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2008 Debt Collection, A/R Industry M&A Activity Exceeds \$2 Billion
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Current Issue

The total deal value for mergers and acquisitions in the debt collection/accounts receivable management industry (ARM) for 2008 ended up at just over \$2 billion, exceeding 2007's \$1.7 billion total, according to Kaulkin Ginsberg. Thirty-six deals closed in 2008, compared to 50 transactions in 2007.

"The effects of the economic slowdown and the credit crunch had a significant impact on M&A activity, particularly in the second half of '08. Third and fourth quarter deals generated only 28% of the year's total deal value," said Mark Russell, director at Kaulkin Ginsberg. "Over 80% of the total deal value for the year was generated by five large ARM transactions -- three of these by private equity buyers who traditionally rely heavily on debt financing to fund transactions."

The year's five major transactions included NCO Group's acquisition of Outsourcing Solutions, Inc. for US\$325 million - a deal that combined the two largest debt collection agencies in the U.S. Investor AB purchased 50% of Norwegian debt collection company, Lindorff Group, for US\$558 million; UK-based Exponent Private Equity LLP acquired Lowell Holdings Limited, a British debt purchasing company, for an estimated US\$394 million; and mortgage insurer MGIC Investment Coup. sold its remaining stake in the largest U.S. debt purchasing firm, Sherman Financial Group, LLC. to management for US\$209 million. Late in fourth quarter, United Recovery Systems, L.P., a debt collection agency, was recapitalized by private equity company Audax Group. Terms were not disclosed.

For 2009, Russell foresees less total deal value generated overall, but potentially greater deal volume for the year. This greater deal volume will come from larger ARM companies acquiring smaller ones, and distressed ARM companies being forced to sell or recapitalize their businesses. "Some ARM companies are experiencing declining financial performance due to the poor economic conditions and recovery results. A number of these companies will be good acquisition targets for larger and more sustainable ARM companies, or they could serve as platforms for turnaround investment specialists that see an opportunity to improve their performance in a short period of time." The good news, he added, is that the ARM industry is a recession-resistant industry, and receivables management companies are often among the first to come out of a recession as liquidation rates increase while placement volumes remain high.

He anticipates fewer large transactions due to the challenging financing environment and its subsequent negative impact on pricing and deal structure. "The M&A market will turn around once the lenders become proactive in financing acquisition opportunities and liquidation rates for debt portfolios stabilize, but these trends may not unfold until the second-half of '09 or beginning of 2010."

Kaulkin Ginsberg is the leading M&A and strategic advisor for the debt collection/accounts receivable management industry (ARM), completing over 125 M&A transactions valued at over \$3 billion.

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