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# The Shaping of an Industry

## A Guest Editorial By Mike Ginsberg



Mike Ginsberg is the author of this issue's guest editorial and is the president and CEO of Kaulkin Ginsberg Company.

Not since the deal-making craze of the late 1990s has the debt collection industry witnessed as many significant changes as those that recently transpired. From OSI's emergence from bankruptcy protection, to the flurry of investor activity in the debt-purchasing sector, to the significant collection agency acquisitions, to the meaningful executive changes, the events shaping the industry have been dramatic. In this article, I have recapped some of the most significant events that have occurred and identified prominent, emerging trends that will shape the industry for years to come.

### Major Moves Among Large Agencies

Let's start right at the top with NCO Group (NASDAQ: NCOG), which has been busy. The company began 2003 by integrating The Revenue Maximization Group, a New York-based healthcare collection agency acquired in late 2002. In August, NCO announced that it hired an executive vice president, business process outsourcing. In November, the company agreed to acquire RMH Teleservices (formerly NASDAQ: RMHT), a move underlying its efforts to become a global BPO service provider. If that wasn't enough, in early 2004 NCO announced its acquisition

of the outstanding shares of debt purchasing business NCO Portfolio Management (NASDAQ: NCPM).

OSI also had a busy 2003, but for entirely different reasons than NCO. The company entered the year with a new CEO, Kevin Keleghan, to guide restructuring efforts; voluntarily filed Chapter 11 in May and emerged less than seven months later with a strong balance sheet and a \$90-million credit facility from Merrill Lynch to buy debt. Since that time, OSI has reshaped its management team. Contrary to the belief of many, OSI emerged from bankruptcy without having to sell a business entity.

Two additional top 10 players, Nationwide Credit and IntelliRisk Management, announced new CEOs.

### Mergers and Acquisitions Recap

Mergers and acquisitions continue to be active among agencies despite a tight lender market that took its toll on deals closing in other industries, a weak IPO market for most of 2003 and uncertain times internationally. Kaulkin Ginsberg confirmed 61 transactions were completed in 2003, slightly lower than 2002's deal volume. However, 2003 generated more than \$1 billion worth of deal value, significantly higher than 2002's total deal value of \$790 million. The first quarter continued to reflect significant buyer interest, generating 13 transactions that produced more than \$475 million in total deal value. Of particular note was DCS' announcement of its \$167 million recapitalization by Parthenon Capital. Other transactions included Nelnet Inc.'s (NYSE: NNI) acquisition of Premiere Credit and the IPO of Asset Acceptance (NASDAQ: AACC), which raised \$105 million. All indications are showing even more buying and selling in 2004.

### Debt Buyers Continue to Attract Attention

Many industry insiders expected that the interest in the debt buying industry would

have cooled off by now. We find the reverse is true. Public stocks are performing well. Most private companies have grown top and bottom lines. New funding sources have emerged with sights set on challenging existing players. The biggest market concerns are portfolio availability and price increases because of increased investment activity.

It is worth noting that many contingency agencies are dabbling in the purchasing arena and interest continues to grow. Armed with capital, deep-rooted relationships with creditors and data to support their pricing decisions, contingency agencies will become a force to reckon with in debt purchasing in the years to come.

### Emerging Trends

#### Offshoring

Sparked by potentially significant cost savings, labor shortages and the demands of some large credit grantors, many agencies are looking to "move offshore." The offshore movement is not new in business or in the debt collection industry. Some agencies already have established channels into India, Jamaica and the Philippines through joint ventures, partnerships and by opening their own call centers. Several offshore players are positioning themselves for contingency collections.

#### CRM into ARM

Even before the implementation of the national "do not call" list, some larger call centers were migrating into the debt collection industry. Today, with the implementation of the "do not call" list in full effect, some call centers are mapping their survival strategies that call for expansion into debt collection. West and Sitel already have established a presence in the debt collection industry. Convergys recently announced its intention to buy a sizeable agency. More are on the way. The reverse also is occurring, as NCO and other debt collection agencies are making their

moves into CRM, including inbound and outbound services, through a combination of expansion and acquisition efforts.

#### Expiration of Non-Compete Agreements

Many non-competes that were executed in the mid-to-late 1990s by the owners and senior-level executives who sold their agencies to the consolidators are expiring. As this occurs, some are getting the itch to come back into the industry. Some will start their own agencies with the intention of taking back clients and staff that once were theirs.

Years from now, we will look back at these events as pivotal in the evolution of the industry. You should be aware of these events so that you can factor them into your own decision-making process.

*A brief note on Mike Ginsberg*

*Mike Ginsberg spearheads all of the firm's advisory business practices. He oversees a team of professionals that has completed over 100 M&A transactions ranging from minority sales to complete buyouts. He and the firm provide strategic advisory services to owners, executives and investors centered on growth and exit initiatives. Clients served include many middle-market businesses as well as Fortune 500 companies such as GE Capital and Deluxe Corp. Ginsberg has been a keynote speaker at association meetings and conventions on industry issues such as "When is the Right Time to Sell?" and "The Reshaping of the Collections Industry." He is a board member of the Institute of Merger and Acquisition Professionals, a member of the Association for Corporate Growth, and a member of ACA International and Debt Buyer Association. Ginsberg also serves as an expert witness and sits on the advisory boards of several industry associations and publications. More about Mike Ginsberg and Kaulkin Ginsberg Company can be found at [www.kaulkin.com](http://www.kaulkin.com).*

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