M&A UPDATE

Greenberg Advisors
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Issue Highlights

3Q 2010

- Financial buyers account for 75% of transactions
- Purchase price multiples increase significantly
- Median deal size increases
- The percentage of transactions utilizing contingent considera-tion continues to rise

Two High-Performers Acquired in 3Q 2010 as New M&A Trends Emerge

With M&A activity on the rise, the Accounts Receivable Management (ARM) sector saw some interesting deals in the 3rd quarter. The first major ARM transaction of the quarter was the acquisition of government-focused **Gila Corp.** by **Owners Resource Group**, **Roundtable Investment Partners**, and Gila's management. The second significant deal was **RLJ Equity Partners'** acquisition of **Enhanced Recovery Corporation**, creating the largest minority-owned ARM firm in the U.S. RLJ Equity Partners is an affiliate of **The RLJ Companies**, a business network founded by Robert L. Johnson, the founder of the **BET** television network. The acquisition of **Health BluePrints, Inc.** by **NCO Group** is another transaction worth highlighting. While the seller provides consulting services, rather than ARM services, and is therefore not included in our statistics, this deal reflects a trend toward offering a full Revenue Cycle Management platform, including front-end and back-end services, in order to attain a better strategic foothold with clients, access new clients, and gain business opportunities outside of traditional 3rd party debt collection.

Prices Rise Significantly for Well-Performing ARM Firms. Purchase price multiples were up again in 3Q 2010, as the median Price / EBITDA multiple was 5.5x, up significantly from 4.4x in 2Q 2010, and the median Price / Revenue multiple was 1.0x, up from 0.8x in 2Q 2010. This 23% quarterly jump in EBITDA multiple stands out against an average increase of only 1.5% for the 4 previous quarters (Fig. 1), and was driven by an improved M&A market, increased demand among buyers, and the fact that 75% of the selling ARM firms in the quarter were high-performers. Given our belief that the number of distressed M&A transactions in ARM should continue declining, we expect purchase price multiples to continue within this range.

How Deals Are Getting Done. Aggregate M&A transaction value in 3Q 2010 in the ARM sector was $92 million, down from $524 million in 2Q 2010, which was the highest level since 2Q 2008, due in part to the acquisition of **iQor**. In spite of the decline in 3Q 2010, however, the broader trend clearly shows a strengthening M&A environment. Seventy-five percent of the completed deals in 3Q 2010 included contingent consideration, steadily increasing from 16.7% in 3Q 2009 (Fig. 2). In 3Q 2010, all three of the deals which included contingent consideration involved growing, profitable sellers. It is clear that in today's ARM M&A market, the use of contingent consideration has become the norm for the acquisition of performing and underperforming sellers alike.

Financial Buyers Are Back. Financial buyers controlled the buying activity in 3Q 2010, as they completed three of the four ARM M&A transactions in the quarter (Fig. 3), including the deals involving Gila Corp. and Enhanced Recovery Corp. noted above. This breaks the trend of strategic buyer dominance, which had been the case in 4 of the last 5 quarters, and appears to be a sign that credit markets have improved and will continue to do so (as discussed in ARM Intel for 3Q 2010). There is also a clear trend correlating activity by financial buyers to mid-larger deal sizes, as the last time financial buyers were dominant over strategic buyers in ARM was 4Q 2009 (Fig. 4), a quarter which also brought a significant percentage of sizeable deals. In addition, as the IPO market continues to ramp up, we should see strengthening activity from financial buyers who will gain investment confidence from this additional exit alternative. In upcoming periods, we expect financial buyers to continue bidding more aggressively for deals, which should keep price multiples and transaction sizes relatively high, however we don't see financial buyers maintaining quite the same edge over strategics that they held in this past quarter.

As always, we look forward to hearing from you and would welcome your thoughts or questions. Visit our website for more information at www.greenberg-advisors.com.

__Greenberg Advisors, LLC__ is among the most experienced advisors to owners, executives, and investors in the Accounts Receivable Management (ARM) industry worldwide. With nearly 15 years of experience dedicated to the ARM sector, the firm's staff has completed over 65 M&A and strategic advisory transactions in ARM, including recent transactions with TRAKAmerica and NARS, among others. The firm's advisory services focus on M&A, capital raising and valuation, as well as operational advice to assist clients in resolving critical operational challenges to enhance the value of their business.

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Figure 1

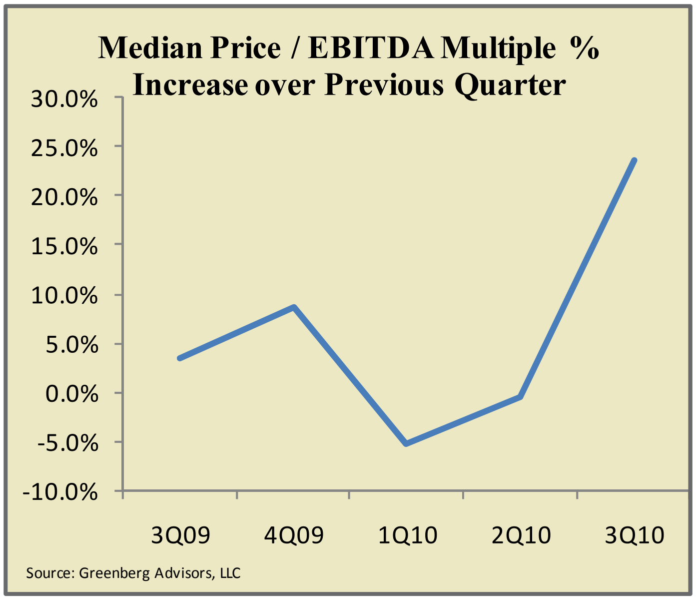


Figure 2

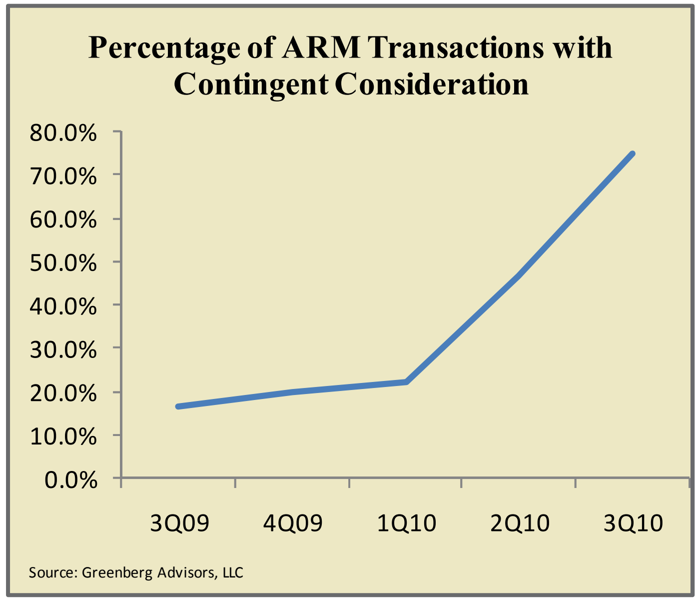


Figure 3

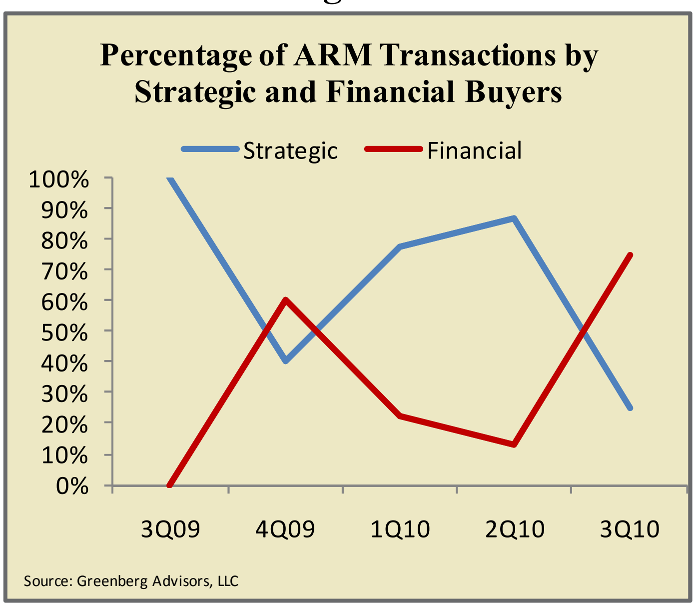
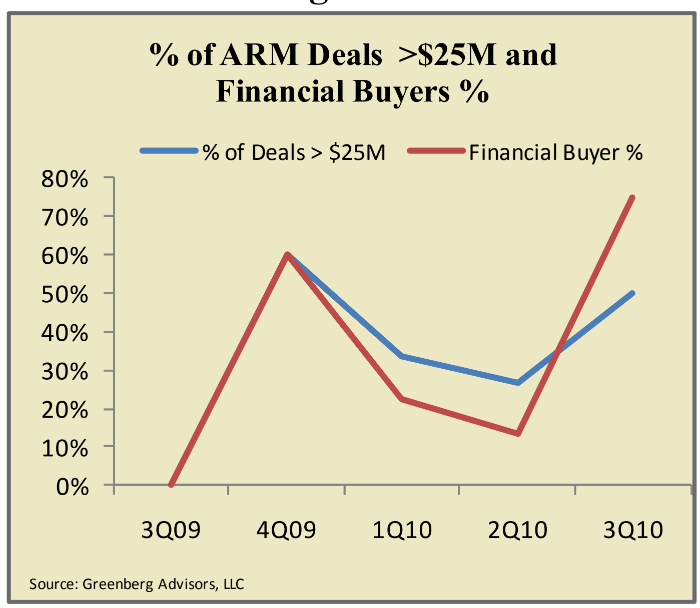


Figure 4



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

Brian Greenberg	**Managing Director**	**bgreenberg@greenberg-advisors.com**
Shaun Tiwari	**Associate**	**stiwari@greenberg-advisors.com**

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