ACA International

Accounts Receivable Management Industry M&A Deal Value Dropped in 2009

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Advisory firm Kaulkin Ginsberg estimates the 2009 mergers and acquisitions deal value was down 78 percent compared to the previous year, yet transaction volume was unchanged.

The estimated total deal value for 2009 mergers and acquisitions in the accounts receivable management (ARM) industry amounted to $425 million—far less than the $2 billion in deal value recorded in 2008, according to Kaulkin Ginsberg, an M&A and strategic advisor for the industry. Despite the difference in deal value, the volume of transactions remained essentially the same—36 deals closed in 2008 and 35 in 2009.

Twenty-eight of the transactions in 2009 involved larger agencies acquiring smaller ones, or former executives getting back into the space via acquisition. These industry transactions continued to close at a steady pace despite the recession—primarily because the buyers knew what they were buying and could readily finance the transactions.

The remaining seven transactions consisted of larger platform acquisitions and management buyouts. These larger-size transactions continued to experience a reduction in valuation multiples in 2009.

“Financial buyers historically drove up the valuations of these larger companies, but starting in the second half of 2008, their valuations declined due to lack of available debt financing and increased uncertainty regarding future financial performance," said Mark Russell, director at Kaulkin Ginsberg. "Financial buyers also required sellers to accept more deal structure in the form of earn-outs, sellers' notes and/or retained equity to share in the deal risk."

There was an increase in the number of transactions involving some form of deal structure in 2009, but there were also all-cash transactions—mostly involving companies that outperformed the market, offered buyers substantial growth potential or were valued appropriately for this deal structure.

The 2009 transaction volume was also affected by longer M&A engagement periods. Buyers took longer to complete their due diligence and placed greater scrutiny on the seller's financial performance, legal activity and client growth opportunities. This caused some deals not to close as sellers changed their value expectations or buyers became uncomfortable with the results of their due diligence. The most prominent example of this was the announcement by NCO Group in early December to terminate its interest in acquiring Axiant, LLC.

“While 2009 was a challenging year for M&A, certain trends started to unfold toward the end of the year that may indicate M&A activity is on the rise,” Russell said.

One sign was that more than half of the total deal value in 2009, an estimated $229 million, was achieved in Q4. “As the credit markets continue to loosen, the number of large and mid-sized transactions should increase in 2010,” Russell said.

Some of the deals that would have closed in 2009 under ordinary economic conditions were put on hold by the sellers as a result of lower acquisition multiples and/or company performance.

“Some of these transactions are likely to re-emerge this year, which could mean stronger deal value and volume results for 2010,” Russell noted. “Add to this trend the effects of an improving economy and 2010 should turn out to be a stronger M&A year.”