Greenberg Advisors

M&A • STRATEGIC ADVISORY • CAPITAL

CELEBRATING 10 YEARS

ARM Intel

December 2020

ARM Company Performance and M&A During a Pandemic

301-576-4000 | www.Greenberg-Advisors.com

ARM Company Performance and M&A During a Pandemic

When COVID-19 first impacted the US in early 2020, ARM owners and executives faced some of the most significant challenges in their careers. Many focused on navigating operational changes and thoughts of M&A were largely put on the backburner. Now, nine months later, the pandemic continues and uncertainty persists, but silver linings have emerged; a vaccine could be available within months (or weeks); most businesses have successfully transitioned to a remote workforce model; business owners have assimilated to the current environment and understand its impact on their company.

Our goal in this article is to answer questions that we are asked regularly related to the ARM industry and M&A among ARM firms. Our responses are based on the conversations that we have had with owners and investors every day, as well as our experience in M&A transactions with ARM firms. Our comments below include generalizations but every company's situation is different. We would be happy to answer questions specific to your company or your M&A plans. Please contact us at 301-576-4000 or email us to schedule a call.

How are companies performing?

- Many credit grantors paused or adjusted collection activities either due to regulatory directives or to avoid headline risk associated with collecting on debts during a pandemic. Many of these firms resumed placements and collections in August and September.
- With court systems shut down for several months, legal collection activity was severely stunted in Q2 and Q3.
- **Commercial:** A large portion of commercial collection firms have maintained or grown revenue in 2020, many citing an increase in liquidation rates as a primary driver. In some cases, commercial agencies that have several service

lines (i.e. first party / BPO, third party, etc.) have added new lines of business from clients that opted to outsource during the pandemic rather than manage internal resources. It remains unknown whether those new streams of business will continue.

- **Healthcare:** Varying state-level regulations, government mandates that ceased non-essential surgeries and significantly decreased patient visits to physician offices, and client-imposed limitations on collection activities have had the most significant impact on healthcare ARM agencies. Despite that, most companies have seen placements resume albeit at a lower but manageable rate in Q3.
- **Other Retail / Consumer:** While some firms are performing better than they did in 2019, most agencies are forecasting a 15%-20% revenue reduction in 2020. Despite the drop in revenue, many will maintain or improve their profitability (a.k.a. Adjusted EBITDA) due to staffing cuts and furloughs effected in Q2.

Are M&A deals still being completed?

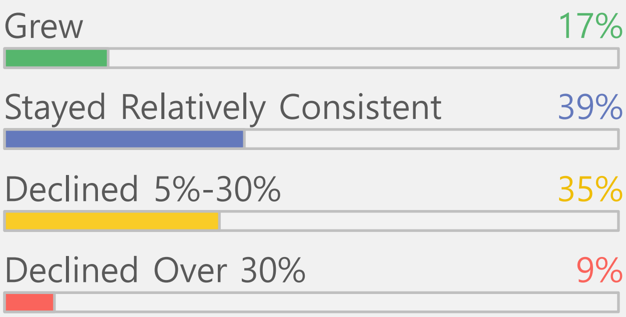
- There's no denying that COVID-19 impacted M&A. As discussed in our 1H 2020 ARM M&A Update, just nine ARM M&A deals closed in the first half of the year. That said, they were nine large transactions representing $575 million in aggregate transaction value. We're aware of multiple transactions that were scheduled to close in the first half of the year but were temporarily put on hold while buyers and sellers tried to predict the long-term impact of the pandemic.
- There was a significant uptick in deal activity in Q3, with new sellers entering the market and buyers and sellers resuming discussions on transactions that were paused. Since deals typically take months to complete, we expect that the Q2 delay and the resulting backlog of investor demand will produce a very active Q4 2020 and 1H 2021.

Are there good buyers and sellers in the market?

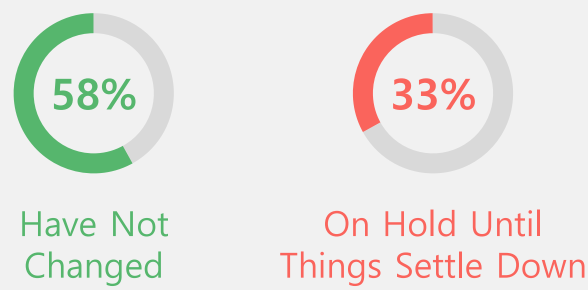
- Yes! We're very encouraged to see the growing level of interest from buyers and sellers.
- **Buyers:** Private equity investments in ARM over the last few years have increased the number of capable buyers in the market, as M&A is typically an integral part of their growth strategy. This supplements the already-strong pool of strategic buyers that are founder- or management-owned.
- **Sellers:** COVID-19 may have delayed some plans to sell in March and April, but that delay appears to be behind us and owners have resumed their strategies. Further, our survey of owners revealed that 58% of respondents had not changed their M&A plans as a result of COVID-19. With that said, many owners have recently told us that they are more receptive to exploring a sale, as navigating COVID-19 highlighted their need for a partner that can bring management and technology resources.

COVID-19'S IMPACT: RESULTS FROM GA'S SURVEY OF ARM FIRMS[1]

Revenue Impact:



Owners' M&A Plans:



What Changes are Owners Considering to Prepare for Future Disasters?

"Adjust our sales process and virtual communication with clients and prospects"

"Build out near-shore redundancy"

"Keep more cash on-hand"

"Improve technology infrastructure and have stricter financial discipline"

"More work-from-home, to the extent that clients and regulators allow it"

[1] *Survey responses were gathered in May and June 2020*

How are valuations holding up? How about deal structure?

- It seems that the best (and only) response is… it depends.
- In transactions where the seller was only marginally impacted by the pandemic and / or has recovered to pre-COVID-19 levels of performance, valuations and deal structures have been similar to what we saw in 2019. We've seen - and completed - deals with all cash terms and no earnouts.
- In cases where the timeframe and certainty of a seller's complete recovery is less obvious, buyers are utilizing more deal structure (i.e. earnouts or contingent payments based on performance).
- Outside of macroeconomic factors, such as the availability of financing, valuation is most impacted by the performance of the seller and deal structure is often driven by the buyer's perception of risk. The more that a seller can demonstrate predictable performance and limit the risk to buyers, the more aggressive buyers will be on valuation and structure.

In conclusion

Despite the hardships brought on by this pandemic, it will also create many positive developments. Businesses have had to make technology investments, which for some were long overdue. Once seen as a significant threat to productivity and compliance, the work-from-home model has proven to be a viable alternative offering improved retention and employee satisfaction if deployed correctly. The value of a strong management team has been highlighted, and owners have identified gaps in their management team that were being masked in normal circumstances. The list goes on, but one thing that stands out is the resilience of ARM business owners; we're confident that many firms will come out of this stronger than ever.

We would welcome the opportunity to catch up and discuss your questions or M&A plans. Contact us here

ABOUT GREENBERG ADVISORS

Greenberg Advisors, LLC is one of the most prolific and experienced M&A advisory and planning firms in the Accounts Receivable Management (ARM) industry. The firm's professionals have provided trusted M&A and strategic advice to ARM executives and investors for nearly 25 years, resulting in the completion of over 135 M&A, capital raising, valuation, and strategic advisory engagements.

Brian Greenberg

Chief Executive Officer
(301) 576-4000 ext. 1
Email

Zach Eisenberg

Vice President
(301) 576-4000 ext. 3
Email

Casey Krasko

Associate
(301) 576-4000 ext. 2
Email

Dan Miller

Analyst
(301) 576-4000 ext. 4
Email

Follow us on LinkedIn to stay up-to-date on industry news, insight, and GA's activity.

ADVISING INDUSTRY LEADERS FOR 25 YEARS

ARCADIA RECOVERY BUREAU was acquired by ANNUITY HEALTH a portfolio company of PINE TREE EQUITY PARTNERS	PRAXIS HEALTHCARE SOLUTIONS was acquired by REVINT a portfolio company of NMC New Mountain Capital LLC	*(not yet announced)* ***a private equity-backed ARM firm*** acquired ***the commercial collection division of an ARM firm***
GENERAL REVENUE CORPORATION a subsidiary of NAVIENT was acquired by SINGLEPoint	JL teamworks was acquired by USCB AMERICA	meduit a portfolio company of NexPhase CAPITAL acquired the early-out assets of SIGNATURE Performance
RMP Receivables Management Partners a portfolio company of THOMPSON STREET CAPITAL PARTNERS acquired Allied Business Services, Inc.	dcm services a portfolio company of NEP Norwest Equity Partners was acquired by WL square	H. I. G. CAPITAL acquired TRAK AMERICA