

# M&A UPDATE

## Issue Highlights

### 4Q 2010

- \$1.1 billion aggregate ARM transaction value in 2010
- 47 ARM M&A Transactions in 2010 averaging \$23.6 million per deal
- Strategic buyers responsible for all 4Q 2010 deals
- Pricing multiples continue to increase in 4Q 2010

## M&A is Alive and Well in ARM

Now that 2010 is in the books, it is clear that M&A activity in ARM is gaining momentum. Aggregate ARM transaction value in 2010 was \$1,109 million, up a massive 159% from \$428 million in 2009. With definitive signs of slow but sure improvement in the economy and M&A activity in general, we expect 2011 and 2012 to reflect a similar level of activity. Selected acquirers in 2010 included **Portfolio Recovery Associates** (Nasdaq: PRAA), **VION Receivable Investments**, **Duke Street Capital**, **Sherman Financial Group's management**, **Huntsman Gay**, **Owner Resource Group**, **H.I.G. Capital**, and **RLJ Equity Partners**. In 4Q 2010, one of the years more active acquirers, Sweden-based **Intrum Justitia** (Stockholm: IJ.ST), acquired both **Aktiv Kapital's** (Oslo: AIK.OL) Scandinavian credit management operations, and debt purchaser **Nice Invest Nordic AB**, with combined transaction value in these deals of over \$100 million.

**Larger Deals, More Deals in 2010.** 2010 brought 47 ARM M&A transactions, up 38% from the 34 transactions in 2009. To put this into context, this increase is greater than the trend in the private equity market, as deal volume among U.S. private equity firms was up just 11% (Source: PitchBook). Interestingly, the average ARM transaction value in 2010 was \$23.6 million, almost doubling the 2009 number of \$12.6 million. In 4Q 2010, there were 12 ARM M&A transactions averaging \$33.1 million for a total of \$396.9 million in aggregate transaction value. All of these numbers were up significantly over 3Q 2010, which saw 7 transactions averaging \$13.3 million for a total of \$93.0 million in aggregate transaction value. The largest deals in 4Q 2010 included the **iQor** acquisition of **RMS**, followed by the two Intrum Justitia acquisitions.

**12 – 0 Shutout For Strategic Buyers vs. Financial Buyers in 4Q 2010.** Strategic buyers accounted for 39 deals (83% of the total) during the year, while financial buyers completed only 8 deals. In 4Q 2010, strategics dominated, completing all 12 of the quarter's transactions, including the above-noted Intrum Justitia and iQor acquisitions. There is no question that over the past 3 years, strategic buyers have been the dominant buyer type in ARM. Financial buyers have only out-acquired strategics in one quarter, 4Q 2009. It is worth noting, however, that since 2008, financial buyers have been responsible for 19.5% of all ARM deal activity, and 39.9% of the aggregate ARM transaction value, showing quite clearly that they are typically involved in larger deals. Another telling point: Many of the strategic deals in 4Q 2010 and over the past 3 years were completed by private equity-backed platform companies.

**EBITDA and Revenue Multiples Keep Rising.** In 2010, median Price / EBITDA and Price / Revenue multiples were 4.5x and 0.7x, as compared to 4.1x and 0.7x, respectively in 2009, showing that buyers were willing to put higher values on cash flow streams, but not necessarily on top line numbers. We would expect moderate increases in both of these metrics in 2011 as the economy continues improving. 4Q 2010 saw purchase multiples continue their relatively steady climb, which is to be expected based on the increases in average transaction value. The median Price / EBITDA multiple in 4Q 2010 jumped to 6.5x, while the median Price / Revenue multiple was 1.0x, both up significantly from 4.5x and 0.5x, respectively in the previous quarter. This is in spite of the fact that the percentage of distressed deals in 4Q 2010 was 41.7%, comparable to 42.9% in 3Q 2010. For purchase price multiples to rise so much (Price / EBITDA increased 43.9% in 4Q 2010), while the percentage of distressed deals was basically flat, shows that buyers were willing (and able) to pay significantly higher multiples than in the recent past. This is yet another sign of the strengthening M&A and economic environment, where buyers have better access to financing and are projecting better performance in the future, allowing them to bid higher multiples.

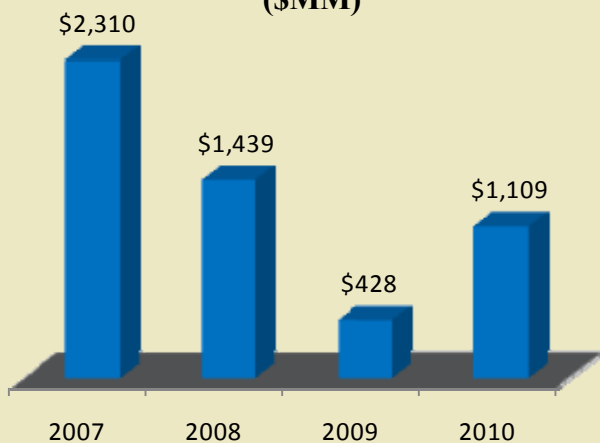
**Creditor Moves May Spur M&A.** As those in the business are well aware, some of the largest creditors are cutting back on their ARM vendors due to reduced volumes or a change in **(Continued on Page 2)**

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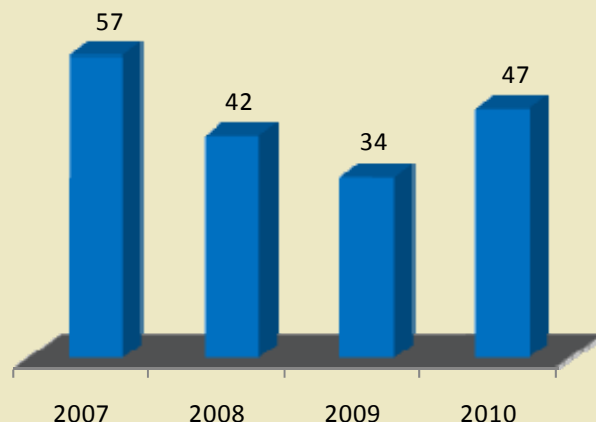
strategy. While some firms will benefit from this change, others will need to scramble to manage costs and find additional revenue sources to stay afloat. We believe a subset of these firms will seek a merger partner, or a partial to full sale, especially as the effect of these changes becomes more pronounced after the tax season ends. The good news is that many opportunities exist for these firms, which often have sought-after clients, people, and other characteristics.

**Total ARM Transaction Value by Year (\$MM)**



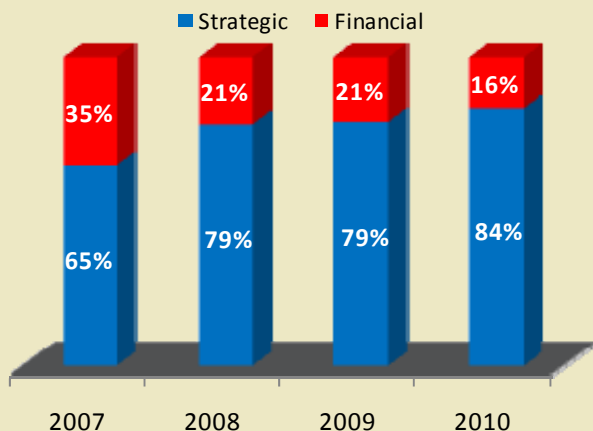
Source: Greenberg Advisors, LLC

**Number of ARM Transactions by Year**



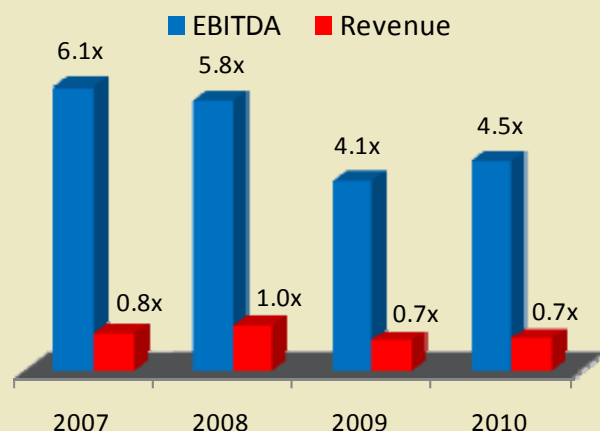
Source: Greenberg Advisors, LLC

**Percentage of ARM Transactions by Financial and Strategic Buyers**



Source: Greenberg Advisors, LLC

**Median Transaction Price Multiples for ARM Transactions**



Source: Greenberg Advisors, LLC

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