

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).

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I had the pleasure of [presenting some of our predictions](#) for the second half of 2008 and beyond at the ACA convention last week, and enjoyed spending time with many of you during the show. Some industry trends are easy to see coming. It's not a stretch to expect the volume of placements in the U.S. will continue to increase for the foreseeable future, and that liquidation rates will decrease as long as we're in an economic slump.

But not all of our predictions are intuitively obvious. We've been predicting for some time that the total value of merger and acquisition deal activity in our industry might actually exceed last year's results. Despite the slowing U.S. economy, there is a lot of activity in parts of Europe. Surprisingly, the Europeans have yet to buy their way into the U.S. ARM industry, where they would benefit from the strong Euro and comparatively lower purchase price multiples. We are also watching the debt buying market, where a round of consolidation might be around the corner. Read on for our recap of second quarter M&A activity, and our outlook for the rest of '08.

In the banking and credit card markets, it's clear that the sub-prime mortgage mess is going to continue to translate into increased write-offs. However, these losses will also present new challenges for ARM companies who serve this market. Shrinking profits and reduced capital available for loans will trigger consolidation among local, national, and international banking institutions. This could mean a loss of business for some of their agency partners, and a windfall for others who are well-positioned as beneficiaries.

Banks may already be changing their recovery strategies in ways that will have an impact on their service providers. In this issue, Dimitri Michaud, our analyst who tracks the consumer finance market, has uncovered some early signs that creditors are increasing their focus on recoveries.

At Kaulkin Ginsberg, we've always believed that executives should be armed with relevant and timely information to make informed decisions. That is why we regularly share our knowledge through this monthly newsletter, in teleseminars, and at conferences like the ACA convention. To further this goal, we launched a new feature on insideARM called "Ask the Experts," where you are encouraged to submit your questions to our team and to other industry pros. Read on to read our answer to a question about when to disclose sensitive information to a buyer.

While we will continue to find ways to inform and educate, our best work continues to be in the board room, where we are confidentially engaged by our clients as strategic advisors for growth and exit strategies. Now, here's my question to you; how is your company facing today's challenges and what do you see on the horizon? I look forward to hearing your thoughts.

Sincerely,



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**2008 M&A Activity in the ARM Industry on Target to Exceed 2007 Results**

By Michael Lamm,  
Associate, Kaulkin Ginsberg

Despite the fact that only five M&A transactions closed in the second quarter

of 2008, the combined deal value of mergers and acquisitions in the accounts receivable management (ARM) industry could exceed last year's US\$1.65 billion.

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## 2008 M&amp;A Activity in the ARM Industry on Target to Exceed 2007 Results (Continued)

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At the end of the first half of the year, the estimated total deal value is \$1.43 billion.

At the end of last year, we predicted that transactions in the ARM industry would exceed 2007's total deal value based on pending transactions we were watching in Europe, and this is indeed playing out.

The largest transaction of the second quarter was Investor AB's 50 percent purchase of a leading Norwegian debt collection company, Lindorff Group, for US\$558 million. This meaningful investment positions Lindorff to capitalize upon significant expansion opportunities within other European markets.

Other notable second quarter transactions involving European debt collection companies include UK-based Exponent Private Equity LLP's acquisition of Lowell Holdings Limited, a British debt purchasing company, for an estimated US\$394 million; and the acquisition of Canada-based Eastern Collection Services Ltd. by the Iceland subsidiary of large European ARM company Intrum Justitia. This transaction marks Intrum Justitia's entry into North America.

We expect increased interest in North American debt collection firms from European buyers, especially into the U.S. market. Some European companies will seek to leverage additional value from favorable exchange rates. Plus, acquisition multiples being paid for U.S. ARM companies have been generally lower than their European counterparts.

Recently announced mergers and acquisitions in the U.S. include the acquisition of New Mexico agency Collectrite, Inc. by CreditWatch Services, a debt collection agency based in Texas; and the acquisition of MuniServices by Portfolio Recovery Associates (NASDAQ: PRAA) to expand their presence in the government collections arena. The latter deal officially closed on July 1st and is incorporated into the third quarter results.

We anticipate that the number of actual closings will increase in the second half of the year. We are also expecting to see a round of consolidation in the debt purchasing sector of the accounts receivable management market. With financing more challenging for some debt buyers to secure, and liquidations down as consumers fend off rising food and gas prices, some debt buyers are seeking to recapitalize their businesses and may merge into larger, well-capitalized debt buyers.

For the rest of 2008, Kaulkin Ginsberg expects more M&A activity to come from large ARM companies – particularly those that are private equity backed – seeking strategic acquisitions to facilitate growth. This is a great time for well-capitalized ARM companies to increase market share through strategic acquisitions. Private equity firms will also add to the M&A activity in the second half of 2008, seeking to capitalize on the long term trends of increased consumer debt, increased outsourcing to ARM companies, and abundance of debt portfolios available for sale at favorable prices.

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## Recovery Performance May Prove Resilient Despite Increasing Challenges

By Dimitri Michaud, Kaulkin Ginsberg Analyst

U.S. consumer attitude toward the economy has deteriorated throughout the year with no signs of reversal. Numerous factors have left many households feeling vulnerable when assessing their financial situations.

Along with the continued slide of the housing market, job security is an ever-pressing issue. The unemployment rate has increased from 4.9% in the first quarter of the year to 5.5% in June. Also grabbing headlines has been the rising cost of food and fuel. With the average price of gasoline above \$4.00 a gallon, many consumers are tightening budgets as a response to the increased financial strain. Though April's consumer credit report by the Federal

Reserve hinted at a slowdown in the growth of revolving (or credit card-related) debt, with an annual growth rate for the month of -0.5%, May's report of a 7.1% expansion shows that the increasing cost of household goods will be a major factor in pushing continued credit use.

It is still unclear if credit card debt growth will suffer any marked slowdown and whether consumers will further reduce their discretionary spending; but what is clear is that the deterioration in the quality of outstanding credit card debt witnessed over the past year has continued. In May the charge-off rate for the U.S. Credit Card Quality Index (CCQI) – an index tracked by Standard & Poor's –

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## Recovery Performance May Prove Resilient Despite Increasing Challenges (Continued)

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rose to 5.96%, up nearly 37% from the prior year's rate of 4.36%, a clear indication of the continued challenges faced by creditors in effectively collecting outstanding credit card debt. The index monitors the performance of receivables held in master trusts of bank card and credit card-backed securities.

Like charge-offs, delinquencies have also trended upward over the past year, but they actually improved in May. The May delinquency rate among the credit card master trusts in the CCQI experienced its second month of declines, dropping from the 4.43% reported in April to 4.33% in May.

Although the 4.33% delinquency rate still marked an almost 20% increase from the 3.62% rate reported in May of 2007, the recent decline does suggest that creditors are responding to the current credit environment. With increasing charge-offs across a broad spectrum of credit types, many issuers have hinted that they are augmenting their recovery strategy by increasing pre charge-off recovery efforts.

In addition, this recent decline in the delinquency rate may also suggest that because issuers have suffered so greatly from the combination of the credit crisis, slowed economy, and housing market slowdown, recovery performance has become an increased focal point. As a result, recoveries could remain stable in the face of these challenges. This sentiment was echoed in the recent Kaulkin Ginsberg Creditor Confidence Survey, where 71.5 percent of issuers had a favorable opinion of current internal recovery performance and 80 percent of these creditor respondents predicted favorable internal recovery performance by 2009.

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## Ask the Experts: Is the Buyer a Good Fit?



insideARM is launching a new feature called "[Ask the Experts](#)," an interactive section that will allow you to direct questions to the Kaulkin Ginsberg advisory team and its network of experts throughout the industry. You'll have the option to identify yourself or remain anonymous if we publish your question. Here is a sample question posed recently:

**Q: I run a small but profitable collection agency and I was recently approached by a potential buyer. This buyer seems legit, but I'm concerned about disclosing sensitive information. How should I proceed?**

**A: From Mark Russell at Kaulkin Ginsberg:**

The last thing any business owner wants to do is waste time with the wrong buyer candidates. Not only is this disruptive to the business, but it can also put your company at risk. You might find yourself sharing proprietary secrets with a current or potential competitor. Or, you may run the risk of your clients or your employees learning about the potential sale before you're ready to disclose it.

Before sharing your proprietary information with one or more buyer candidates, it is important to do the following:

**Confirm the buyer is qualified.**

Make sure that the buyer candidate has the financial wherewithal to acquire your business. This may seem

obvious, but you don't want to go through the entire sale process only to discover that the deal could never have happened.

**Execute a confidentiality agreement.**

While these agreements ultimately are only as good as the two parties that are executing them, it gets the process off on the right foot and lets the buyer know that you are serious about confidentiality.

**Provide a confidential summary of your company.**

This should enable the buyer to learn enough about your business to determine a value range, but not enough to jeopardize it if things do not work out. Information such as client and non-owner employee names are typically left out of a confidential summary, but an understanding of the markets you service and the percent of revenues generated within each of them, as well as by the top 10 or 20 clients on a no-name basis would be reasonable to include. You should also include a financial summary that shows the company's historical and future financial performance, as well as brief bios on the executive team members, again without names unless they are owners.

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## Ask the Experts: Is the Buyer a Good Fit? (Continued)

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Once you get beyond the introductory phase and have gained an understanding of the buyer's value range and preferred deal structure, if things are still progressing, then it is most likely appropriate to begin sharing some proprietary information that they will need to conduct some due diligence and ultimately present you with a letter-of-intent.

In your case, you have a buyer candidate already. We would be remiss if we didn't mention that in order to maximize your value potential, it is important to maintain a competitive process up until the point in which you are prepared to execute a non-binding letter-of-intent. While deals can and do get done on a regular basis between a

single seller and buyer, sellers will never know if they have maximized their value and preferences in a transaction unless they are in a position to negotiate multiple offers and choose the best one.

*If you have any questions you would like answered in this forum on [insideARM.com](http://insideARM.com), please email [editor@insidearm.com](mailto:editor@insidearm.com) and read the "Ask the Experts" blog at <http://www.insidearm.com/go/blogs/experts>.*

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## Participate in the Best Places to Work in Collections Program

 insideARM.com has partnered with The Best Companies Group to honor the best work environments among debt collectors, collection law firms, and their technology and service providers.

- **Increase Employee Retention**
- **Enhance Recruiting Efforts**

Companies that are ranked among the best will be able to use the "Best Places to Work in Collections" designation in their recruiting efforts, and each company that participates will receive a free results overview report.

Learn more and nominate your company at [www.bestplacetoworkcollections.com](http://www.bestplacetoworkcollections.com).

Each participating company will be evaluated thoroughly by The Best Companies Group. The group is responsible for creating many of the "Best Places to Work" lists you see in the media. And if a company chooses the online-only survey method, there is absolutely no cost to the company to participate.

Applications are now being accepted from U.S. collection agencies, collection law firms, and vendors that provide technology and services to these groups. Companies must have at least 15 U.S.-based employees. **Register today – nominations must be received by August 15!**

We'll be honoring the best places to work on insideARM.com in January 2009.

## Upcoming Events



Kaulkin Media prints and mails out a quarterly calendar of industry events to help you plan ahead. If you would like a copy, please let us know at [hq@kaulkin.com](mailto:hq@kaulkin.com) and indicate your current snail mail address.

In addition, you can review a complete listing of industry events online at [www.insideARM.com/events](http://www.insideARM.com/events).

If you would like to set up a confidential meeting with a member of the Kaulkin Ginsberg team at one of these upcoming shows, please email [hq@kaulkin.com](mailto:hq@kaulkin.com) and let us know when you would be available to meet.

### [Debt Connection Symposium & Expo 2008](#) **September 3-5, San Diego, CA**

Kaulkin Ginsberg and Kaulkin Media are proud media sponsors again this year. If you will be attending, let us know – many members of our team will be on hand and we would welcome the chance to meet you. Plus, we'll be conducting video interviews live from the show to be played back later on insideARM.com. Let us know if you're interested in being interviewed!

### [Financial Services Collections Conference](#) **October 22-24, Las Vegas, NV**

Mike Ginsberg will be hosting a Q&A Session with issuer & agency executives on Friday morning of the conference. The session will give you the opportunity to ask questions of leading credit granting and collection agency executives. Other members of our team will be on hand during the conference as well if you'd like a confidential meeting.

## 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 since 1991. 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://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.