

M&A UPDATE

Pricing Multiples Remain Strong, Despite Lower Total Transaction Value

Transaction value was down in 2Q 2012, with \$1.11 billion in Accounts Receivable Management (ARM) and Revenue Cycle Management (RCM) deal value transacted over the LTM (last twelve months) period ending 2Q 2012. This is off 25% from the LTM period ending 2Q 2011, but in line with the numbers from the LTM period ending 2Q 2010, as shown in **Figure 1 (below)**. The number of transactions, however, held steady at 51 deals reflecting the fact that with a few exceptions, smaller firms dominated the activity.

We usually analyze pricing multiples on a quarterly basis, however as with other statistics, they can fluctuate significantly from quarter to quarter, therefore we occasionally assess them on an LTM basis. **Figure 2 (see page 2)** shows the LTM median Price/EBITDA multiple at 6.0x in transactions as of 2Q 2012. A steady upward trend has developed over the past 2½ years, which may surprise observers who don't think market demand is strong enough to support a viable exit strategy.

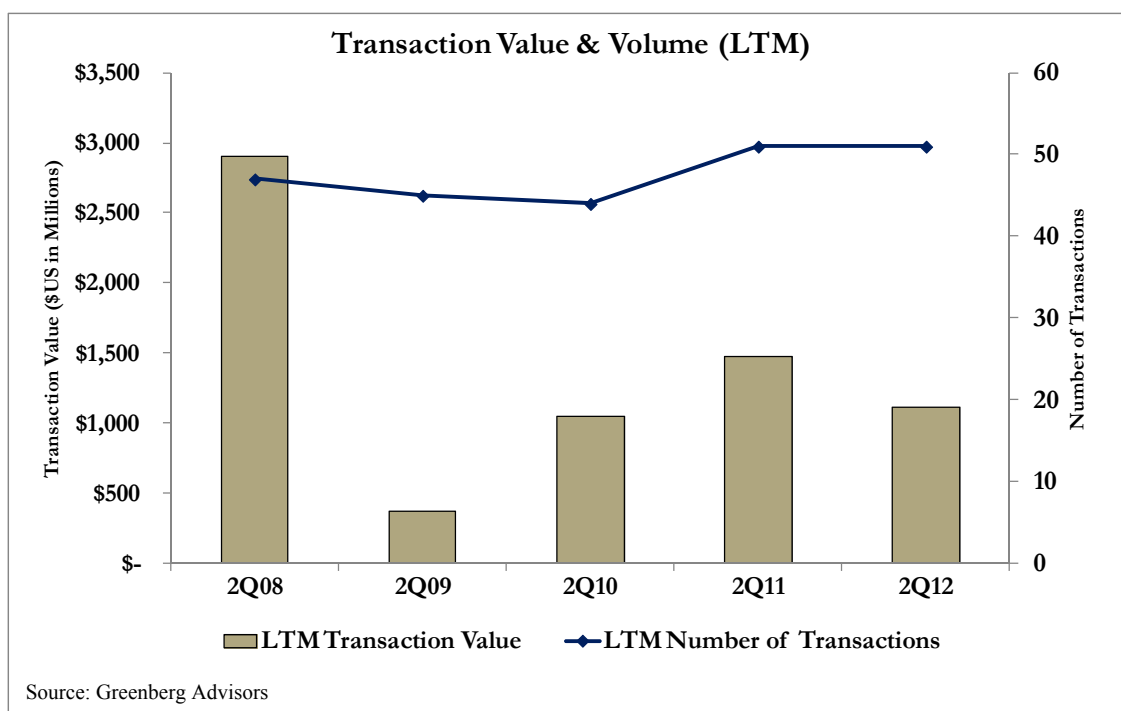


Figure 1

The largest ARM deal in 2Q 2012 was **Encore Capital Group's** (Nasdaq: ECPG) acquisition of tax lien purchaser **Propel Financial Services**, which is also an example of a successful PE-exit by previous owner McCombs Partners. Interestingly, there have been 4 PE exits of ARM firms thus far in 1H 2012 as shown in **Figure 3 (see page 2)**, nearly equaling the pace of 2011 in which there were 10 PE exits throughout the year. Institutional investors are often astute judges of market cycles, in conjunction with a subject-company's lifecycle, and thus timing to enter and/or exit an investment.

Looking at the buy-side, PE firms and PE-backed strategics were responsible for 9 of the acquisitions in 1H 2012. This is likely driven by the significant amounts of "dry powder" built up by PE firms in the past several years. Of the 4 RCM deals which occurred in 1H 2012, 1 was completed by a PE-backed strategic. Based on interest we've seen from many buyers, we fully expect that transactions involving firms that provide RCM services will continue to be an active segment for M&A activity.

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Contact us to discuss any of the M&A trends noted herein, or to let us know of your strategic objectives.

Figure 2

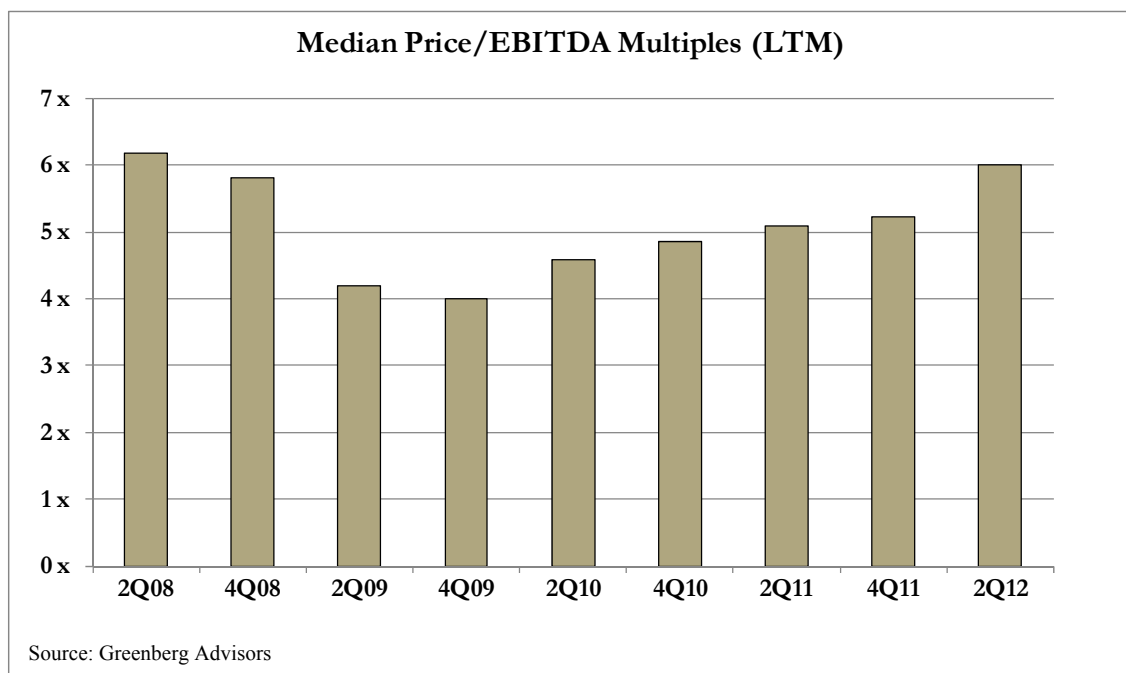
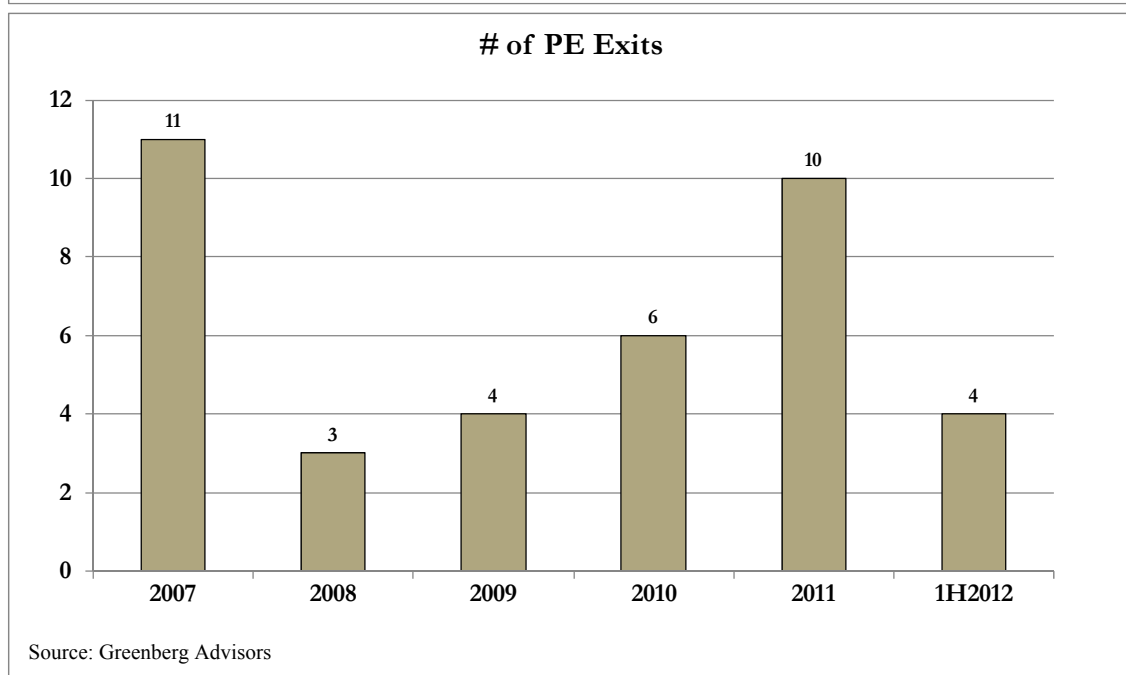


Figure 3



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