



Bigger and Better

The healthcare, finance and education markets dominated deals in 2016.

Don't expect the mergers and acquisitions market to quiet down any time soon. While M&A activity in the credit and collection industry may not have been as active in 2016 as it was the year before, it saw bigger action, and experts believe this trend will continue throughout 2017.

"There were 27 transactions completed in 2016, compared to 46 in 2015," said Brian Greenberg, founder and CEO of Greenberg Advisors. "But while the volume of deals was lower by a fair measure, the aggregate value of all deals was significantly higher."

This bump is due in part to increased creditor consolidation and regulatory oversight, which have required debt collection agencies to handle larger volumes of business from larger clients, in addition to providing more services and solutions. In growing to meet that challenge, these more robust collection agencies have become attractive acquisition targets to different groups of buyers, including many financial buyers.

Plus, as regulators increasingly expect creditors to more carefully monitor

their third-party business partners, "many have reduced the number of vendors they utilize from 50 to just five or 10 because it's less risky and allows for greater oversight," Greenberg said, adding that creditors will likely continue to whittle down the number of third-party collection agencies they use as the consolidation trend continues.

Today's buyer profile is evolving too. In 2016, financial buyers were involved in a much larger percentage of the transactions than they were in 2015, according to Greenberg Advisors.

"Financial buyers have minimum size and profitability thresholds that acquisition candidates have to meet," Greenberg said. "As some ARM companies have grown to that critical size, they've met these thresholds and, as a result, certain private equity investors have demonstrated an active interest in investing into the ARM industry."

Buyers continue to be attracted to a handful of big markets in the collection industry, with healthcare

and financial institutions leading the pack. But education was big in 2016 too, representing 22 percent of sellers, and is poised to continue to grow in 2017.

"We've spoken to many groups who had put their M&A activity—and many other strategic plans—on hold while the Department of Education's contract announcement was being considered," said Zach Eisenberg, investment banking associate at Greenberg Advisors. "Now that it's known, it will create significant exit opportunities for those that were awarded the contract, and even those that weren't, given that buyer interest extends to all aspects of the ARM industry."

One question mark in all of this is the political environment—how the Trump administration will affect the Consumer Financial Protection Bureau, and how the CFPB interacts with the credit and collection industry going forward.

"That's the unknown," Greenberg said. "We believe this points toward a more positive environment for creditors and collectors, but how positive remains to be seen." ❖