

INTERVIEW**PHIL NOLAN**

President and CEO,
Stanley Associates

The federal IT M&A market is increasingly characterized by acquisitions by mid-tier companies with revenue under \$250 million, and in many cases, much less than that. Indicative of this class of buyer is Stanley Associates, Inc., an Alexandria, Va. defense and federal IT contractor that has been using M&A as a means of reaching its \$500 million revenue target by 2009.

DM&A recently interviewed Phil Nolan, Stanley Associates' President, on the company's latest transaction, Fuentez Systems Concepts (FSC), Inc.

Q: Stanley had previously acquired two smaller companies. Why did you go after a larger company with FSC?

A: Stanley has been targeting companies for acquisition as large as \$50 million in revenue for some time. Our infrastructure is set up to absorb a firm of that size and the favorable financing environment for federal IT companies certainly facilitated our ability to complete this transaction. Our bankers, SunTrust, were flexible and accommodating.

Q: What attributes does FSC bring to Stanley?

PN: Several. They bring strong technical capabilities in the areas of system engineering and integration, and software development, security, C4ISR and cryptology.

Second, they significantly expand our customer footprint, specifically in the areas of SPAWAR, Homeland Security and the intel community.

Third, FSC owns contract vehicles such as the NIH CIO SP and several SPAWAR BPAs that will help Stanley pursue additional work with those customers.

Further, over 80% of FSC employees have employees with security clearances, many of them supporting intelligence agencies and missions.

Q: Stanley is about three times the size of FSC (which employs 260 persons).



This interview was conducted by Paul Serotkin, President, Minuteman Ventures LLC, an investment bank focused on federal and defense IT M&A. email: paulserotkin@minutemanventures.com. tel: (781) 750-8065.

What are the challenges of integrating a company of that size into yours?

A: We have built an infrastructure and a transition plan that enable us to smoothly integrate a company the size of FSC. Our recent reorganization, which was executed to help us reach a growth objective of \$500 million in revenue by 2009, also put the right people and systems in place to handle an integration of this size. We do not anticipate any unusual problems in the integration process.

Q: How well did you know FSC before being introduced to them during the M&A process?

PN: More through reputation than any specific working relationship. We competed against each other a few times, but our core customer sets are different.

This divergent customer base enables each of us to position the other's offerings to a new client set. FSC can now offer their customers a much deeper, broader capability.

Q: What should federal IT company sellers be looking for in a buyer?

A: Both the seller and the buyer must ask themselves some key questions. Can the seller's people continue to do the same quality work in the larger organization? Is the buyer's infrastructure and organization flexible enough

to accommodate the seller's needs? Are the cultures of both companies compatible?

We strongly encourage sellers to perform their own 'hard' and 'soft' due diligence.

Another important point to remember is that once the two companies are combined there is an acceleration in growth and increased complexity in the new organization. It is important that both management teams spend a lot of time together before closing.

Q: The IPO market for federal IT companies was fairly soft in 2003 compared to the active market in 2002. What do you think the IPO market holds for this sector in 2004?

A: There are a lot of solid companies of a size and quality to warrant trading in the public markets.

Q: Do you feel that mid-tier buyers are at an advantage in deal-making if they have on-staff M&A support (as Stanley does)?

A: Absolutely. We are one of, if not the only, company of this size (\$150-\$200 million) that maintains a single point person to drive M&A. (Stanley, of course, employs other insiders and outside support to transact the process but one individual devotes full time to M&A). I have nothing but positives to say about this system.

The challenge for a mid-tier buyer like Stanley is positioning ourselves against larger companies when competing to acquire the right property. This M&A commitment makes us credible in succeeding against larger players.