



The Kaulkin Ginsberg *Bulletin* is sent each month to provide you and others in the Accounts Receivable Management (ARM) industry with valuable insight, access, and information. Each issue contains actionable 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).

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Earlier this month, I took a look at the state of the industry and made some predictions for 2007. (If you missed it, you can read my full article online at [www.insidearm.com/go/arm-analysis/predictions-for-2007-what-s-next-for-arm](http://www.insidearm.com/go/arm-analysis/predictions-for-2007-what-s-next-for-arm)). Among my predictions, I stated that mergers and acquisitions involving ARM companies will remain strong this year, U.S.-based agencies will continue their establishment of “near shore” operations, and, on the regulatory front, investigations and enforcements from the FTC are likely to continue, due in part to the incoming Democratic congress.

If you are focused on the recent M&A events involving NCO and West, you are focused on a small segment of this vast industry. In this edition of the *Bulletin*, Directors Mark Russell and Paul Legrady offer some excellent analysis on how the rest of the market is being impacted by M&A.

On the near-shore front, as clients and ARM service providers see growth opportunity in expanding in these markets, they may see a parallel opportunity to attract quality managers

who are looking for international experience. In this issue, Kelly Egan from Executive Alliance reviews off-shoring from a recruiting perspective.

Lastly, the Supreme Court approved Federal rule changes that clarify requirements to produce electronic evidence in lawsuits. The new rules took effect December 1, 2006, and require U.S. firms to keep better track of all employee e-mails and other electronic documents. Read on to learn what that might mean for ARM companies.

If you're not yet a registered member of our new website, [www.insideARM.com](http://www.insideARM.com), I invite you to check it out today. It offers a wealth of information and insight on our industry that is not available anywhere else. As always, I welcome any comments or feedback you have.

Mike Ginsberg  
President & CEO



**Smaller ARM Companies Selling Successfully**

By Mark Russell  
Director, Strategic Advisory Group  
and  
Paul Legrady,  
Director, Research Group

Anyone who follows the ARM industry has read recently about mergers and acquisitions involving some of the largest companies in the industry, including NCO Group and West Corp.

While these large transactions are impressive and certainly noteworthy, they only tell part of the story. What about the deals involving smaller companies?

We estimate that over 95 percent of the companies within this industry generate less than \$8 million in annual

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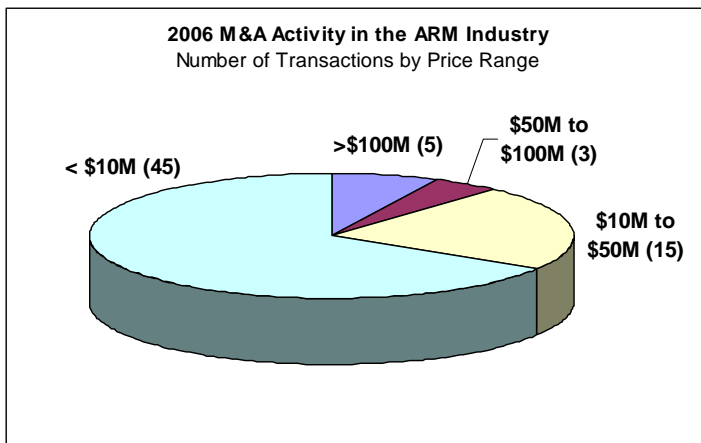
Smaller ARM Companies Selling Successfully *(Continued)**(Continued from page 1)*

revenues. Buyers seeking opportunities in this space are interested in these companies and do not limit their interest to the very largest of potential acquisitions.

Kaulkin Ginsberg has been tracking M&A deal activity within the ARM industry since 1991. Throughout this history, we've come to understand that the distribution of transactions within the ARM industry is much like the distribution of ARM companies themselves.

The value of ARM transactions in 2006 is approximately \$3.1 billion, the bulk of which was generated by transactions involving NCO Group, West, and other large ARM companies. However, the majority of the deal volume was generated by companies much smaller in size.

In 2006, Kaulkin Ginsberg confirmed that 68 transactions took place within the ARM industry. Of this amount, only five (7%) had purchase prices greater than \$100 million and only three (5%) had purchase prices between \$50 million and \$100 million. Of the remaining 60 transactions, 15 (22%) sold for between \$10 million and \$50 million, and 45 (66%) for less than \$10 million.



This of course does not necessarily mean that owners of larger ARM companies are receiving poor prices for their companies. Quite the contrary, companies of all sizes have sold for attractive market multiples. How are these companies being valued?

Buyers typically apply a multiple to adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) to value receivables management companies. The EBITDA value is typically adjusted for

certain excess and/or non-recurring expenses that will not exist post-transaction, such as expenses for shareholders that are not active in the company.

Over the past 18-24 months, market multiples for ARM companies have risen above historical norms. Previously, ARM companies generating less than \$10 million in revenues normally sold within a range of 3 to 5 times adjusted EBITDA. ARM companies generating north of \$10 million in revenues would typically sell for 4 to 6 times adjusted EBITDA or more, depending on the amount of deal structure (earn outs, seller's note, retained equity, etc.) incorporated into the transaction.

Over the past 18-24 months, multiples for ARM companies generating less than \$10 million in revenues have increased to a range of 4 to 6 times adjusted EBITDA, and companies generating \$10 million or more in revenues are receiving 5 to 7 times adjusted EBITDA, and exceeding 7 times in exceptional instances.

So while there is some discount for smaller companies pursuing exit opportunities relative to the largest sellers, prices paid for these companies have increased relative to historical norms. For example, a company that has annual revenues of \$8 million and an adjusted EBITDA of \$1.5 million might reasonably expect to sell for an enterprise value of \$6 million to \$9 million. Where the price falls within this range will depend in large part on the particulars of the selling business, including how well it fits with the buyer's needs.

Whatever the size of a company being sold, mergers and acquisitions in the ARM industry reflect its vibrancy. These transactions afford owners the opportunity to liquidate their accumulated equity in a business and give new owners the opportunity to take a company to the next level. This activity is taking place frequently throughout the ARM industry, and not only among its largest competitors.



*Mark Russell manages M&A transactions for Kaulkin Ginsberg as Director of the Strategic Advisory Group. To confidentially discuss your business interests, please contact Mark Russell at 301.907.0840, ext. 120, or by email at [mark@kaulkin.com](mailto:mark@kaulkin.com).*



*As Director of the Research Group, Paul oversees custom research projects and publications focusing on the ARM industry. Contact Paul at 301-907-0840 ext. 104.*

## Off-Shoring – Friend or Foe?

By Kelly Egan  
Recruiter, Executive Alliance

As a recruiter, I have been coming across one term more and more frequently in the searches I am working on – “Off-Shoring.” Many candidates are weary of becoming part of an organization that sends American jobs overseas to countries like India and China. What they don’t think about is why these companies are doing it or how off-shoring could possibly benefit them in the long run.

Economically, off-shoring is the chosen route of many businesses to reduce costs by relocating many of their business processes overseas. Individual countries now have an industry that they are known for – India for telecommunications and IT, and China for production and manufacturing. These countries have an ample supply of well-trained qualified workers at the ready, many of whom are college educated. Most are eager to work for an American company and in turn are more productive and proactive in their roles. Sending these positions overseas frees up U.S. talent to focus on innovation and enables these companies to hire top candidates where they are most needed.

Fearing the loss of American jobs fuels most of the argument against off-shoring, despite the fact that a strong economy has created about one million jobs here in the past three months. Currently, only about one to two million jobs are off shored, compared to a workforce of 140 million Americans. Sending these positions overseas will enable foreign companies to rely less on exporting goods to the U.S. and more on generating their own internal growth, thus keeping those positions here in America. Unemployment will continue to stay low as workers who have lost their positions move into different roles where they are needed. Losses will be offset by growth in other occupations as well.

Many call centers, whether they are collection agencies or customer service centers, are now located overseas. More and more Americans now have the opportunity to live and

travel abroad due to the substantial increase in foreign-based U.S. companies looking to keep their American managers on board. Candidates have seen dreams of living in the Caribbean and other exotic locations come true while continuing to earn a competitive salary. Additionally, numerous companies choose to provide relocation packages to the right candidates, which sometimes include perks like company provided housing, healthcare, and transportation. The lower cost of living abroad will allow employees to bank a large amount of their earnings while enjoying their new surroundings.

Working abroad can have other advantages that candidates do not realize. Besides the chance to travel, international positions offer the opportunity for both personal and professional growth. Adding an overseas position to the resume ensures that a candidate will stand out to employers as a well-rounded professional, someone who is culturally savvy and able to adapt to change. As there are many organizations with overseas operations, executives are more apt to look at candidates offering that experience from the get-go.

If your firm has an off-shore component, these benefits can be attractive for those in the job market. The option of possibly working overseas can attract quality candidates who are looking for an opportunity to demonstrate their willingness to adapt to different cultures and environments. What could be perceived as a negative can be turned into a positive, offering employees a professional boost that opens doors they never thought they’d step through. You may just have their exotic dream job after all!

*Kelly Egan is a recruiter at Executive Alliance, an international recruitment firm and the leading provider of recruiting services to the Credit, Collections, and Call Center Management industries. Executive Alliance is the exclusive recruiting partner of Kaulkin Ginsberg and insideARM.com. For a confidential, no obligation discussion about your specific goals, contact us at [hq@kaulkin.com](mailto:hq@kaulkin.com).*

## Supreme Court Ruling Impacts Email Storage

By Jan Levine  
Chief Technology Officer, Kaulkin Information Systems

As a result of the new changes in Federal rules approved by the Supreme Court, it is more important than ever to know where all your electronic documents are stored and be able to deliver them upon request. The ruling took effect in December and clarifies the requirements for discovery of electronic documents in lawsuits. There are some ramifications to these new rules:

- Companies need an electronic inventory system to identify what and where electronic documents are stored.
- Companies with poorly organized or inaccessible files may be forced to settle lawsuits in order to avoid the costs of electronic discovery.
- If your standard process is to reuse backup computer tape, you could be found guilty of ‘virtual shredding’ once a lawsuit is filed.

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## Supreme Court Ruling Impacts Email Storage

- You may be held liable for failure to produce employee e-mails and other electronic documents in court.

Your attorney can advise you how to mitigate your firm's exposure to risk as a result of this ruling. The ACA recommends that a good first step is to develop and enforce a policy for how and where your electronic documents, emails, and other electronic data are stored.

### For more information:

- "New rules make firms track e-mails, IMs," MSNBC story, <http://www.msnbc.msn.com/id/15984058/>

- "New Federal Court Rules Impact Storage of Electronic Records," ACA News Link Article, <http://www.acainternational.org/?cid=9600>
- "E-Discovery Amendments and Committee Notes" (PDF), U.S. Court Amendments Approved by the Supreme Court - Submitted to Congress (April 2006), [www.uscourts.gov/rules/EDiscovery\\_w\\_Notes.pdf](http://www.uscourts.gov/rules/EDiscovery_w_Notes.pdf)

*Jan Levine is the primary architect of KIS Track, an online document management, workflow, and email archiving system. If you are investigating solutions for secure and permanent storage of email and other electronic documents, please contact Jan at 203-855-8996 or [sales@kistrack.com](mailto:sales@kistrack.com).*

## Upcoming Events



Did You Get The Scoop?

Collection Industry

is now

inside A.R.M.

Check it out! »

[www.insideARM.com](http://www.insideARM.com)

Kaulkin Media produces a quarterly calendar to help you plan for upcoming industry events.

If you would like to receive our Calendar of Events for the first quarter of 2007, please [send us an email](#) with your current mailing address.

To review a complete listing, you can also visit [www.insideARM.com/events](http://www.insideARM.com/events).

We will be on hand at these upcoming shows and would like to meet you. To schedule a confidential meeting, please email [hq@kaulkin.com](mailto:hq@kaulkin.com).

### **DBA International 10<sup>th</sup> Annual Conference** **February 7-9, 2007 – Las Vegas, NV**

This is *the* conference of the year for those who buy, sell, collect, or service charge-off debt.

### **National Collections and Credit Risk Conference** **March 11-13, 2007 – Boca Raton, FL**

The focus of this year's event will be on the future of collections, and will cover issues across many industries.

## About Kaulkin Ginsberg

We've been helping accounts receivable management (ARM) executives with advice, expertise, and information to make well-informed decisions for over 15 years. We offer a full array of advisory services to support you through almost every stage of your company's lifecycle, from operational assessments, to executive-level recruiting, to custom industry research, to company valuation, to buying or selling a business. The Kaulkin Ginsberg family of companies also includes Kaulkin Media, publisher of the most popular sources of industry information such as [insideARM.com](http://insideARM.com)<sup>TM</sup> and *The ARM Insider*<sup>TM</sup>. Kaulkin Information Systems creates secure and affordable document and business process management technology ([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.

