

# Greenberg Advisors

M&A • STRATEGIC ADVISORY • CAPITAL



## M&A Update First Half - 2020

A black and white photograph of a microphone on a laptop keyboard, with a hand typing in the background.

**Accounts Receivable  
Management**

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## INTRODUCTION

The first half of 2020 (1H 2020) was unlike any other. Accounts Receivable Management (ARM) firms faced the unique challenge of understanding and complying with oft-changing regulations, meeting specific client preferences, and working with consumers that are experiencing financial hardship not seen since the Great Depression.

The result was a mixed bag for M&A activity; aggregate deal value grew to \$570 million, while deal volume dropped substantially, with just nine transactions closing in the first half of the year. Notable transactions include the sale of DCM Services<sup>1</sup> and Arcadia Recovery Bureau<sup>2</sup>, as well as the divestiture of certain assets of one-time industry consolidator, Alltran.

We expect the second half of the year to prove fruitful for M&A, as some of the uncertainty has subsided relative to the levels in March and April, and many companies resume their M&A strategy.

To discuss your M&A interests or questions, please [reach out](#) to schedule a call with our team.

*All statistics and market data in this document are from GA's proprietary M&A database. May contain estimates.*

<sup>1</sup>GA served as the exclusive financial advisor to DCM Services in its sale to WILSquare in 2017.

<sup>2</sup>GA initiated and served as exclusive advisor to Arcadia in this transaction.

## SELECTED GA TRANSACTIONS

**PRAXIS**  
HEALTHCARE SOLUTIONS  
was acquired by



a portfolio company of



NEW MOUNTAIN CAPITAL LLC

Sell-Side Advisor

**ARCADIA**  
RECOVERY BUREAU

was acquired by



a portfolio company of



Sell-Side Advisor

*(not yet announced)*

***a private equity-backed ARM firm***

acquired

***the commercial collection division of an ARM firm***

Buy-Side Advisor

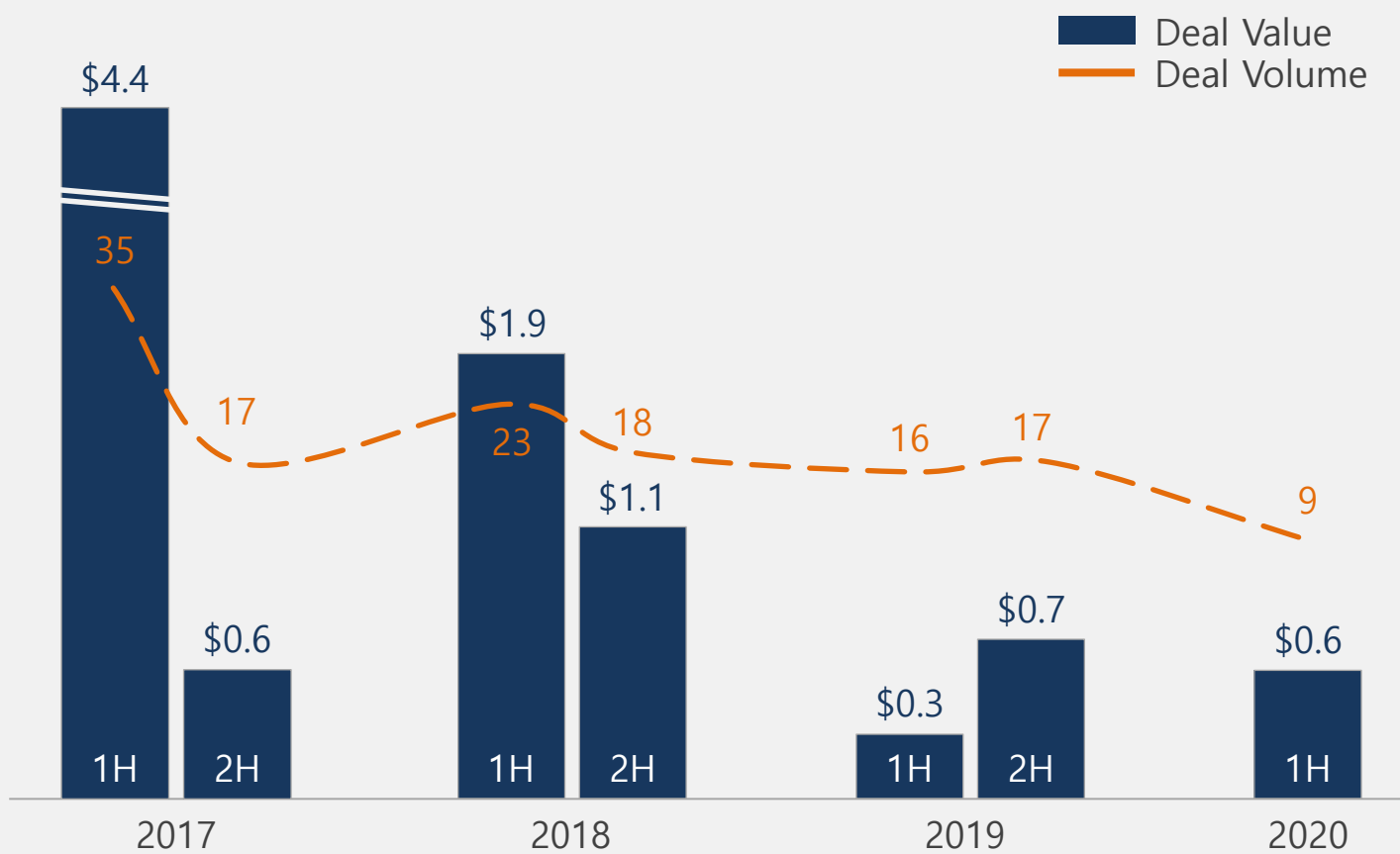
## KEY TAKEAWAYS

### 1 Ups and Downs

Despite the 44% decline in the number of transactions relative to 1H 2019, deal value rose by 120% in 1H 2020, reaching \$570 million. Several large transactions, the majority of which involved private equity firms, constituted the bulk of transaction value. These large deals – despite the trend toward lower aggregate transaction value over the past few years – embody the bullish outlook that many institutional investors have on the debt collection market, given the vital role that it plays in the economy.

### DEAL VALUE & VOLUME

*(\$ in billions)*



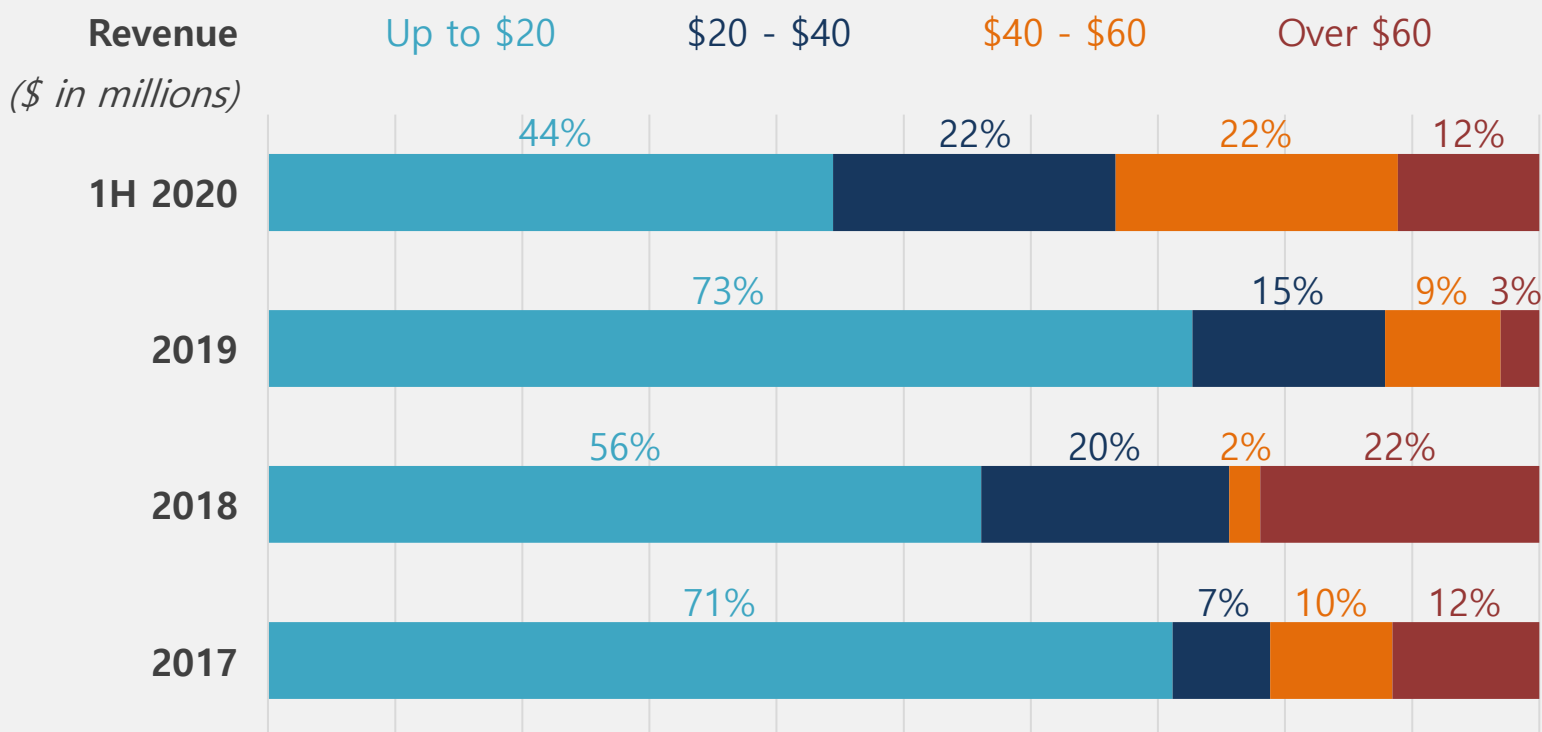
## KEY TAKEAWAYS

### 2 Change for a \$20?

Sellers with less than \$20 million in revenue comprised the smallest amount of deal volume in over four years. To some degree, this could have been expected, as the buyer activity among strategics without a PE-backer significantly dropped and historically, those companies were more likely to acquire companies in this size range. Further, it's reasonable to assume that without the infrastructure and management support that larger ARM firms have, owners of sub-\$20 million companies had to focus their efforts on transitioning to work-from-home and managing the business instead of pursuing a sale. However, based on GA's recent conversations and activity in the market, we expect these groups to soon jump back into the M&A market.

### TRANSACTION VOLUME BY SELLER REVENUE

(% of total deals)



## KEY TAKEAWAYS

### 3 Who's Doing the Selling?

The three most traded ARM client segments in 1H 2020 were financial services, healthcare, and government. It's no surprise that the financial services and healthcare segments landed at the top of the list, as they have competed for the top position for over five years. Transactions where the seller serviced government clients represented 33% of total deal volume, up from 13% in 1H 2019. We will be closely monitoring if and how the activity changes in 2H 2020, as that could serve as an indicator for just how well agencies are rebounding within each client segment.

#### 1H 2020 MOST ACTIVE CLIENT SEGMENTS

*(% of total deals)*



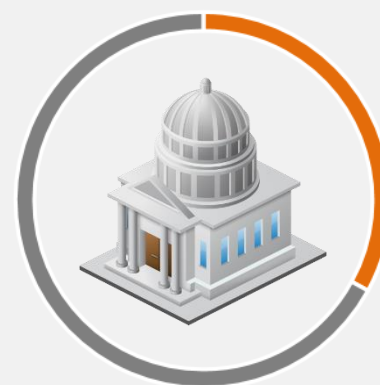
**44%**

**Financial Services**



**44%**

**Healthcare**



**33%**

**Government**

## KEY TAKEAWAYS

### Valuation, Deal Structure, and M&A Activity During (and After) a Pandemic

GA's [survey](#) of owners and executives revealed that two of the largest M&A-related concerns are:

- 1) If and / or how valuation multiples will be impacted
- 2) Whether there are good buyers and sellers willing to transact in 2020 or 2021

Based on our deal experience and discussions with buyers, it seems that the only response to the valuation concern 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. In good circumstances, 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. In ARM, the impact of COVID-19 is dramatically different depending on the clients that the agency services and the offerings that it provides. For example, many of the commercial collection agencies that we speak with have expanded their relationships with key clients that are relying on outsourcing partners instead of trying to manage these functions in-house during the pandemic. This is especially the case

#### WHAT LONG-TERM 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"*

*"Improve technology infrastructure and have stricter financial discipline"*

*"Keep more cash on-hand"*

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

Source: GA's May / June 2020 survey of ARM owners and executives

## KEY TAKEAWAYS

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for companies that offer first party services in addition to third party, as clients that were previously only utilizing one offering asked the agency to work accounts for the other line of business as well. On the other end of the spectrum, consumer- and healthcare-focused collection agencies are facing regulatory roadblocks and client-mandated restrictions on collection activities.

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.

Regarding the number of buyers and sellers that will be active in 2020 and 2021, we continue to see an encouraging and growing level of interest from both sides and we expect that to rise as businesses stabilize. Private equity investments in ARM over the last few years certainly increase the number of active buyers in the market, as M&A is typically an integral part of their growth strategy. We also speak with many non-private equity-backed strategics that are aggressively seeking acquisitions right now and are offering valuations that do not punish the seller for reasonable COVID-19-related dips in performance. On the other side of the coin, COVID-19 may have delayed some plans to sell in March and April, but that delay appears to be behind us and owners are resuming their strategies, or planning to do so soon. 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, we've talked to owners that are now more receptive to exploring a sale, as navigating COVID-19 highlighted their need for a partner that can bring management and technology resources, or simply increased their ownership fatigue.

## LOOKING AHEAD

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The first half of 2020 was really about navigating the COVID-19 pandemic. It was about shifting resources to a work-from-home environment, which at the required scale, was a new concept to many ARM companies and posed unique compliance challenges. It was about applying for government assistance through the Paycheck Protection Program, a newly-created stimulus effort. It was about understanding disjointed regulations brought about by a pandemic of unforeseen proportions. Simply put, we think that many of the factors that stifled activity in the first half of the year will be less influential in the next six months. Whether or not the US presidential election will impact activity is yet to be seen. Depending on the outcome of the election and any resulting changes to tax policy, some owners may reevaluate the timing of their M&A activity. Based on our daily conversations with owners and investors, we expect a very busy back half of 2020, based on the up-tick in M&A activity that we've already begun to observe.

## RESOURCES FOR OWNERS

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**ARM Intel:** ARM Company Performance and M&A During a Pandemic



**SURVEY RESULTS:** Understand COVID-19's impact on ARM



**DEAL ANNOUNCEMENT:** GA advised Praxis Healthcare Solutions in its sale to Revint Solutions



**DEAL ANNOUNCEMENT:** GA advised Arcadia Recovery Bureau in its sale to Annuity Health



## ABOUT GREENBERG ADVISORS

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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.



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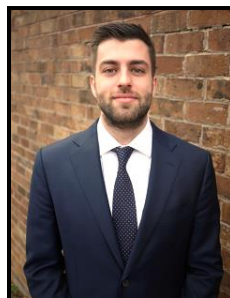
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## ADVISING INDUSTRY LEADERS FOR 25 YEARS



was acquired by



a portfolio company of



was acquired by



a portfolio company of



*(not yet announced)*

***a private equity-backed ARM firm***

acquired

***the commercial collection division of an ARM firm***




a subsidiary of



was acquired by



was acquired by



a portfolio company of



acquired the early-out assets of



a portfolio company of



acquired



a portfolio company of



Norwest Equity Partners

was acquired by



acquired

