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Interviews & News!

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Celebrating Their 25th Anniversary • GTSI Is Focused On Transforming The Company Into A Total Solutions Provider Throughout The Lifecycle Of The Equipment



Services

Computer Wholesale
(GTSI-NASDAQ)

GTSI Corp.

3901 Stonecroft Boulevard
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Joseph D. Ragan III
Chief Financial Officer

Company Profile:

GTSI Corp. is an information technology solutions provider offering a Technology Lifecycle Management (TLM) approach to IT infrastructure solutions delivered through industry-leading professional and financial services. GTSI employs a proactive, strategic methodology that streamlines technology lifecycle management,

from initial assessment to acquisition, implementation, refresh, and disposal. TLM allows government agencies to implement solutions of national and local significance quickly and cost effectively. GTSI's certified engineers and project managers leverage strategic partnerships with technology innovators. These experts use proven, repeatable processes to design, deploy, manage, and support simple to complex solutions, to meet governments' current and future requirements and business objectives. GTSI is headquartered in Northern Virginia, outside of Washington, D.C.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Ragan, what is the vision for GTSI?

Mr. Ragan: "GTSI is celebrating its 25th anniversary this year and for most of the last 25 years has been a major product reseller to the federal government. We have the vision of transforming the company into a solutions provider to the federal government as opposed to just selling products, servers, computer equipment; we would like to be the total solutions provider that provides them services wrapped around the products that we sell as well as the financing for the government. We will be the total solutions provider throughout the lifecycle of the equipment that we sell."

CEOCFO: How do you go about implementing that strategy and where are you in the process?

Mr. Ragan: "About eighteen months ago we kicked off a strategic initiative to transform the company to a solutions provider, the key factor in the transforma-

tion are driving the services component of our business, which is approximately \$750 million in revenue. Driving services and the offerings related to services is key to the transformation of our company as well as continuing to offer the financing, which we call financial services to the government. This allows us to give them the best quality solution and deal with any budgetary constraints they may have. It is very difficult in the current budgetary environment for an agency that is protecting the borders of the country or protecting its own IT infrastructure, to get a high quality solution and pay for it under the current budget environment. Therefore, we actually offer a financing solution that would allow them to pay over as many as five years. It is the driving of the services and financing components as well as maintaining our product business as a platform that will be the key to transforming the company to a total solutions provider."

CEOCFO: Is your approach of offering financing typical in your industry?

Mr. Ragan: "It is a difficult concept. Financing for products is generally called leasing. We actually just call it financial services or a way for the government to optimize their current period spending. It is unique for the federal government because they may or may not own the assets. Generally, the federal government is more accustomed to buying the assets outright. This is a unique way to stretch the procurement dollar. It is somewhat unique."

CEOCFO: What are some of the typical services you offer?

Mr. Ragan: "We offer for example Sun servers, and the services we offer wrap around that sale of a server, so it may be

installation, it may be any kind of integration service into their existing IT infrastructure as well as things as simple as tagging equipment so that the government can properly track it. What we are really driving towards are solutions protecting the borders in the ports where we are putting IT solutions in place that will protect the ports from any type of intrusion, for example from some sort of terrorist attack, as well as working with IT infrastructure in our airports.”

CEO CFO: Why should agencies choose GTSI; what is unique about your services and platform and product?

Mr. Ragan: “We have eighty-two contract vehicles and working with the government is very sophisticated. Billing properly and collecting on the transaction is difficult, so the major equipment manufacturers prefer to go through us as it is much easier for them to work with the federal government with their products through our very experienced sales force and operations group. The company has built itself around access to the government and continues to develop contract vehicles, some are considered IDIQ (Indefinite Delivery Indefinite Quantity) contracts where you may be able to go into an agency and sell many different types of products with no limit on the quantity. The great value that we offer to the equipment manufacturers is ease of selling to the government, on the other side we have strong relationships with the government, where we understand their IT infrastructure as it exists today and we are very involved in their IT strategy going forward. We play a middleman role to put together the best solutions on a product agnostic basis so we are not necessarily mandating the use of a Sun solution, or a Cisco solution or a Dell solution, we want to find the best solution for our customer.

CEO CFO: What is the competitive landscape?

Mr. Ragan: “There are significant competitors but not in the government space,

so it is very difficult to establish what exactly our peer group is as a pure-play government reseller and provider of services to the government. There are many companies that provide professional services to the government but there are not many companies that are public-held and sell products. From a competitive landscape you have the big systems integrators Lockheed Martin, Northrop Grumman who are very well established at coming in and doing total solutions. What we are offering is more of an off-the-shelf solution so we won’t come in and develop a software package, we will get you something that is already developed and easily wrap it around whatever

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your IT infrastructure is today so we can conform to your IT infrastructure with existing products. It is difficult to actually develop and design an entire IT solution and it is a multi-year project so the government is more interested in getting more off-the-shelf type application than designing entirely new systems.”

CEO CFO: Is your potential customer looking for your solutions or do they need to be convinced?

Mr. Ragan: “We work very closely with the CIOs of the agencies in the strategy phase. One of the services that we offer is an evaluation of what the alternatives are. We just recently completed an assessment that went from the assessment to a full

implementation developing that trusted advisor role with the top information technology professionals in the agencies.”

CEO CFO: Your long history is certainly helpful!

Mr. Ragan: “Absolutely! We are a well-known brand in the Washington DC area and certainly in the federal space. About 90% of our business is in the federal government.”

CEO CFO: As far as port and border security, there has been lots of talk but little follow-through; are the agencies ready now to address the problem?

Mr. Ragan: “They are now exploring more technological solutions as opposed to 100% physical solutions. We are trying to be very active in providing this technology solution, which is much less intrusive to the public.”

CEO CFO: What is the financial picture at GTSI?

Mr. Ragan: “We did go through a period of financial distress three years ago. The company did a systems implementation that was not very smooth and in the old product reseller model, the margins were very thin so if you have any period of time where you are not able to ship your products, it is very difficult to recover. We actually got everything right back on track in mid 2005. However, that period of disruption created the

largest loss in the history of the company, we have been turning the company around from that in the last three years. We have significantly improved our financial position. We have been driving our gross margin percentages significantly higher, about three to four percent higher than they had been historically. Along with that, we are driving towards profitability. We lost \$1.8 million in 2007, which for a \$750 million business is a pretty small margin of loss. From a capitalization perspective today, we have zero debt outstanding. Two years ago we had to put into place some subordinated debt which we paid off earlier this year. Our balance sheet is extraordinarily

strong and because of that strength, we have a \$135 million credit facility, which we are borrowing zero under today. Because of this strength, we are in a perfect position to explore acquisition opportunities, which we are currently doing and have publicly announced that we expect to do some acquisitions in the services sector to drive the transformation of the company.”

CEOCFO: Is the investment community paying attention?

Mr. Ragan: “We are a very thinly traded stock today. We do get some attention, we have recently presented at several investment conferences, Raymond James

and Siddoti & Company are the two houses where we presented at their conferences. We get a typical amount of attention for a company with our market capitalization.”

CEOCFO: In closing, why should potential investors be interested and what might people overlook about GTSI that should be understood?

Mr. Ragan: “The opportunity that we are driving as a new solutions provider is going to significantly uplift the growth margins of the company and therefore the profitability of the company in 2008 and beyond, so we are a real value stock today just due to our gross margins being below

15% today and a normal services provider gross margin would be much higher than 15%. When you look at an evaluation of the company and you look at the possibility of moving into where we double the gross margins on an incremental basis, it represents significant upside for an investor. We have attributes of a value play and a growth play, which most investors would look at either of those as significant opportunity, but to have both is rare. So the company is very well positioned for very strong stock appreciation in the future when we execute the transformation of the company.”



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