

INTERVIEW

Phil Nolan

Chairman, President and CEO
Stanley, Inc.



DM&A: What is Stanley's current appetite for M&A?

PN: There is continued strong interest in acquisition on our part. While we will go smaller for the right deal, our scope has expanded as sales have grown and more financial resources have become available. Using cash and leverage, we could pay up to \$200 million for a qualified target. (Ed. Note: Assuming a 1x price-revenue ratio, Stanley would therefore be adding a \$200 million company, which would add nearly 40% to its top line.)

DM&A: Is Stanley working toward any specific M&A criteria?

PN: Other than a federal services firm, we are fairly open in terms of market sector. Our revenue mix is 65% defense and 35% civilian government, so the focus on the next transaction will be more a function of movement in the federal budget. If we sense the market moving toward one over the other, our M&A antenna will move in that

One of the feel-good stories in the federal/defense IT services sector is that of Stanley, Inc. (NYSE: SXE).

After 40 years as a privately-held company, Stanley completed a successful initial public offering in October 2006, raising \$62 million, net of underwriting discounts and offering costs.

Stanley's 2,800 employees provide IT services and solutions to a variety of U.S. defense and federal civilian government agencies under more than 200 active contracts. The company specializes in five core business areas: systems engineering, enterprise integration, operational logistics, business process outsourcing, and advanced engineering and technology. Stanley's customers include the U.S. Army, U.S. Navy, U.S. Marine Corps, Departments of State and Treasury, and many others.

Wall Street analysts project fiscal year 2008 revenues of nearly \$500 million (the company's fiscal year 2008 runs from April 1, 2007 to March 31, 2008).

Stanley has become a formidable acquirer in the sector in recent years, having bought five companies since 2000 that added \$164 million in revenue at the time of the transactions.

Minuteman Ventures' Paul Serotkin caught up with Chairman, President and CEO Phil Nolan about his views on the company and the capital markets.

direction. One M&A focus for us will be to target companies that will be beneficiaries of new contracting dollars resulting from federal Base Realignment and Closure (BRAC)-related initiatives.

Once the targeted company passes our initial criteria, we place strong emphasis on compatibility in culture and customer performance. (Ed note: Stanley takes particular pride in its workforce culture, noting its inclusion on the latest Fortune Magazine '100 Best Companies to Work For' roster.)

DM&A: With its solid growth, Stanley no doubt had opportunities to sell the company or take on private-equity investors. Why did the company choose the IPO route?

PN: We explored the sale of the company in the early 1990s, but the timing wasn't right. With a young

management team at the time, we resolved to grow the company, which is what happened. That type of growth required additional capital and increased borrowing power, which led us to consider the public markets. When Stanley acquired Morgan Research Corporation in February 2006 using significant debt, the move to de-lever through the public markets seemed logical. (Ed. Note: Stanley's revenue has grown at a compounded annual rate of 33% over the past 10 years, which also demonstrated its IPO-worthiness to the market.)

DM&A: How does Stanley cope with the mid-sized syndrome—too big for set-asides and too small to bid on Tier-1 sized procurements?

PN: We've never paid any attention to that classification. We have se-
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Phil Nolan

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lectively bid on Tier I procurements. There is a lot of available work below that size range as well that we are suited to bid on and perform.

DM&A: How do you size up the valuation metrics for the federal IT services market?

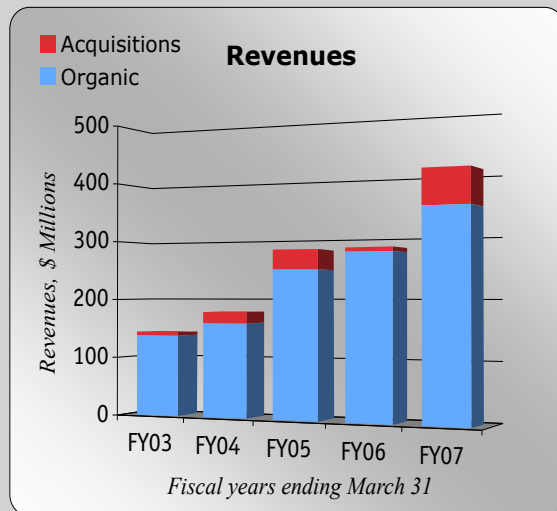
PN: Ironically, the multiples for private company sales now exceed

DM&A: How do you think the new small business recertification rule (that takes effect June 30, 2007) will affect deal pricing for firms with a material amount of small business set-aside contracts?

PN: There will be a stronger demarcation at that price point, separating companies with a lot of set-aside business and those working full and

DM&A: What impact does the recent softness in valuation for public companies in the sector have on Stanley?

PN: With funding delays due to the Continuing Federal Budget Resolution and the intense debate over the 2007 DoD war supplemental bill, pricing has indeed weakened. We think that may actually work



that applied to public companies in the sector, based on earnings before interest, taxes, depreciation and amortization (EBITDA). Pricing for seller targets should stay robust, as sector consolidation has winnowed the list of available candidates.

open contracts. The ultimate price may be the same for both groups, but I suspect that the set-aside centric company will take more of the proceeds in deferred payout—earn-outs—as opposed to upfront gross proceeds, because of the higher risk down the road.

to our advantage. Investors and analysts will now be looking deeper into public companies to see how well they are aligned with funding priorities. We believe Stanley stacks up well on that front. (Ed. Note: On 5/29/07, Staley was trading at 21.8x CY07 EPS estimates, a 17% premium to the 18.7x average of its federal IT comps.) ♦

Stanley, Inc. — M&A Transactions Since 2000

Acquired	Date	Rev's (\$M)
Techrizon	Apr. 2007	\$29.0
Morgan Research Corp.	Feb. 2006	\$67.0
Fuentez Systems Concepts	Jan. 2004	\$44.0
CCI	Sept. 2002	\$14.0
GCI Information Services	Jan. 2000	\$10.0

ABOUT THE CHART: The chart displays Stanley's annual revenues, with estimated contributions from acquisitions based on the seller's revenues at the time of acquisition. The estimated contribution to Stanley's revenues is shown from the date of each deal's closing. Such results vary from the figures reported by Stanley; our intent is to estimate the impact of acquisition to Stanley in the year these acquisitions were made.