



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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As advisors to the accounts receivable management industry, we're constantly monitoring developing trends so we can help you plan for what lies ahead. We have already begun research for the 7<sup>th</sup> Edition of *The Kaulkin Report*, which will feature more predictions than it has in years past. Early findings indicate that consumer and government debt loads will continue to skyrocket; however, the makeup of the debt will change in ways that may have implications for your business. Read on for details from Director, Paul Legrady.

If you're looking ahead to the eventual sale of your business, now is an excellent time to begin preparing for the sale in order to make sure you achieve maximum value. One important component that is frequently overlooked by owners: the executive leaders who will stay on after the sale. In this month's issue of the *Bulletin*, Associate Michael Lamm shares some insights on how buyers would assess your management team – and how that can impact the offer.

It was a pleasure to meet so many of you at the Debt Buyers' Association last month. This sector of the industry

has excellent growth opportunity, and it may seem as if lots of portfolio sales are being announced in the news lately. If you've noticed this trend - you're right! insideARM Editor Patrick Lunsford sheds some light on the underlying reasons for this influx of announcements.

What trends are you seeing in the marketplace? You have an opportunity to share your ideas with the rest of the industry! Read on to learn how you can participate in our research for *The Kaulkin Report*.

As always, we are committed to providing the most professional advice, expertise, and information to give you the tools you need to successfully run and ultimately exit your business. Do not hesitate to contact me, or any of our advisors, to discuss your needs in confidence.

Mike Ginsberg  
President & CEO



**Maximizing the Value of Your Business Starts With Your Management Team**

By Michael Lamm, Associate

Although it may be a bit of a cliché to say that people are your most important asset, it is an absolute truth when it comes time to sell your business. Potential buyers will assess your company's ability to thrive after the transaction, and the assets that "go home in the elevator every night" are critical to sustaining the company. If you

are beginning to ponder the right time to sell your business, and your goal is to maximize its value – take a hard look at the organizational structure that is underneath you. Do you have a visionary leader and a core group of managers in place that could run your operation successfully after you leave?

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Maximizing the Value of Your Business Starts With Your Management Team *(Continued)*

This is a hard topic for many owners to think about as retirement edges closer: determining whether your management team — which may consist of family, friends, or individuals who have been with your company since inception — could really sustain the business under someone else's ownership.

As you consider this question, put yourself in the shoes of a potential buyer of your business. Most buyers will evaluate your business based on the following “Key Management Team” attributes:

- A visionary leader supported by executives who have industry experience and tenure with the business.
- Client relationships that are maintained by multiple executives, mitigating the potential for losing clients if one of the executives leaves the company.
- Personnel that is well-versed in managing operations, sales and marketing, training/quality assurance, technology, and human resources aspects of the business.
- Executives with M&A and international experience are considered a plus, since all buyers want to grow the business they acquire and may look to M&A to support organic efforts.

When a buyer is evaluating your business, not every single attribute is critical to them. However, if you want to maximize value and portray that the business is truly run by the team in place and not by you, the most critical component to have is a visionary leader with industry experience and tenure within your organization — someone who maintains the client relationships, oversees the management team, and has the drive and willingness to take the business to the next level.

### Case Study - “Due Diligence Uncovers Your True Role in the Business”

I was recently involved in a deal where an owner of a mid-size consumer agency (50+ full-time employees) portrayed himself as not critical to the operation. However, when our client had us look “under the hood” during due diligence, we found the exact opposite to be true. The owner said that his manager — the so called “visionary” whom he had

been grooming for years — was running the show, but we uncovered that the owner was actually wearing multiple hats in the business (operations, sales, human resources, etc.), which is pretty typical for this size business. We were able to discover this from staff interaction during a site visit and by talking to the company's key clients toward the tail end of due diligence — a “perfect recipe” for a buyer to get nervous and walk away from a deal.

The buyer ended up getting through these concerns and instead of just walking away from the deal, they adjusted the purchase price by reducing the owner's salary and benefits from the Adjusted EBITDA (Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization) calculation. As a result, the economics of the deal changed and caused the owner to walk away, as his expectations for value were not being met.

### The Take Away From This Deal

- Before going to market, have someone else objectively assess if your visionary leader and team of executives in place could truly “stand alone.”
- Always truthfully address the owner(s) and executive team's role and responsibilities up front with a buyer.
- Make sure your “visionary” has been groomed and is ready to communicate to buyers his or her critical role within your organization and can substantiate the claim that the owner's involvement is limited to guiding the strategic direction of the business.

It is certainly easier said than done to find someone with your vision. You might find a person like this from an executive recruiter, or you may be approached by a successful leader at another firm whose non-compete just came up. Ideally, this person is someone you have worked with at your company for quite some time, and is also someone you can mentor and train to take over the reins and guide your business toward a sale that can achieve your value expectations.

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### The Future of Receivables Management

By Paul Legrady, Director

Kaulkin Ginsberg has been hard at work on the 7<sup>th</sup> Edition of the Kaulkin Report for a number of months, and I'm happy to provide some early results of this research, as well as an invitation to participate in it.

In the past, the Kaulkin Report has given a picture of the industry as it exists. For the first time in this edition, Kaulkin Ginsberg is making predictions about the future

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The Future of Receivables Management (*Continued*)*(Continued from page 2)*

growth of the industry — everything from outstanding consumer credit to pricing to sector performance to expected profitability. Our goal is to demonstrate not only what the industry is, but what the industry will become.

For example, we're estimating that Americans will hold \$1.1 trillion of credit card debt in 2011 and almost double that — \$2.1 trillion — in obligations involving student loans, mobile homes, boats, trailers, and vacations during that year. Based on this prediction alone, a convincing case can be made that the majority of the industry's growth over the next 5 years will involve consumer debt obligations other than credit cards. This should strongly interest receivables management companies focusing exclusively on credit card collections, and others as well.

There is much more to come. But before we fully describe

the results of this research, allow me to encourage your participation in this project. If you are an owner or executive of a company in the ARM industry, let us know where you think the industry is headed. Please contact Michael Klozotsky at [mklozotsky@kaulkin.com](mailto:mklozotsky@kaulkin.com) to schedule some time on the phone.

While it's true that no one can tell the future with perfect clarity, we're fortunate to be building some informed arguments about what is approaching for receivables management companies. Join us this spring as we continue to build our case, or in the summer when the results of this research are released.

*As Director at Kaulkin Ginsberg, Paul oversees custom research projects and publications focusing on the ARM industry. Contact Paul at 301-907-0840 ext. 104, or at [plegrady@kaulkin.com](mailto:plegrady@kaulkin.com).*



## Getting the Word Out on Portfolio Purchases

By Patrick Lunsford, Editor, [insideARM.com](http://insideARM.com)

We've seen a lot of debt purchasers trumpeting their portfolio purchases in the news lately. Why?

We've known for quite a while that Wall Street likes easy-to-follow business models. And we know that the debt purchasing business model is one that falls into that category.

This is not to say that it's easy to run a successful debt purchasing/collection operation. Quite the contrary, it takes a lot of hard work and business acumen to run a successful debt buying shop. But if you are pitching a business model to a potential investor, the debt purchasing model — where debt buyers generally anticipate a 1.5 - 2.5x return on their investment over a 3-5 year period — is pretty straightforward and attractive.

Of course, what makes the model so attractive is that margin. It's very important for debt purchasers to buy wisely — more so than in perhaps any other industry. So when big-time debt purchasers are finding success buying portfolios at nice prices, especially in an inflated-price environment like the current one, you can bet they want people to know about it.

Publicly-traded debt purchasers are compelled to release the details of their purchases in earnings statements. So companies like Asta Funding, Asset Acceptance, Encore Capital, and Portfolio Recovery Associates usually provide an update at least once a quarter on purchasing activities. An over-the-counter traded debt purchaser, Velocity Asset Management, also recently provided a portfolio acquisition update separate from their earnings release.

But it's not just public debt purchasers who are making noise about purchases. Since December, debt purchasers like [Debt Resolve\\*](#), [TNB Card Services\\*](#), [Sagres\\*](#), [ACF Medical Services\\*](#), [First Financial Asset Management\\*](#), [Corstone Capital\\*](#), and [IEI Financial\\*](#) have release details of portfolio purchases. And, of course, there was the [recent news](#) of WAM, NCO unit MEDCLR, and CarVal partnering up to purchase a large medical portfolio from Tenet. So what is compelling purchasers to air their business when there is really no need to?

In an increasingly competitive purchasing environment, buyers are finding that staying in front of the rest of the industry is good for business. And, as the waters become increasingly muddied with new players, the lesser-known purchasers can make a real splash by trumpeting their success.

It's not a universal phenomenon. Note that major purchasers like Unifund, Sherman, and Cavalry are not mentioned above. Companies have varying reasons for taking business details public. But it is worth noting that the practice of calling attention to portfolio purchases is growing.

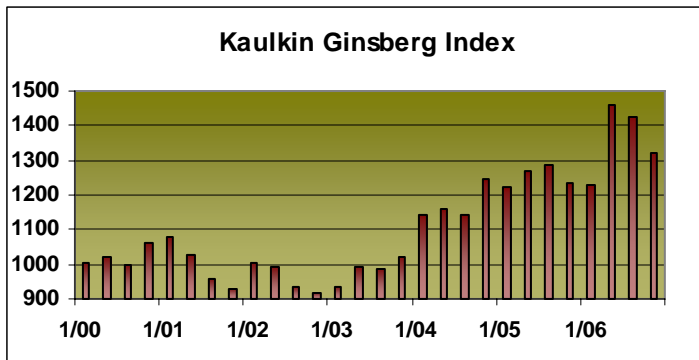
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*\*Archived articles on [insideARM](http://insideARM.com) are available to Premium members.*

## KGI Increases Overall in 2006

The Kaulkin Ginsberg Index (KGI), the leading indicator of economic conditions affecting the accounts receivable management (ARM) industry, increased 4.7% to 1317.4 over the course of 2006. While the KGI is down 10.5% from its all-time high of 1477.7 in October, the overall annual increase is attributed to significant movement in each of the index's seven variables that took place throughout 2006.



The KGI's two distinct fluctuations took place first following NCO Group's spring announcement of its plans

to go private and, later, after the completion of the merger and subsequent delisting in November 2006. The total market capitalization of publicly traded ARM companies is one of the seven macroeconomic variables that contribute to the KGI.

In addition, the more than fourfold increase in bankruptcy filings in 2006 impacted the KGI significantly throughout 2006. Fluctuations in the number of bankruptcy filings were caused by the passage of the Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) in October 2005. Following a surge in filings prior to BAPCPA's effective date, first quarter 2006 filings dropped to historic lows but proceeded to rise throughout the year.

Notwithstanding the volatility of the Index in 2006, the KGI presently signals favorable economic prospects for ARM companies in the coming year.

For more information about the Kaulkin Ginsberg Index, see [www.kaulkin.com/research/kgi](http://www.kaulkin.com/research/kgi) or call Michael Klotzsky at 301-907-0840 ext. 123.

## Upcoming Events

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 second 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 discussion, please email [hq@kaulkin.com](mailto:hq@kaulkin.com).

**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. On Monday, Michael Lamm, Associate, will be moderating a panel on mortgage collections, and Paul Legrady, Director, will be moderating a discussion of healthcare collections.

**NCHLP Debt Management Conference**

**March 25-28, 2007 – San Diego, CA**

This year's conference is all about "Surviving the Student Loan Jungle." Director Paul Legrady will be attending the conference and is available to meet with you at the show.

## 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 debt purchase and sales advice, 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.