

Flourishing American ARMs Deals May Become a Global Concern

Accounts receivable management (ARM) isn't just about credit card bills anymore. It's still about credit cards, but there's booming demand for plenty of other types of debt collection, too.

"Obviously Americans have a seemingly insatiable appetite for debt of various forms, not just revolving debts like credit cards but also non-revolving debts such as student loans," said Paul Legrady, Research Group Director at Kaulkin Ginsberg.

Investors have caught on. "2004 was a record-breaking year in the industry and 2005 broke those records, in terms of volume of M&A," said Mike Ginsberg, President and CEO of Kaulkin Ginsberg. "As we sit here in 2006 we're not seeing a slow-down in sight. This is happening with financial, as well as strategic buyers."

"There are a lot of big names getting into the industry, like Sally Mae, West Corp, some large financial types like American Capital Strategies. American Capital just acquired a very sizable company in the marketplace, Financial Asset Management Systems, which specializes in the government area, working for the Federal Department of Education, and other areas, like credit card and telecom."

Currently, government business makes up about 10% of the ARM industry, including federal agencies, state governments and municipal governments, said Legrady.

And it looks like more ARM companies will be getting in on the government action. A couple weeks ago, the IRS announced it was in the first stages of outsourcing of delinquent income tax collection. "Over time, the IRS has the potential to become the single largest creditor outsourcing work to private collection agencies," said Legrady.

Although financials and strategics ended last year somewhat even in activity, Financial buyers came out in droves in most of 2005.

Strategic buyers are definitely active in the space, though. "We did a deal not too long ago with Sally Mae buying a

majority position in Arrow Financial, said Ginsberg. "Arrow is a very substantial player in the debt purchase and ARM marketplace. A large strategic buyer like Sally Mae provides great growth opportunities, access to clients and a larger platform for them to play on."

Although cross-border deals aren't a substantial amount of deals yet, the times, they are a'changing. "International is a growing area. We estimate that International deals make up less than 25% of the total deal volume but some have been very, very significant transactions," said Ginsberg.

"One of largest companies in India, ICICI, acquired Buffalo-based Account Solutions Group."

"We have to keep our eyes on international dealmaking. This used to be a cottage industry, then it was regional, and now it's moving to the global stage," said Ginsberg. "Obviously the government sector is very domestic, but telecom and credit card businesses aren't. As credit grantors expand globally, they will require their collection service providers to expand their capabilities as well."

