



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.

Contents

Diagnosis Good for Healthcare ARM	1
Valuing a Collection Agency in Today's Hot M&A Market	2
Healthcare Collections in the News	3
Public Markets Increase KGI	4
Upcoming Events	5
About Kaulkin Ginsberg	5

Kaulkin Ginsberg is committed to providing reliable and current market research, news, and information about the Accounts Receivable Management (ARM) industry. Our Research Group started this year by examining the global debt buying market (see [The Global Debt Buying Report](#) for more information). We also added a section dedicated to [debt purchasing](#) on CollectionIndustry.com, our portal website for the ARM industry.

Our latest focus is on the healthcare sector. We are now wrapping up a comprehensive study of the healthcare ARM market with viewpoints from creditors, agencies, debt buyers, and vendors. Our findings will be available shortly after Labor Day. In this issue of the *Bulletin*, Paul Legrady, our Director of Research, shares some of the results. In addition, Patrick Lunsford, Editor of CollectionIndustry.com, recaps the recent flurry of M&A activity and other news announcements in the healthcare sector of ARM. Be sure to bookmark www.collectionindustry.com/healthcare for all healthcare ARM news at a glance.

Also worth noting in this issue of the *Bulletin*, Michael Lamm from our Strategic Advisory Group outlines the current value drivers in today's seller market. This is a must-read for owners wondering whether now would be a good time to sell their business.

We hope you find this edition of our *Bulletin* informative, and I look forward to seeing you at upcoming trade shows. For the past 15 years our goal has been to provide owners, executives, and investors in the ARM industry with the access, insight, and information needed to make informed strategic business decisions. Do not hesitate to contact any of our professional staff members to confidentially discuss your needs. We value your business and look forward to hearing from you.

Sincerely,

Mike Ginsberg
President & CEO



Diagnosis Good for Healthcare ARM

By Paul Legrady
Director, Research Group

Bad debt may well be the healthcare industry's most pressing problem. According to Kaulkin Ginsberg research, healthcare companies in the United States set aside \$129 billion annually to cover bad debt. This is roughly 7 percent of the industry's estimated \$2 trillion in annual revenues – and more than double the industry's average net profits of 3 percent! When asked, hospital executives consistently describe bad debt and related financial issues as their most pressing concerns. Also, it is rare

for hospital companies to describe their financial performance without citing the negative effects of bad debt on company profitability. To put it simply, bad debt is a big and costly headache to healthcare providers.

This presents opportunities to the healthcare sector of the accounts receivable management (ARM) industry. There are 5,000 first-party service providers, contingency collection agencies, and debt buyers who compete in this diverse and competitive market,
(Continued on page 2)

Diagnosis Good for Healthcare ARM (Continued)

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offering a variety of services designed to minimize the effects of bad debt on healthcare clients. Kaulkin Ginsberg sizes this sector of the ARM industry at \$2.4 trillion, or roughly 16% of industry revenues overall.

These are some of the conclusions of Kaulkin Ginsberg's original research on both the needs of receivables management professionals at healthcare companies, and the solutions offered by ARM companies serving these creditors. The results of this research describe some interesting parallels between healthcare ARM companies and the clients they serve. Given macroeconomic trends, revenues on the part of both groups of companies are likely to increase for the foreseeable future. However, relative profitability for both groups of companies is likely to be challenged as this revenue growth takes place. Kaulkin Ginsberg's research provides receivables

management professionals at healthcare companies and executives of healthcare ARM companies with strategic information that can be used to increase both revenues and profits.

We will share the high-level results of this research free of charge in an upcoming whitepaper, due to be released in September. Full results of our study will also be published in a forthcoming research publication, *Healthcare ARM Report, 2006: Strategic Analysis of a Large and Competitive Market*. The publication will be also available for purchase later this month.

As Director of the Research Group, Paul oversees custom research projects and publications focusing on the ARM industry. For more information, visit www.kaulkin.com/research or contact Paul at 301-907-0840 ext. 104.



Valuing a Collection Agency in Today's Hot M&A Market



Michael Lamm
Associate, Strategic Advisory Group

We estimate that the total deal value in the ARM industry could hit an astonishing \$3.5 billion this year – that's over twice the total of last year's *all-time high* of \$1.7 billion! This M&A "perfect storm" has been driven by three converging forces: first, the economy is growing and debt levels are increasing; second, there are abundant sources of capital and cheap debt available to fund acquisitions; and third, there are too many financial and strategic buyers chasing too few deals. These forces have created a perfect opportunity for contingency collection agency owners with a compelling story to tell.

The recent announcements by NCO Group (NASDAQ: NCOG), West Corporation (NASDAQ: WSTC), and Encore Capital Group (NASDAQ: ECPG) have prompted many agency owners to call me and ask: How much is my business worth in today's market? It may be frustrating, but there is no quick answer to that question: typically – it depends on what you are selling. However, I want to share some of the general guidelines used when assessing a company's value.

How to calculate Adjusted EBITDA?
Here are the fundamentals:

Buyers valuing a collection agency typically first determine the multiple applied to Adjusted EBITDA, which is Earnings Before Interest Expense, Taxes, Depreciation and Amortization. EBITDA is normally "adjusted" to reflect the removal of certain non-recurring income and expenses (e.g. sale of equipment, owner perks and benefits

not existing post-transaction, moving expenses, certain consulting fees, etc.), changes in owner and personnel compensation, and any other business-related adjustments that both parties agree to during negotiations.

Buyers tend to focus on historical financial performance and generally evaluate the prior fiscal year, or trailing twelve month Adjusted EBITDA results, to determine fair market value. However, based on the motivation and synergistic fit between the buyer and a seller – as well as a competitive M&A market – a buyer may be willing to apply current year Adjusted EBITDA performance to calculate the purchase price.

I have provided a **Fundamentals 101** calculation to illustrate the process of determining Adjusted EBITDA:

Adjusted EBITDA Calculation –
Contingency Collection Agency

Revenues (Net Fees)	\$5,000,000
Operating Expenses	(\$4,500,000)
Net Income	\$500,000
Interest Expense	\$25,000
Income Taxes	\$20,000
Depreciation & Amortization	\$25,000
Other Adjustments:	
Excess Salary (Owner)	\$50,000
Perks (Owner)	\$15,000
One-Time Expense (Moving)	\$10,000
Adjusted EBITDA	\$645,000

(Continued on page 3)

Valuing a Collection Agency in Today's Hot M&A Market (Continued)

*(Continued from page 2)***What are buyers looking for?*****Every buyer is different.***

The multiple applied to Adjusted EBITDA is driven by the fit of the agency with the buyer, the current financial market, and the agency's value drivers such as:

- **Sustainable Earnings** – Typically, well-run agencies produce at least a 15% to 20% EBITDA margin consistently, year-over year.
- **Consistent Year Over Year Revenue (Net Fees) Growth** – A trend of 20% to 25% historical annual growth with no “bumps in the road” is ideal.
- **Seasoned Management Team** – Essential to achieving maximum value - high tenure in industry and with current company, and led by a CEO with a vision of how best to grow the agency; well-versed in managing the operations, sales and marketing, technology and human resources aspects of the company; M&A and international experience are considered a plus.
- **Clients Served** – Existence of blue-chip clients with tenure and minimal revenue concentration – no one client generates 10% or more of annual revenues; if client concentration does exist – which is typical for agencies – it is better to have it with the more attractive, long-term clients
- **Scalable Infrastructure With Minimal Capital Expenditures Required** – Scalability of an existing facility and IT systems for new business and additional staff (collectors) is important.
- **Growth Opportunities** – Options that require minimal capital expenditures to implement are preferred (e.g. entering new markets, obtaining additional clients in existing markets, obtaining additional business from existing clients); however, well capitalized buyers may also see growth opportunities via add-on acquisitions.

What multiple typically applies to an agency my size?***Well, it depends...***

Contingency agencies, meeting the criteria just described, are trading on a multiple between 4 to 6 times Adjusted EBITDA, a range that applies to agencies generating roughly \$2 million to \$20 million in revenue annually. Large agencies that are recognized by buyers as “platforms,” typically above \$20 million in revenue, trade for as much as 8 times or more Adjusted EBITDA.

However, no rules of thumb exist and there are always exceptions to the multiple ranges applied to any size agency.

Where is the M&A market headed?***Multiples are peaking, but the market remains strong.***

Financial and strategic buyers continue to aggressively seek acquisition opportunities in the ARM industry. Well-run, growing contingency agencies are generating the most interest and the highest values. We anticipate that non-industry buyers will continue to view the contingency collections arena as an attractive investment as long as debt levels rise, businesses outsource or sell receivables, and the lending markets remain favorable.

Now my question to you: Are you ready to sell?***It depends – maybe for the right price.***

Michael Lamm manages M&A transactions and valuations for Kaulkin Ginsberg as an Associate of the Strategic Advisory Group. To discuss your interests in confidence, Michael can be reached at 301-907-0840 ext. 119 or at mlamm@kaulkin.com.

To keep you informed on the current M&A market and how it impacts your plans for an exit, we produce a quarterly report on the industry. In it, we analyze what's going on and why, and what to expect moving forward. For a free copy by email (in PDF Format), just send a note to Nancy Fleming at nfleming@kaulkin.com.

Healthcare Collections in the News



By Patrick Lunsford
Editor, CollectionIndustry.com

Evidence of growth in the healthcare industry is not just coming from the amount of coverage in the national press; the growing healthcare sector of ARM has also been in the news a lot lately on CollectionIndustry.com.

As hospitals and medical care providers grapple with the business end of healing, the management of medical accounts receivable – and the heretofore narrow niche of the collection industry that caters to it – has jumped into the spotlight with numerous M&A deals and other PR announcements.

M&A in the healthcare sector has indeed been active,

(Continued on page 4)

Healthcare Collections in the News (*Continued*)*(Continued from page 3)*

characterized by healthcare specialists acquiring other healthcare agencies; however, industry players are also acquiring healthcare niche agencies to accommodate growth opportunities.

The Outsource Group, a healthcare ARM firm and portfolio company of ClearLight Partners, made several acquisitions recently. They announced a [merger](#) with healthcare specialist Midwest Collection Services, Inc. in March, and then [acquired](#) Quantum Credit Services of Texas, a full-service healthcare-focused collection agency in May.

In April, medical collector MedAssist, Inc. trumpeted the [acquisition](#) of Capstone Solutions, a provider of healthcare revenue cycle outsourcing solutions. Then two weeks later, announced the [acquisition](#) of Twin Medical Transaction Services, Inc.

In May, Asset Acceptance [announced](#) that they were purchasing medical debt purchaser Premium Asset Recovery Corporation (PARC). While the deal was relatively small (\$16.5 million), it certainly opened a lot of eyes in the debt purchasing and collecting world that a major player like Asset was interested in a niche healthcare player.

In addition to M&A activity, HIPAA [celebrated](#) its 10th anniversary in August. While this was a story of much larger import for healthcare providers, the regulatory requirements of HIPAA are still cause for collection managers to lose sleep at night, and we covered the milestone for [CollectionIndustry.com](#).

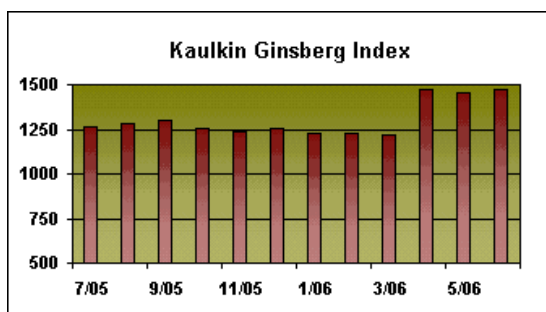
Several companies have announced product and service offerings specific to the medical collections sector as well. Both [Ontario Systems](#) and [TransUnion](#) pitched their healthcare ARM-specific offerings recently. Sector specialists like Senex, Varisol, Cymetrix and United Medicorp have also increased their PR push. Even call center/BPO giant TeleTech recently announced a large contract win in the healthcare sector.

As the healthcare sector grows and matures in the ARM industry, expect a lot of news releases from companies vying for a piece of the pie. In healthcare, ARM executives recognize a true growth market with nearly unlimited potential. At [CollectionIndustry.com](#), we will continue to follow this trend and keep you informed of the latest developments. You can also view all healthcare ARM news at a glance – just visit www.collectionindustry.com/healthcare. (free registration on [CollectionIndustry.com](#) required)

Public Markets Increase KGI

The Kaulkin Ginsberg Index (KGI), the leading indicator of economic conditions affecting the accounts receivable management (ARM) industry, increased 1% to 1472.5, only slightly below its all-time high. The index's movement can be attributed to a substantial increase in the total market capitalization of public ARM companies. The KGI remains up 13.0% year over year.

Increases in the public markets brought the Index back near its all-time high. The Index should continue to gradually increase until after the completion of the NCO Group buyout when the Index will decline as the total market capitalization of public ARM companies decreases substantially.



The Index's changes in June were caused by the following factors:

Variable	June 2006 *	Variable Change *	Effect on KGI*
Unemployment Rate	4.8%	-5.9%	Down
Federal Funds Rate	4.99%	1.0%	Up
Charge-off Rate	0.42%	0.0%	-
Outstanding Consumer Credit	\$2.186T	0.6%	Up
Total Market Cap of ARM Stocks	\$3.19B	3.6%	Up
Bankruptcy Filings	116,771	0.0%	-
Consumer Price Index	202.9	0.2%	Up

* See "How is the KGI Calculated,"

<http://www.kaulkin.com/research/kgi/calculate.cfm>

For more information about the Kaulkin Ginsberg Index, see www.kaulkin.com/research/kgi.

Upcoming Events

Coming Soon to a Mailbox Near You!



CollectionIndustry.com is sending out a free fall calendar to help you plan for upcoming industry events.

If you want to make sure you're on our list, please [send us an email](#) with your current mailing address.

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

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

Debt Connection Symposium and Expo 2006
September 6-8 – Hollywood, CA

We're proud to support this innovative new conference, presented by Dennis and Judy Hammond. This event will have a special focus on networking – bringing together clients, agencies, attorneys, and industry vendors. Mike Ginsberg will be kicking off the program by presenting the keynote on the State of the Industry. Later in the program, he will also be presenting a special session on "selling your agency in today's market." Registrations are still accepted, please visit www.dcs2006.com.

Minnesota ACA Annual Meeting
September 14-16 – Duluth, MN

Director Mark Russell will be presenting "The Future of the Industry" at this year's annual fall conference.

Northeast Debt Collection Expo & Convention
September 17-19 – Hershey, PA

The annual convention of the New York, New Jersey, and Pennsylvania ACA units will take place at Hershey Lodge. On the 18th, Paul Legrady will present an overview of today's debt buying market, including original research from our *Global Debt Buying Report*.

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.

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.

