous large contracts in the past, and is doing a decent job of winning task orders under these major contract vehicles, we believe the company will have to step-up its game to increase market share in today’s intensely competitive federal market, and to achieve greater success going forward.