

Kaulkin Ginsberg sends *INSIGHT* each month to provide you and others in the Accounts Receivable Management (ARM) industry with valuable content designed to assist you in making strategic business decisions.

We hope you enjoy this issue. Comments are always welcome at [hq@kaulkin.com](mailto:hq@kaulkin.com).

**Contents**

Q108 M&A Activity in the ARM Industry Active Despite Slowing U.S. Economy	1
Client Support Can Be Beautiful	2
Online Medical Records Could Change Healthcare Receivables Strategies	3
Upcoming Events	4
About Kaulkin Ginsberg	4

At the close of the first quarter, we are encouraged to see that the ARM industry continues to be more recession proof than other industries.

M&A activity was on par with last year, and although some buyers are structuring deals differently in order to mitigate perceived risk, the fact is that strategic and financial buyers alike continue to be attracted to the industry because it possesses the characteristics of a smart investment. It is sizeable and growing, it is still highly fragmented, it is naturally competitive, and it is profitable. We are not seeing any noticeable changes in the number of deals completed or in purchase price levels. Read on for more M&A analysis from Michael Lamm in our advisory team. You can also check out my [recent blog on insideARM.com](http://recent.blog.on.insideARM.com).

Recoveries in some market segments may be off, and placements are trending upward as they do during the early stages of a recession. Some credit issuers are shifting their strategy to rely more on their agency relationships – capitalizing on the fact that collections is what ARM service providers do best. In a related development, some ARM service providers are beginning to revisit the role of Client Services Manager in their organizations. A good Client Services Manager can help increase busi-

ness from current clients and assist sales people in servicing new ones. Susan Burden, an industry recruiter and VP of our strategic partner Executive Alliance, shines some light on the role in this issue of *Insight*.

In addition to economic forces, strategic use of technology continues to help shape and change the ARM industry. We've been watching a consumer-facing trend that may have implications for healthcare specialists in the industry. The growing use of web repositories for personal medical records could create some new opportunities and challenges for medical collections. Kaulkin Media Analyst Michael Klozotsky assesses the growing use of Personal Health Records (PHRs).

How has the economic shift impacted your business? Please contact me and let me know what you're seeing in the market. I look forward to hearing from you.

Sincerely,



Mike Ginsberg  
President & CEO  
301-907-0840



**Q108 M&A Activity in the ARM Industry Active Despite Slowing U.S. Economy**

By Michael Lamm, Associate

The U.S. economic climate is causing buyers across many market segments to take a more cautious approach toward acquisition opportunities, but the size and number of M&A transactions in the accounts receivable management (ARM) industry is consistent with last year's results to date. In short; deals are still getting done in our industry despite the current economic conditions.

At the end of the first quarter there were nine completed transactions, the same as Q107, for a total deal value of roughly \$461 million –more than three times the amount generated in Q107. Most transactions were among small to midsize ARM companies with deal values in the \$5M to \$50M range, with the exception of NCO Group's acquisition of Outsourcing Solutions, Inc. for \$325 million – a deal

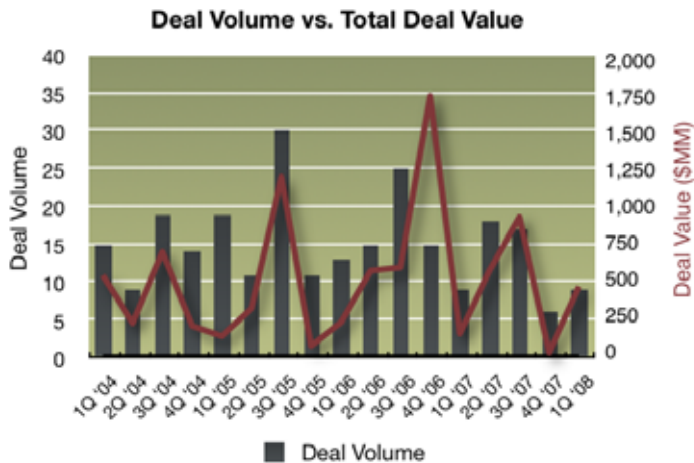
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## Q108 M&amp;A Activity in the ARM Industry Active Despite Slowing U.S. Economy (Continued)

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that represents over 70 percent of the total deal value for the quarter.

The types of transactions ran the gamut. In terms of buyer type, seven transactions involved larger ARM companies acquiring smaller ones, with the remaining two completed by one strategic and one financial buyer. Geographically, five of the total transactions took place among U.S.-based companies and four were cross-border deals, in which the buyer and the seller were based in different countries.



Due to the economy, strategic and financial buyers are becoming concerned with declining liquidation rates and are facing challenges associated with accessing debt to finance transactions. However, lenders are still financing deals. To account for any perceived risk in the transaction, buyers and sellers are starting to utilize deal structure – such as earn outs, retained equity and sellers’ notes – to bridge gaps in purchase price.

We expect continued interest in the ARM industry from both strategic and financial buyers who are looking for platforms, but we anticipate that most buyers will be larger ARM industry companies – particularly those that are private equity backed – seeking strategic add-on opportunities that allow them to enter new markets, expand their service offerings, and/or increase market share.

This is especially true for companies in niche markets of ARM like healthcare. In February, The Outsource Group (TOG) acquired California-based J.J. Mac Intyre Co. Inc. – one of approximately 10 similar transactions involving healthcare ARM firms completed over the past 18 months. We think this is a trend that will continue in 2008.

Cross-border M&A transactions are gathering momentum, as evidenced by U.S.-Based Galaxy Asset Management, LLC’s acquisition of a controlling interest in International Risk Management (IRM), a collection operation with a call center in Mexico. In March, Netherlands-based Intrum Justitia, a leading credit management services firm, acquired Solutius Belgium, owner of two Belgian collection firms. The transaction will allow both companies to capitalize on significant synergies between them.

European ARM companies may begin to seek platform acquisition opportunities within the U.S. market to augment their growth, leveraging additional value from the differentials in the monetary exchange rates as well as the acquisition multiples being paid for European ARM companies vs. their U.S. counterparts. The U.S. ARM industry is by far the largest and most mature in the world. With the U.S. dollar struggling against most other currencies, this could be an ideal time for European and other international firms to buy their way into the U.S. market.

Looking to the rest of 2008, we anticipate the ARM industry to produce well north of \$1 billion in total value and may exceed 2007’s deal value total of \$1.65 billion, depending on pending transactions in Europe. In terms of deal volume, we expect the number of transactions to pick up by the second half, and the total for 2008 should exceed 2007’s results.

*Michael Lamm manages M&A transactions and Valuations for Kaulkin Ginsberg. Michael can be reached at 240-499-3808 or at [mlamm@kaulkin.com](mailto:mlamm@kaulkin.com).*



## Client Support Can Be Beautiful

By Susan Burden, Vice President, Executive Alliance

Lately, I have been receiving many job requests from credit grantors, collections agencies, and industry suppliers in search of Client Services managers and executives. This is a role that is often overlooked, yet vitally important to ARM companies. There are certain roles that some

companies perceive as being unnecessary – a position they can do without. Any company who has a solid client services manager in place will tell you that they will not only help you maintain the business you have in house, but they will assist your sales people to increase market share.

*(Continued on page 3)*

## Client Support Can Be Beautiful *(Continued)*

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I recently had the pleasure of speaking with Denise A. Manniello. Denise is an expert on client service subject matter, given her 15 years of experience at NCO, Citibank, and American Express. When I asked Denise what exactly the role of a Client Service Manager is, she explained that the "Client Service Management/Executive role is a critical component to the overall revenue success of the organization. It is the eyes and ears of the customer, ensuring their needs are being met while protecting the interest of the organization they work for. It's a delicate balance between the two."

The Client Service Manager is the glue that helps your old clients stick. While the sales executive is out there hunting for new business and looking to welcome back their established book of business; who is focused on retaining the new clients? The collections team can do their job only if directed appropriately. Cue the Client Service Manager.

The essential role of Client Services is to take the time to onboard new clients. This process will enable you to inquire about each client's unique needs and can even include visits to clients to keep communication open. As an added advantage, the Client Services Manager has the ability to focus on the relationship, build rapport, and constantly scan for new opportunities. Being able to better service your clients from the start will hopefully create a successful long lasting relationship.

Some companies feel this task can easily fall under the responsibility of the sales person, and in some cases the job can be done this way. However, bringing in new business is a full time job in itself. These days, to compete with other agencies large and small, your sales person should remain focused on selling.

Can you afford to put this type of person on your payroll? How can you not? I have seen salaries come in all shapes and sizes; some even offering bonus potential. All can do the job however; you will need to determine the level and value for yourself. Beware – just as in sales, you get what you pay for. You will see that this is an investment that can not be overlooked.

The Client Service Manager will sustain and support the client and your company. With this in play, you will be able to develop and uphold specific needs and requirements. Clearly, this role will help to maintain your sales and increase collections. Onsite, together with your strong management teams, your collectors will work more effectively on behalf of your client and your numbers will soar.

*Susan Burden is a Vice President at Executive Alliance, a strategic partner of Kaulkin Ginsberg, and a leading national recruitment firm that specializes in the ARM industry. Contact Susan at [hq@kaulkin.com](mailto:hq@kaulkin.com).*



## Online Medical Records Could Change Healthcare Receivables Strategies

By Michael Klozotsky, Kaulkin Media Healthcare Analyst

The concept of a centralized repository for personal medical records has been around for some time. Personal Health Records, or PHRs, are individual health records that are stored in a central repository – often online – and incorporate patient data from a variety of sources such as doctors and hospitals, insurance companies, and most notably the consumer himself. The consumer maintains this data and can grant access to those parties he authorizes to retrieve information.

PHRs allow health care providers in various locations to contribute to a patient's medical history, while simultaneously allowing the consumer herself to view and add to that record. Whereas in the past, records of treatment for the same patient at a hospital in San Francisco and a clinic in Buffalo would have had to be manually compiled routinely by facsimile if at all, PHRs afford providers in both cities the opportunity to view a complete medical history, almost in real time.

Several prominent web firms like Google and Microsoft, and insurance providers like Aetna, have begun publicizing their plans to launch PHRs, but hundreds of smaller-scale offerings are already available to consumers. As this technology takes hold, there are a number of ramifications that could positively and negatively impact the market for healthcare receivables:

### **Reduction in billing errors**

Decentralized billing procedures are the cause of major inefficiencies at many U.S. hospitals. Were a hospital to pair its ventures in centralized billing with the online platform of a commercial PHR, the hospital could market the broad-based program to consumers, reduce full time employees, and likely improve recoveries on the back end of the revenue cycle.

### **Reduced delinquencies**

When patients can materially appreciate the transparency of their hospital bill, and see it integrated with their own

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## Online Medical Records Could Change Healthcare Receivables Strategies

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medical records, greater ownership — of one's health and one's share of the responsibility to pay for it — are likely to follow. In addition, a set of analytics to determine candidates for charity care assistance could be built into PHRs, granting increased compliance control with the new IRS Form 990 for hospitals. This would help better identify patients in need of financial assistance before account delinquencies ever come into play.

**Better chain of title may facilitate debt sales**

The healthcare debt buying market could reasonably benefit from PHRs. One of the key components often missing from bad debt portfolios is the media that establishes legal chain of title. The absence of such media significantly devalues portfolios for sale, and a centralized, electronic warehouse of this information would boost the potential for hospitals (and debt buyers) to earn revenue from the sale and purchase of healthcare debt portfolios.

**Increased leverage in the collection of delinquent debts**

The federal judiciary has yet to take up the issue of patient privacy rights associated with commercial PHRs. In the absence of any legal precedent, healthcare creditors and their collection agency partners may perhaps discover new inroads — and increased leverage — when patients with the means to do so are reluctant to meet their financial obligations for healthcare debt. Hospitals and collection agencies will more easily be able to substantiate their claims for valid debts as a result of PHRs.

*This is excerpted from the article "[The Tangled Web of Google Health – Online Medical Records Could Change Healthcare Receivables Strategies](#)" on [insideARM.com](#).*

*Michael Klozotsky conducts custom research projects and writes publications focusing on the accounts receivable management industry. Contact Michael by [email](#) or at 240-499-3836. Be sure to check out his [blog](#) in the [insideARM blog center](#).*



## Upcoming Events

You can review a complete listing of industry events online at [www.insideARM.com/events](http://www.insideARM.com/events). In addition, Kaulkin Media mails out a Calendar of Events for the industry four times per year. If you aren't on our mailing list but would like to be, please send an email to [hq@kaulkin.com](mailto:hq@kaulkin.com) with your current mailing address.

If you would like to meet with us in person at one of these upcoming shows, please email [hq@kaulkin.com](mailto:hq@kaulkin.com) to schedule a confidential discussion.

**[CLLA National Convention](#)****May 1-4, Chicago, IL**

Michael Lamm will be in attendance, and is available to meet with you during this show.

**[Collection and Recovery Solutions 2008](#)****May 7-9, Las Vegas, NV**

We're proud to serve as media sponsors again this year. Members of our advisory team will be on hand at this premiere event for creditors.

## About Kaulkin Ginsberg

We've been providing ARM professionals, owners, and investors worldwide with value-add advice, expertise, and information to make well-informed decisions for 16 years. We offer a full array of strategic advisory services to support you through almost every stage of your company's lifecycle, from strategic analysis, to growth and exit strategies — including M&A. The Kaulkin Ginsberg family of companies also includes Kaulkin Media, the leader in providing timely news, analysis and information on the recovery of debt in all industries and publisher of the most

popular sources of industry information such as [insideARM.com](http://www.insideARM.com)<sup>®</sup> (formerly CollectionIndustry.com) and *The ARM Insider*<sup>™</sup>. Kaulkin Information Systems creates secure and affordable workflow, document, and business process management technologies ([www.kistrack.com](http://www.kistrack.com)). Read more about Kaulkin Ginsberg at [www.kaulkin.com](http://www.kaulkin.com).

**What can we do for you?**

To discuss your business needs in confidence, send an email to [hq@kaulkin.com](mailto:hq@kaulkin.com) or call us at 301.907.0840.