Washington Technology

Small business, big value

When I saw the news about Stanley Inc. buying Oberon Associates Inc. my first thought was, "That's a really good price." My second thought was, "How'd they get it?"

I've talked with Jodi Johnson and David Young at Oberon several times in the last couple years. I know them to be nice, smart people, but you don't get a price that is double your revenue by being nice.

The investment bank KippsDeSanto represented Oberon so I called Bob Kipps. He laid out several factors that helped Oberon get its $170 million price on $80 million in revenue. Small businesses trying to build value should pay attention.

No. 1: Build a strong management team and invest in a business infrastructure. This can help mitigate risks and lend controls and visibility into financial performance. These kinds of controls will make potential buyers more comfortable with what they are buying. They'll know that they are actually getting what they are paying for.

"Having your ducks in order is rule number 1," Kipps said.

No. 2: Focus on distinct, high value-added solutions, not commodities. Develop deep subject matter expertise. In the case of Oberon, Johnson and Young took the company into markets they knew well based on their own backgrounds, but they also looked at the market and could see where it was going. The company built expertise in intelligence training, biometrics, and communications engineering. Those are in high demand right now.

No. 3: Look to maximize value and terms -- not just price. Stanley didn't win the auction to acquire Oberon based simply on price. It was a matter of finding a place that would be a good home for Oberon's customers and employees.

There are a lot of concerns about the small business recertification rules knocking the bottom out of a lot of M&A activities. But for companies focused on growth markets and critical skills there will still be opportunities.

Posted by Nick Wakeman on Jun 11, 2008 at 5:23 PM