

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.

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Thank you to everyone who participated in our teleseminar last month. Based on the volume and the nature of questions, it's clear that we are all hungry for information. Some of the more common topics that you asked us to address are 1) how much are recoveries down? 2) How can we improve our own financial performance without sacrificing our client needs? 3) How do other agencies compensate their employees? We are listening and plan to address these concerns proactively with you.

In this issue of *Insight*, we've summarized some of the material presented at the last teleseminar, including our detailed analysis of recent transactions, and trends we're seeing in M&A in the industry.

Earlier this fall, we conducted a survey through insideARM.com to learn what you think about the current and future state of the industry. If you're seeing a flood of new placements and lower liquidation rates, you're definitely not

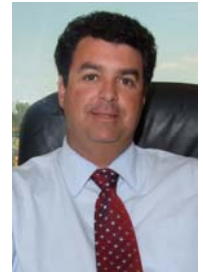
alone. Read on to learn more findings from the report.

What is clear is that nearly everyone is "hunkering down" as the economy slows and looking for ways to survive and thrive in the current climate. Although collectors are by nature a competitive group, now may be the time to look for ways we can work together to grow and prosper. As always, feel free to contact me or any member of our team to confidentially discuss your business concerns.

May everyone have a happy and safe holiday season.

Sincerely,

Mike Ginsberg,
President & CEO
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Study Finds Collection Agencies Flooded in Placements and Shifting Strategy

By Patrick Lunsford, Senior Editor, insideARM.com

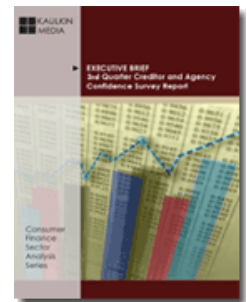
We have been hearing anecdotal evidence from creditors and collection agencies that in the current economy, placement volumes have increased while collection rates are declining. The results from our latest survey provide the data to back up that conclusion.

In our latest *Credit & Debt Collection Industry Confidence Survey*, more than 60 percent (61.1%) of debt collection agency respondents said that account placements were "moderately" or "significantly" higher in the third quarter of 2008. Further, over 77 percent (77.2%) of these agencies are expecting increases in the next six months.

But the economic recession has impacted collectors' ability to recover money,

according to the survey. As such, more agencies are planning to alter their debt collection strategies. More than 90 percent of collection agencies said that they were "somewhat likely" or "very likely" to modify collection strategies to more effectively align with economic conditions. In the second quarter survey, 83.9 percent of respondents answered the same way.

"We have already modified our collection strategy to emphasize down payments and periodic payments in light of the decreasing

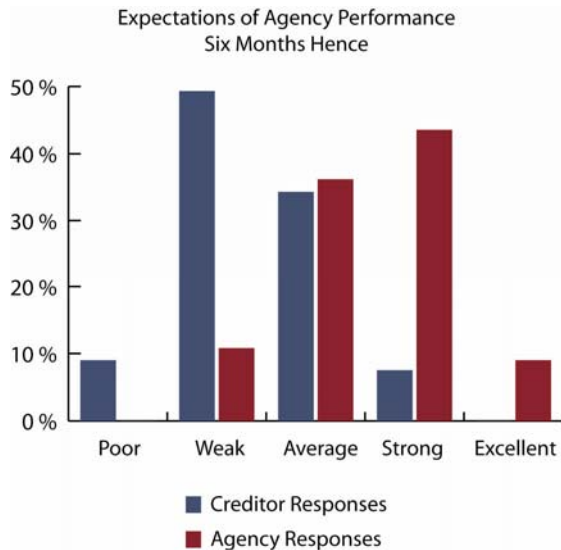


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Study Finds Collection Agencies Flooded in Placements and Shifting Strategy (Continued)

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liquidity of our debtor populations,” wrote one survey participant. “While placements have doubled this year and will again double next year, front-end collections are staying the same. Middle class America is out of money. The only thing leading the pack is our litigation debt,” wrote another.



Expectations of future collection performance showed an interesting disparity – agencies were more optimistic about their future performance than creditors were. When asked about anticipated performance of their service providers, over half of the creditors (58.3%) expected poor or weak performance in the next six months. In the same timeframe, only 10.8 percent of the agencies expected their performance to be weak, with over half expecting strong or even excellent results.

The full *Quarterly Credit & Debt Collection Industry Confidence Survey* report is available for free at www.insidearm.com/go/free-reports/3rd-quarter-confidence-survey-report.

Patrick manages all content for *insideARM.com*. Contact him with your news and comments at editor@insidearm.com, or call 240-499-3828.



M&A Activity Recap: Year-to-Date Transactions

By Michael Lamm, Kaulkin Ginsberg Associate

At the end of the third quarter, the total deal value for M&A in the accounts receivable management industry is at \$1.8 billion. This already exceeds last year’s total of \$1.7 billion largely due to a few high-value transactions that closed in the first half of the year, especially in Europe where the ARM market continued to enjoy strong transaction multiples. Four deals with over \$100 million in deal value contributed to 81% of the total year-to-date.

One direct result of the financial market crisis is that financial buyers are having difficulty accessing the debt markets. As a result, we are definitely seeing M&A activity shift from financial buyers to well-capitalized industry buyers. If you dig into the results and look at year-to-date ‘08 versus year-to-date ‘07 M&A results, 70 percent of the 29 transactions that were completed so far this year were done by industry buyers, compared to only 40 percent this time last year. Industry buyers are stepping up to acquire agencies that may be in distressed situations, have attractive clients or personnel, or that offer up an opportunity for the buyer to expand their presence into a new market or region. Industry buyers will

likely be competing for deals with a number of former industry executives whose non-competes have recently come up, as these executives will be looking to re-enter the market through acquisitions of small to mid-size agencies.

The third quarter was another active quarter despite all of the turmoil in the credit markets. A few transactions worth noting:

The largest deal of the quarter happened in the middle of August, when debt purchasing giant Sherman Financial repurchased a 24 percent stake in its company from mortgage insurer MGIC for \$209.5 million. MGIC, which specializes in private mortgage insurance, made the decision to sell when it saw increasing loan delinquencies and surging average claims putting pressure on its earnings – as was the case with many of its peers.

About a month later, Radian, a well-known mortgage insurer and Sherman’s other large investor, increased its ownership stake of Sherman from 22 to 29 percent,

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M&A Activity Recap: Year-to-Date Transactions (Continued)

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showing the market its commitment to Sherman as a core part to its mortgage insurance unit, bolstering its liquidity.

Directly related to the trend regarding industry buyers, we also saw a number of ARM companies make acquisitions to expand geographically or acquire market share. Those buyers included Portfolio Recovery Associates, Central Credit Services, Fidelity Capital Holdings, and Priority

Credit Recovery. We expect to see more transactions involving industry buyers in the near future.

Michael Lamm manages M&A transactions and valuations for Kaulkin Ginsberg. To confidentially discuss your interests, contact Michael at 240-499-3808 or at mlamm@kaulkin.com.



M&A Activity Recap: Current Climate

By Mark Russell, Kaulkin Ginsberg Director

Over the past few months, the economic turbulence and instability within the financial services sector has impacted certain transactions within the ARM industry, particularly larger transactions involving buyers who require lender financing to consummate a deal. The primary issue is that lender financing is harder to obtain and more expensive, as traditional lenders including international and regional banks have virtually disappeared from this market. Other senior lenders and specialty finance companies still exist, but the cost of their financing is higher.

To put this into perspective, at the peak of the ARM M&A market last year, buyers of large ARM companies – those that generated \$5-10 million or more in EBITDA* – were able to raise as much as 4-5 times the seller's EBITDA in lender financing, whereas today they are challenged to raise more than 3X. Last year, 75-80 percent of lender financing was obtained from traditional senior lenders at a cost of LIBOR plus 3-4 percent – which equated to a 5-6 percent interest rate, and a 1-2 percent closing fee – and the remaining 20-25 percent came from mezzanine or subordinated lenders at a cost of 12-17 percent. Today, senior debt has doubled in cost to 10-12 percent with closing costs of 3 percent or more. Mezzanine debt is non-existent as these lenders are not participating in transactions at this time.

This dramatic change in lender financing is a direct result of the chaos unfolding within the global financial services sector and economy, and the corresponding need by lenders to re-price the risk inherent in M&A transactions

due to the market volatility. This in turn is requiring financial buyers and others dependent on lender financing to restructure their deals with the sellers, typically requiring the sellers to retain more equity, and/or accept a seller's note or earn out for a portion of the deal value. The good news is that these larger transactions are still being valued in the 6-8X EBITDA range.

Transactions involving ARM companies generating less than \$5 million in EBITDA are not being impacted as much by the current economic and market conditions, primarily because they are being acquired by strategic or industry buyers. Herein lies the silver lining within the ARM M&A market: industry and strategic buyers are typically not as dependent on lender financing due to the fact that they can leverage their balance sheets and lines of credit as needed. They also have the added benefit of generating synergistic cost savings which can positively impact deal value. Transaction multiples for add-on acquisitions remain the same, between 4 and 6X EBITDA for companies with good management and consistent financial performance.

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The conclusion is that there are still buyers for ARM companies of all sizes and market focus, including those that are struggling financially, and transaction multiple ranges are remaining the same. However, more deal structure can be expected from buyers who are dependent on lender financing and who perceive some form of transaction risk such as recent declining financial performance and/or extensive concentration within the seller's client base and/or market focus.

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M&A Activity Recap: Current Climate (Continued)

*(Continued from page 3)***M&A Trends over the next 6-12 months**

We expect the current conditions to remain in place through the first half of 2009, and possibly throughout all of 2009. This means that more M&A deals will involve smaller ARM companies being acquired by larger industry players and strategic buyers. International or cross-border M&A activity within the ARM industry may decline as a result of increased uncertainty surrounding the global financial and market conditions. We are not forecasting

any declines in M&A transaction multiples at this time for either small or large transactions.

**EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization*

Mark Russell manages M&A transactions for Kaulkin Ginsberg. To confidentially discuss your business interests, please contact Mark Russell at 240-499-3804, or by email at mark@kaulkin.com.



Watch Your Mail for the Upcoming Events Calendar



Kaulkin Media prints and mails out a quarterly calendar of industry events to help you plan ahead. If you would like a copy of the 1Q09 Events, let us know at 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.

If you would like to set up a confidential meeting with a member of the Kaulkin Ginsberg team at an upcoming conference, please email hq@kaulkin.com and let us know when you would be available to meet.

2009 DBA International Annual Conference
February 3-5, Las Vegas, NV

Members of our team will be on hand during the conference 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://www.insideARM.com)[®] (formerly CollectionIndustry.com) and The ARM Insider[™]. Kaulkin Information Systems creates secure and affordable workflow, document, and business process management technologies (www.kistrack.com). Read more about Kaulkin Ginsberg at www.kaulkin.com.

What can we do for you?

To discuss your business needs in confidence, send an email to hq@kaulkin.com or call us at 301.907.0840.

**2008 Finalist: M&A Advisor's
 Boutique Investment Banking Firm of the Year**

We are pleased to have been nominated as a finalist for “2008 Boutique Investment Banking Firm of the Year” in the Sector Specialist category by the M&A Advisor, a leading information publisher for middle-market mergers and acquisitions and finance.

This year's awards will be presented from 35 categories, with finalists representing 66 companies. Winners will be announced at the Middle-Market M&A Awards Gala on Monday, December 15th in New York City.

