

M&A UPDATE

Issue Highlights

3Q 2011

- 12 month rolling ARM transaction value rises for the 7th consecutive quarter to \$1.5 billion
- \$204 million aggregate ARM transaction value in 3Q11
- Many new groups investing into the ARM sector
- Financial buyers' activity contributing to larger deal sizes
- More deals involving firms that purchase debt and provide 1st party / BPO services

\$1.5 Billion in ARM Transaction Value in Last 12 Months

Worldwide M&A activity in the Accounts Receivable Management (ARM) sector netted 13 transactions for a total of \$204 million in ARM deal value during 3Q2011. While this is down from 2Q2011 activity, which saw 15 transactions for a whopping \$733 million in ARM deal value, it is nevertheless roughly double the activity of the 3rd quarter of 2010. There's no question that market jitters accompanying the late-summer stock market swoon had a negative effect on M&A in all sectors during the quarter. However despite the short-term uncertainty that remains, there is a very clear overall growth trend for M&A in ARM. On a Last Twelve Months (LTM) basis, ARM transaction value rose for the 7th consecutive quarter (**Figure 1**), as it reached nearly \$1.5 billion, indicative of an active industry and the many attractive opportunities available for both buyers and sellers.

New Investors in ARM (and Some Old Ones, Too). Despite recent macroeconomic headwinds, 54% of the buyers in 3Q11 were first-time investors in ARM firms, showing that the sector currently holds appeal for a variety of investors. A major deal of note was **Towerbrook Capital Partners'** acquisition of UK-based **CapQuest Group**, one of 4 deals in the quarter involving UK-based sellers. Another active firm this quarter, and no stranger to M&A, **Intrum Justitia** sold its UK operations to **Experto Credite**, and also acquired Denmark-based **Difko Inkasso** to boost its market position in that country. These deals reflect the continued strong activity among European and global buyers and sellers.

Financial Buyers Are Active in 2011. Financial buyers (such as private equity firms and hedge funds) have been more active in 2011 than at any time since 2007. Through the first 3 quarters of the year, they've been responsible for almost 28% of deal activity (**Figure 2**). Not coincidentally, this has led average deal sizes to their highest level since 2008, approximately \$30 million per deal (**Figure 3**). We expect increased activity among industry buyers as well, with many ARM firms seeking merger opportunities, as well as targeted acquisitions of firms to bolt on a turn-key location, new clients, and/or new services to enhance and diversify their offerings. Although deal pricing multiples relative to EBITDA and Revenue were down slightly in 3Q2011, likely for the same reasons overall transaction value was down, we expect them to continue within the range they've been in over the past several quarters based on continued demand.

Differentiated Platforms and Niche Players Grab Buyer Interest. Recent deals have involved more differentiated platforms, and increasingly involve sellers servicing niche client markets. For example, the 3rd quarter saw the return of **Sallie Mae** as an acquirer, with subsidiary **Pioneer Credit Recovery's** acquisition of government-focused **SC Services & Associates**. Collection markets like government (at all levels) continue to drive the interest of many expansion-minded groups. From the perspective of services acquired thus far in 2011, 33% of the deals involved debt purchasers and 39% involved firms providing 1st party and/or BPO services, both representing large increases over the past few years (**Figure 4**). Although sales of contingency servicers continue to comprise the majority of ARM M&A transactions, this is clearly a good market for debt purchasers, 1st party / BPO firms, and differentiated firms offering any combination of these services to explore exit opportunities. We expect these types of transactions to continue driving M&A activity in upcoming periods.

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Figure 1

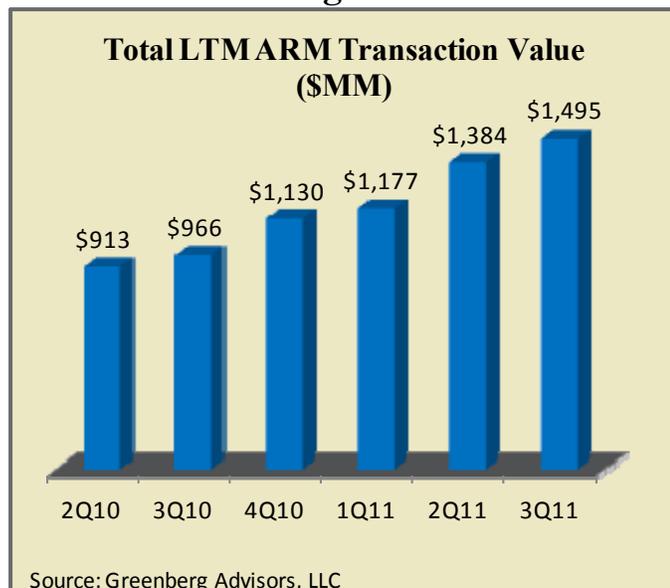


Figure 2

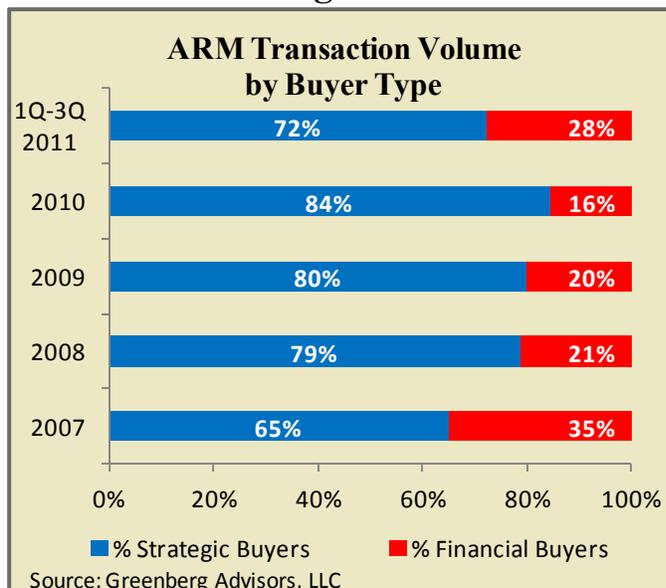
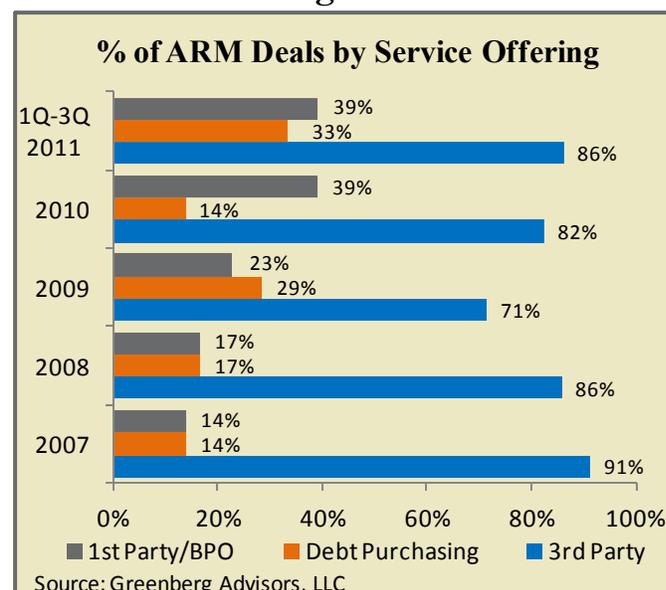


Figure 3



Figure 4



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