



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.

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In this issue of the *Bulletin*, Paul Legrady, Research Group Director, shares some interesting statistics gleaned from our research into the healthcare ARM market. Dawn Warren, from Executive Alliance, offers some things to think about when planning future staffing needs. Patrick Lunsford, Editor of *CollectionIndustry.com*, takes a closer look at one important aspect of the midterm election results and what that might mean for our industry. And, Kit Ladwig, special contributor to the *Bulletin*, takes a closer look at current M&A activity within healthcare ARM.

Many of you already heard that we will be launching *insideARM.com* in 2007. As the industry has evolved, we found that *CollectionIndustry.com* needed to change and grow along with it. Read on for more details on the new site.

Healthcare Numbers – from \$129 Billion to 3

By Paul Legrady
Director, Research Group

Receivables management is all about numbers, particularly in the healthcare industry. Healthcare providers measure delinquency rates, “days sales outstanding,” allowances for doubtful accounts, bad debt expenses, recovery rates, contingency fees, net back, and a host of other figures. Collection agencies measure placements, contacts, recovery rates, contingency fees, net back, revenues, and of course profitability. Debt buyers quantify and follow the number of portfolios available for purchase, the prices of debt portfolio, liquidation rates, expense items, and returns on purchased portfolios.

Simply put, paying attention to and improving on the numbers leads to better growth and profitability.

I wanted to leave a thought with you this month. We realize that this is the time for strategic planning as many of you are setting the course for 2007 and beyond. If your plans call for [selling](#) your business, making an [acquisition](#), [assessing the value](#) of your business, [hiring key people](#), [gaining intelligence](#) on a particular market segment, or [evaluating operations](#), let us know by [clicking here](#) and sending us a confidential note. We will gladly schedule a time to discuss interests in confidence. We look forward to the conversation!

Mike Ginsberg
President & CEO



Kaulkin Ginsberg’s research publication, *Healthcare ARM Report, 2006* (October 2006), describes the numbers that are important to healthcare receivables management – from the perspective of healthcare providers and from the ARM companies that service their accounts. For example:

\$129 Billion = Amount Set Aside by Healthcare Providers to Cover Bad Debt

Kaulkin Ginsberg research concludes that healthcare providers set aside \$129 billion every year to cover bad debt. This figure was based on company revenues and average bad debt allowances within a representative sample of the population. This does not speak to the amount of money written off of balance

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Healthcare Numbers – from \$129 Billion to 3 (Continued)

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sheets as bad debt expenses within the healthcare industry, which is smaller than the amount of money set aside to cover these expenses. Still, \$129 billion amounts to roughly 7 percent of industry revenues, suggesting that receivables management is a fundamental challenge for many healthcare providers. This challenge not only weighs on short-term financial performance but provides incentive for these companies to collaborate with effective service partners.

\$3 to \$4 Billion = Face Value of Purchased Debt Portfolios

In relative terms, the size of the healthcare debt purchase market is quite small today. While an estimated \$110 billion in face value of delinquent debt purchases took place in the United States during 2005, an estimated \$3 billion to \$4 billion in face value of healthcare debt was purchased during that year. Still, this figure is growing quickly. As healthcare providers – particularly larger hospital chains – increase their willingness to sell portfolios and debt buyers, as a whole, grow more interested in the purchase of these portfolios, the healthcare debt buying marketplace will continue to grow. In fact, mainstream debt buyers largely consider medical debt to be a significant growth market in the years to come.

\$2.4 Billion = Amount of Revenues for Healthcare ARM Companies

Kaulkin Ginsberg models the healthcare sector of the ARM industry at \$2.4 billion, amounting to 16 percent of the ARM industry's \$15 billion in annual revenues. This number is calculated based on assumptions about the average amount of bad debt written off by hospitals, the

number of hospitals in the U.S., the percent of healthcare providers' revenues written off as bad debt, healthcare industry revenues, the percentage of bad debt placed or sold by healthcare providers, average recovery rates, and average fees on healthcare collections.

3 = Number of Basic Threats to Healthcare Receivables Management

While the healthcare ARM market is attractive for many reasons, a number of threats pose some risk, potentially limiting the sector's growth in years to come. Increasing regulation, including new regulatory initiatives in states across the country, have increased the complexity of operating in this highly legal industry. Improvements in the internal collection systems within healthcare providers have lowered recovery rates for ARM companies as poorer quality paper has been placed or sold. Increased competition has also led to lower fees and a variety of other challenges. These threats require executives to manage their companies strategically in order to improve short-term financial performance and long-term value.

This article is based on Kaulkin Ginsberg's *Healthcare ARM Report, 2006* (October 2006). This 60-page research publication was developed in partnership with healthcare providers and receivables management companies throughout the United States. For more information or to download a free whitepaper based on the research, please visit www.kaulkin.com/research/publications.

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.



Quality Time in a Traffic Jam

By Dawn Warren
Senior Account Manager, Executive Alliance

Many executives find that being stuck in traffic is a golden opportunity to think – to sort out what needs to be accomplished at home and organize what needs to be accomplished at work. I reflected the other day, while stuck in typical NY traffic, how important this “wasted time” can be. Without contemplating and planning, nothing would ever be accomplished at home or at work.

When was the last time you took stock of where you are in your professional life? Are you happy with your career and the state of your company? Do you dread going to work or do you look forward to a new and rewarding day? Is this your dream career?

Life is too short to spend most of your time stuck in an unhappy or unfulfilling situation. Do you know where you want to be? This leads us to the bigger question: do you have a plan for getting there?

Many executives in the ARM industry struggle with high employee turnover and a lack of quality managers. Losing good people is a serious blow to any company. Do you have a succession plan for grooming new managers? It is an excellent way to smooth the transition and to improve employee loyalty at the same time.

Looking ahead, do you have the right management team in place to grow? If your plans include expansion, how many new managers will you need to support this growth? What talents will you need to cultivate in your staff for the

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Quality Time in a Traffic Jam *(Continued)**(Continued from page 2)*

future? Given the technology advancements in our industry, there may be key roles at your agency five years from now that do not even exist today.

If you're contemplating these staff challenges – or maybe a move to a new company yourself – one way to plan for a brighter future is to contact a recruiter. Our job is to learn the qualifications of talented professionals and match them up with the right company. We can help you assess your team and fill “talent gaps” that may exist.

I am lucky to go home at the end of the day knowing I

enhanced people's lives. I enjoy my colleagues and every day is different and interesting. I am quite content with my position and what I foresee in the future. Are you?

Maybe we could all use a little more “traffic time” in our lives. Slow down - assess your situation, your career, and your life! There just may be something better around the corner.

Dawn is a senior recruiter with Executive Alliance, where she works with Creditors, Collections, and Call Center Management clients. Contact Dawn at hq@kaulkin.com.



Election Day 2006: The Day the Industry Dodged a Bullet?

By Patrick Lunsford
Editor, CollectionIndustry.com

Ours is an industry that is little-affected by political election machinations, for the most part. This is not to say that our industry does not find itself at loggerheads with elected officials from time to time. The accounts receivable management industry is heavily regulated and is subject to countless probes and investigations of wrongdoing. But the ebb and flow of Republican and Democratic office-holders has a minimal effect on laws and regulations that dictate the behavior of collectors.

The recent mid-term elections saw one result that may have a tangential, if not direct, impact on the industry. Eliot Spitzer was elected Governor of New York in a landslide, thus triggering the forfeit of his previous position: Attorney General of New York.

Why is this significant to the industry? In recent weeks, it appeared that Spitzer had turned his crosshairs on the ARM industry. In a recent SEC filing, industry heavyweight NCO Group reported that Spitzer had sent a subpoena to the firm seeking information on its debt collection practices. The story received a little attention in the press in the past couple of weeks: it was reported in New York's *Newsday*, the *Washington Post*, and in some industry publications. But it was not a widely-circulated item. The questions – spoken or not – were definitely clear, though: Is Spitzer going after debt collectors now? And if so, would other state Attorneys General pick up on the trend?

It's not that other states' Attorneys General have not already been on the case of collection agencies. A prominent example is Darrell McGraw of West Virginia. His office has overseen quite a few investigations and subsequent settlements with collection agencies over the past few years. But the name Spitzer, obviously, carries a

certain gravitas that many other law enforcement officials lack.

Spitzer's new job will probably not get the industry off the radar screen if it is already there. Spitzer's replacement is Andrew Cuomo, son of former New York Governor Mario Cuomo (and, in the “talk about being politically connected” file, his ex-wife, Kerry Kennedy, is the daughter of RFK). Andrew Cuomo's background was primarily in fair housing advocacy, eventually culminating in serving as Secretary of Housing and Urban Development for four years under Clinton. But while his primary focus may shift to housing-related issues, he is not likely to drop the work Spitzer began. Regardless, a broader and more wide-ranging movement by other state enforcers that might have ridden on Spitzer's coattails may have been headed off at the pass.

It's extremely important that the companies that do not play by the proper rules in this industry are held accountable. And if a preponderance of consumer complaints points to shenanigans at a particular collection agency, they should be investigated. Those that collect without regards to the law make life harder for everyone else. But we all know that NCO is not one of these companies; they are being targeted because of their size. It feels like the opening salvo in a battle against collection agencies, and the last thing this industry needs is a concerted effort by states' Attorneys General to “go after” collectors – any collectors – that may or may not have been running afoul of the law.

Patrick manages all content for CollectionIndustry.com and is responsible for editing all content and periodic newsletters for Kaulkin Media. Contact him with your news at editor@collectionindustry.com.



Healthcare ARM: The M&A Scene Heats Up

By Kit Ladwig
Special for Kaulkin Ginsberg

“A hot spot.” That’s how one insider views the healthcare receivables market – judging by the increase in M&A activity so far this year. In the first three quarters of 2006, there have already been 15 transactions involving firms that specialize in healthcare revenue cycle management compared to 14 in all of 2005, according to Kaulkin Ginsberg. Total deal value has also risen from \$151 million in 2005 to \$166 million so far this year.

And more transactions are expected to close by the end of the year. “We have a couple of healthcare-related deals that may happen this year and one that will take longer,” says Mike Ginsberg, Kaulkin Ginsberg President and CEO.

What is causing the uptick in activity?

The market is huge and fragmented, with considerable room for growth. According to Kaulkin Ginsberg’s *Healthcare ARM Report, 2006*, the sector of the accounts receivable management (ARM) industry that serves the \$2 trillion healthcare market generated \$2.4 billion in revenues last year. With healthcare costs steadily rising, and the number of uninsured and underinsured patients growing, healthcare providers increasingly are turning to specialists all along the revenue cycle to help improve their financial condition.

“Inefficiency creates opportunity,” says Ginsberg, referring to the situation in healthcare business offices, which generally are understaffed and lack the latest technology for efficient and effective operation.

That trend has caught the attention of financial investors as well as strategic ones, including large business process outsourcers (BPO), ARM firms, and debt buyers. The result: a lot of potential buyers looking for attractive healthcare-related acquisitions. The challenge: Although thousands of firms collect on local healthcare accounts, not a lot, Ginsberg says, are of sufficient size to acquire. “In healthcare,” he notes, “we’re seeing competition in larger M&A deals for those with direct access to healthcare providers. Some firms are even owned by a group of healthcare providers and they are very attractive.”

Who is funding deals, and why?

The answer in many instances: private equity investors. They are taking major stakes in leading firms, providing the wherewithal for firms to move into the healthcare space and for firms already in that space to expand geographically, increase their client base, and diversify the services they can offer their clients.

Why the interest?

Private equity firms that have raised a lot of cash are

looking for a place to invest it. “Like other parts of the industry, some private equity investors are seeing good investment opportunities and putting money to work,” says Paul Legrady, Kaulkin Ginsberg’s Research Director.

The healthcare sector offers special attractions. “Healthcare collections is a fragmented, stable business. Clients generally don’t change agencies often,” says Bruce Colburn, president and CEO of Kadent, a Pennsylvania-based company backed by a group of private equity firms. “A company with more nimble technology and economies of scale can offer better processes at a lower cost,” says Colburn. The desire to attract larger clients and achieve cost synergies, he notes, prompts interest in acquiring additional firms.

The healthcare market is not quite as commoditized as markets like bankcard are, and it’s unlikely to become so, says The Outsource Group’s Michael Dimarco. “Healthcare collections require a highly specialized understanding of billing and payer practices,” he points out. “And while collections firms are fragmented, healthcare providers are too. That tends to equalize the power the buyer and seller have, with relationships relying more on the total value proposition, not just fee rate.”

M&A Outlook

“This year has been the largest year by far for ARM M&A and I see that continuing for the foreseeable future,” Ginsberg predicts. “Interest rates are stable, the stock market is performing well, and capital is readily available.” Other industry insiders concur. “Private equity moves in a herd,” notes Moises Eilemberg, President of H&R Accounts, “and that’s likely to continue.”

Within the broader healthcare revenue cycle management space, “the activity of venture capital is picking up and M&A activity usually follows,” says Chemain Sanan, Executive Vice President of business process outsourcing firm Zavata. “We’ve seen a lot of investors, M&A activity, and consolidation in just a few years. And it will pick up. Financial buyers are moving in this space and strategic buyers are bidding actively. That speaks highly of the potential.”

The bottom line: Buyer interest is not expected to cool off any time soon.

This is excerpted from a detailed Market Spotlight article posted on Kaulkin.com. Read the full article online at www.kaulkin.com/press/articles/healthcare_mna.cfm.

Kit Ladwig, an experienced business writer and former editor of Collections & Credit Risk magazine, has been writing about the credit and collection industries for the past 10 years.

A New Look Inside ARM

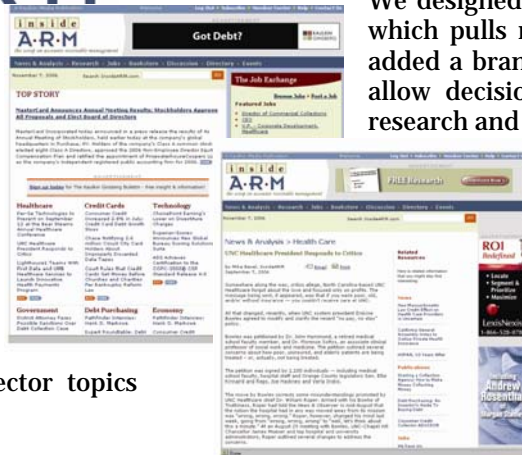
Coming in 2007:

CollectionIndustry.com will become insideARM.com!



With trends such as consolidation, outsourcing, globalization, and debt sales underway in the industry, we have added a lot more industry-specific content to our portal website.

To make it easier for you to find the specific topics you are looking for, we created a new site, which is organized around specific areas – like healthcare, telecom, consumer, and government collections; and also by cross-sector topics such as debt purchasing and technology.



We designed a sophisticated search engine which pulls relevant content together, and added a brand new Research area that will allow decision-makers access to top-shelf research and benchmarking information.

Starting next month, you'll be able to see the new look. You'll automatically be directed to the new site when you log in to CollectionIndustry.com.

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 first quarter of 2007, please [send us an email](#) with your current mailing address.

To review a complete listing, you can also visit www.collectionindustry.com/events.

We will be on hand at these upcoming shows and would love to meet you. To schedule a confidential meeting, please email hq@kaulkin.com.

Collection Advisor's TECH'06

December 7-8, 2006 – Las Vegas, NV

This second-annual event focuses exclusively on technology and encourages lots of interaction.

DBA International 10th 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 collection industry executives with advice, expertise, and information to make well-informed decisions for 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 CollectionIndustry.com™ and Credit & Collection Daily™. Kaulkin Information Systems creates secure and affordable document and business process management technology (www.kistrack.com). Read more about Kaulkin Ginsberg at www.kaulkin.com.

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