M&A UPDATE

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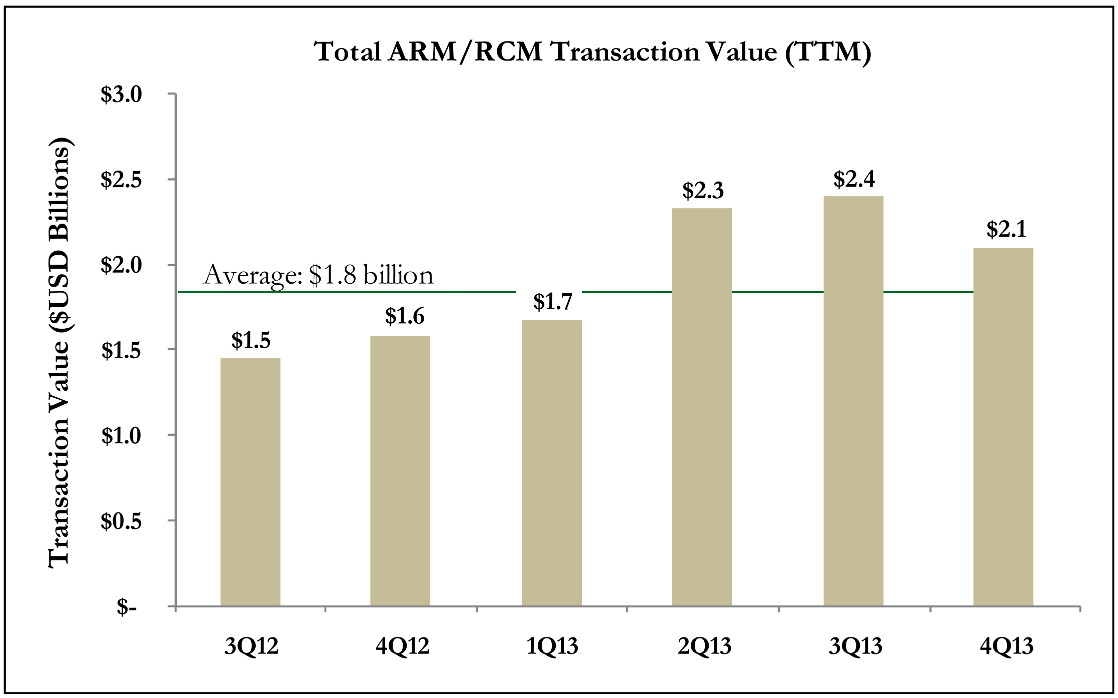
Deal Value Reaches Six Year High Point

The year 2013 showed solid activity in the global M&A market across all sectors. Key reasons include: a favorable lending environment allowing for increased leverage, historically low interest rates, increased corporate cash, private equity exits and an uptick in cross-border activity. The ARM and RCM markets saw their fair share of activity as well, though the year was by no means without challenges.

$2.1 billion in ARM Deal Value Globally

Aggregate transaction value in 2013 was $2.1 billion, a 33% lift over 2012, and represents the only calendar year since 2007 where total value exceeded the $2 billion threshold. Two larger transactions in 2013 helped contribute to the increase: The $354 million acquisition of UK-based **Cabot Credit Management** by **JC Flowers**; the $439 million acquisition by **Arvato AG** of Norway-based **Gothia Financial Group AS**. During 2013, a total of 45 transactions closed, down from 60 transactions in 2012.

The $2.1 billion total for 2013 is well above the average of $1.8 billion for the prior six TTM periods, as illustrated in the exhibit below:



The United States and United Kingdom dominated the activity throughout the year. U.S. buyers represented 63% of transactions in 2013, while U.S. targets accounted for 55%. Buyers and sellers from the United Kingdom account for a larger proportion than all other non-U.S. players combined, representing 24% of all buyers and 31% of all targets in 2013.

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Contingency Services Remain in High Demand

Of the transactions closed in 2013, 84% of the target companies provided contingency collection services as at least one of their service offerings, indicating the high buyer interest that remains for those businesses. Meanwhile, 20% and 33% of targets provided debt purchasing and business process outsourcing (BPO) services, respectively, all of which is consistent with the past few years of activity. Interestingly, M&A transactions among debt buyers comprised approximately 72% of total deal value in the year.

A number of debt buyers were active throughout the year in selling off portfolios of charge-offs, rather than their entities. This activity, while critical to the strategic direction of many firms, isn't reflected in M&A statistics. Greenberg Advisors completed one such deal close to the year-end, which was driven by pending legislation in a particular state.

RCM/Healthcare Was Very Active

The 4th quarter of 2013 noted 60% of targets serving the healthcare/RCM sectors. This is up from 36% and only 8% in the 4th quarters of 2012 and 2011, respectively. In 2013, 31% of targets in 14 transactions served the RCM/healthcare sector. With the exception of **Parallon's** acquisition of **Clearlight Partners**-backed **The Outsourced Group**, the average size for the remaining 13 deals was $4.0 million indicating a fragmented industry where buyers place value on companies of all sizes. Among the 14 transactions, five buyers were private equity firms, while the above mentioned Parallon acquisition was the only one with a private equity-backed seller.

We believe the RCM segment will see growth in M&A activity over the coming year as the industry is highly fragmented and offers good opportunities for buyers to gain new clients, capabilities, geographic coverage, and revenue. Given our active involvement in the RCM segment and daily conversations with RCM executives and investors seeking to accomplish a variety of objectives, and given the changes surrounding the Affordable Care Act, we see myriad opportunities among service and technology providers in the RCM segment.

Other Market Sector Dynamics

Beyond those noted above, market sectors with significant M&A activity over the past three years include financial (51% in 2013), education at 16% (note this was down from 20% in 2012, but higher than 9% in 2011), retail at 33% and commercial at 18%. The slight decline in deals within the education sector is likely due to the upcoming award of the U.S. Department of Education contract; once the recipients are announced, we expect deal activity to follow, at premium multiples, given the lucrative dynamics in that segment.

Target sectors showing either large increases or decreases in representation over the past 2-3 years include government, which was accounted for in 33% of 2013 deals, up significantly from 12% in 2012, and legal, represented in 11% of 2013 deals, up from 5% in the prior two years. The auto sector was only represented in 11% of 2013 deals, down from 28% in 2012.

Buyers are Largely Strategic and PE-Backed

On average for the past three years, 38% of buyers were either pure play private equity transactions (platform deals) or PE-backed strategic acquisitions, reflecting the continued confidence of the private equity universe in this segment of the financial services industry.

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Strategic deals with PE–backed buyers have averaged 22% over the past five years, indicating that many PE firms are growing their platforms through a steady diet of bolt-on transactions. While strategic buyers have always accounted for a majority of deals, private equity firms entering into platform acquisitions were more active in the space in 2011, when 25% of deals were done with private equity acquirors; this fell to 13% and 11% in 2012 and 2013, respectively. This trend could be due to the increased regulation and changes occurring in the ARM sector which, while they can certainly be mitigated, present challenges to some financial buyers seeking platform acquisitions. As a result, some investors avoid sectors with increased uncertainty, approach transactions more cautiously, or price that uncertainty into their proposed terms and/or deal structures, which may not meet the seller's needs or expectations.

Distressed Sales Are More Prevalent

Although the majority of deals (56%) for 2013 involved stable targets (i.e. revenue growth <15%), the trend is growing for transactions involving targets with distressed financial profiles. For the TTM periods ending in each of the past four quarters, approximately 27% of deals were distressed. Although these deals are still in the minority, the trading of distressed assets has grown as a percentage of transactions when compared to the TTM periods ending in each quarter of 2012, where these deals consistently accounted for approximately 18%.

The increase in distressed transactions is most often directly related to the rising cost of compliance that is putting a major strain on some smaller and mid-sized companies. In 2013, 80% of the targets generated revenues of less than $25 million.

Strong 2014 Outlook

We believe the compliance and issuer requirements will continue to take further hold and drive consolidation over the next 12-18 months, and that a "new normal" will emerge. Over the course of this timeframe, targets will continue to include both growing, profitable, market leaders as well as companies undergoing some degree of distress and seeking a sale. We expect that there will be continued activity among larger groups seeking entry into North America and other continents to expand their service offerings globally, and that the subset of investors currently sitting on the sidelines will become more active.

Put our nearly 20 years of sector-specific expertise and relationships to work for you.
Contact us to discuss opportunities we're seeing in the market today or to discuss how we might add value to your strategic plans for 2014 and beyond.

Contact Us at 301-576-4000 | Visit Our Website at www.greenberg-advisors.com

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