

**The Bulletin – SPRING/SUMMER 2003 (printable version)**

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**Kaulkin Ginsberg 2002 Accounts Receivable Management Benchmarking Survey - Results Available**

The results of the second annual Kaulkin Ginsberg Accounts Receivable Management Benchmarking Survey are now available. Greatly enhanced since last year, our 25-page report offers the most comprehensive operating information available in the industry. Information is provided on 183 1st party and contingency collection agencies, collection law firms, and debt buyers, and data is provided both by company size and region.

This is the first time any firm has tracked debt buyers, collection law firms and first party agencies separately, and it's also the first time that third party agencies are broken down by primary placements, seconds and thirds.

Highlights of this year's findings include:

- Average contingency rate of 26-30% is higher than expected (most outsiders believe the average rate is lower).
- Client concentration is less of an issue than many outsiders believe, with almost one third of agencies reporting 71-90% of revenues from their 10 largest clients, and only 4% of agencies reporting 90-100% of revenues from their largest client.
- More than 30% of respondents said they did not lose a client in 2002.
- The most significant reason for client loss was change of management at the client.
- More than one third of agencies still use proprietary software.
- By far, the primary obstacle for future growth is hiring enough quality employees. Even with the advances in technology, which have been considerable, agencies are still service businesses that rely on employing quality people. Also, executives are exploring off-shore solutions to access quality labor at more affordable rates.

This is just the tip of the iceberg of the information you will find in this report. To read more, visit [www.kaulkin.com](http://www.kaulkin.com), then click on Reports & Newsletters, then Benchmarking, then 2002 Survey.

To offer feedback about any of our Bulletins or services at any time, email [hq@kaulkin.com](mailto:hq@kaulkin.com).

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**Industry Leaders Profiled**

We would like to make you aware of a new section on [CollectionIndustry.com](http://CollectionIndustry.com) - *Industry Leaders* - in which we highlight the careers and ideas of people we consider to be innovators and leaders in the credit and collection community.

Here you will find a series of Pathfinder Profiles, which include interviews, bios and company facts, as well as Expert Roundtables, which are panel discussions on topics of vital interest to the industry. Our latest installment features Anthony Marino, the newly-named President and CEO of leading accounts receivable management firm, Nationwide Credit, Inc.

To view this new section, please visit [www.Collectionindustry.com](http://www.Collectionindustry.com), and click on Industry Leaders on the left.

### **Kaulkin Partners Division Provides Product Advice for Recovery Managers**

Our newly formed division, Kaulkin Partners, offers agency executives and credit grantors a valuable, time-saving resource.

The first of its kind for the accounts receivable management industry, Kaulkin Partners is an organization of experienced sales representatives who can assist recovery managers by providing knowledge of the many products and services available to make a credit or collection operation more competitive and profitable.

Through our Partner selection process, we have evaluated many of the available offerings in each of the product categories we represent, such as credit reports, credit bureau access, collection letter printing and mailing, and collection software.

The Kaulkin Partners commitment to users of our product line is that the providers are all companies in good standing, providing valued services that are fairly priced, and can all be used with confidence. We also will continue to search for the best and latest products available.

Additionally, our sales reps average more than 10 years of experience selling financial services products. They can help executives to identify solutions for a wide variety of recovery management challenges.

To read more about Kaulkin Partners or to view the complete product line, please visit [www.kaulkin.com](http://www.kaulkin.com), and click on the large green "Kaulkin Partners" button at the bottom. If you have an interest in any of the products or services, please contact Steve Ruderman at 760-438-1741 or email [sruderman@kaulkin.com](mailto:sruderman@kaulkin.com)

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### **New: Executive Search Services for Accounts Receivable and Call Center Management**

In our continued effort to provide strategic advisory service to business owners and executives, we are pleased to announce our new partnership with Executive Alliance, the leading executive placement firm specializing in the debt collection industry. Their clients - including collection agencies, CRM companies, call centers, major financial institutions, telecommunications companies, utilities and service organizations - have chosen to partner with them because of their proven ability to attract, identify and recruit exceptional talent.

Relationships and reputations are important indicators of success in this industry and both Executive Alliance and Kaulkin Ginsberg enjoy an extensive following in the space. Through our new alliance, we are able to provide recruitment resources and advisory services that are unparalleled in the industry.

To read more about Executive Alliance and executive search services, please visit [www.Kaulkin.com](http://www.Kaulkin.com), click on "Services" on the left, then click "Executive Search" on the bottom right.

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### **Upcoming Events**

Visit the CollectionIndustry.com™ [Events calendar](#) for a comprehensive listing of collection industry-wide events.

We are pleased to be participating at the following industry conferences and trade shows. To schedule a confidential meeting please email [hq@kaulkin.com](mailto:hq@kaulkin.com) and a representative will contact you.

- **ACA International's 64th Annual Convention & Expo**  
July 8-11, Las Vegas, NV
- **International Call Center Management Conference & Exposition**  
July 29- August 1,
- **Collection and Recovery Solutions 2003**  
September 10-12, Las Vegas, NV
- **Collection Spectrum**  
September 14-16, Trump Plaza, Atlantic City, NJ  
Brian Greenberg speaking  
Topic: (Tentative) Buying an Agency, Agency Value and the State of the Collection Industry
- **ATA Annual Convention**  
September 14-17,
- **Thomson's 12th Annual Credit Card Collections Conference**  
October 15-17, Orlando, FL  
Mike Ginsberg moderating a panel consisting of leading debt collection, debt purchasing, and collection law firm representatives.
- **DMA Annual Conference**  
October 11-13

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### **M&A Activity Wrap-Up**

Each quarter we prepare an analysis of industry M&A activity for the previous quarter. For this Bulletin our report covers the following:

- Summary of M&A activity and industry trends
- M&A statistics through 2003
- YTD Update on pricing and deal structures
- Predictions for M&A activity in rest of 2003 and beyond

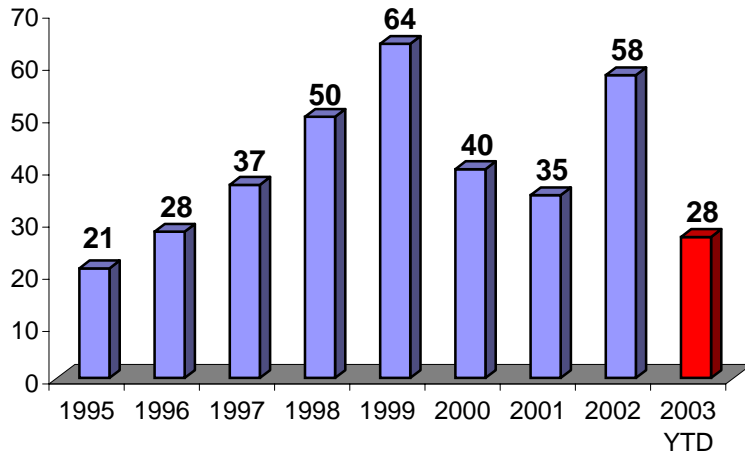
### **2002 Annual Review**

- Second highest transaction volume year in ARM industry.
- Initial signs of convergence between ARM and CRM industries.
- Strategic and financial buyers produce significant deal value in ARM industry.
- Debt purchasing industry generated the highest percentage of deal value.

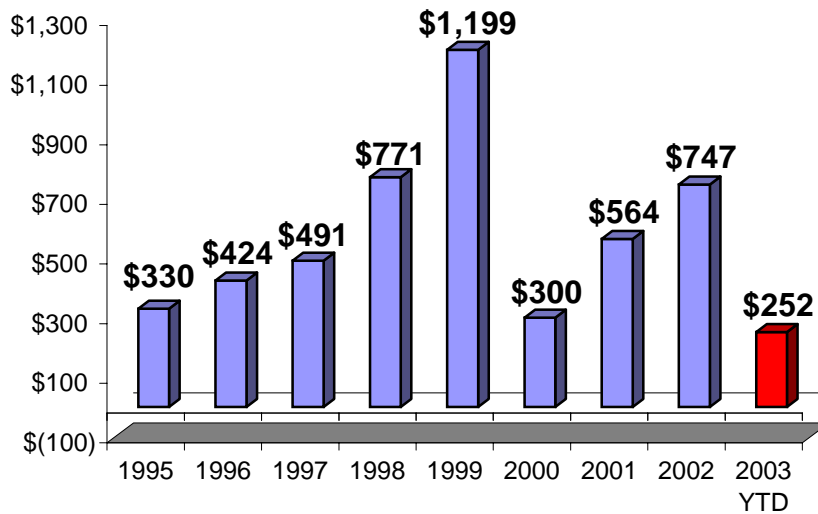
### **2003 Year-To-Date Review**

- ARM industry continues to generate strong buyer interest.
- Prices and deal structures consistent with 2002 results.
- Credit reporting generating significant deal value; bankcard/retail, debt purchasing and medical industries picking up steam.
- Industry consolidators continue to struggle with heavy debt loads from previous acquisitions.

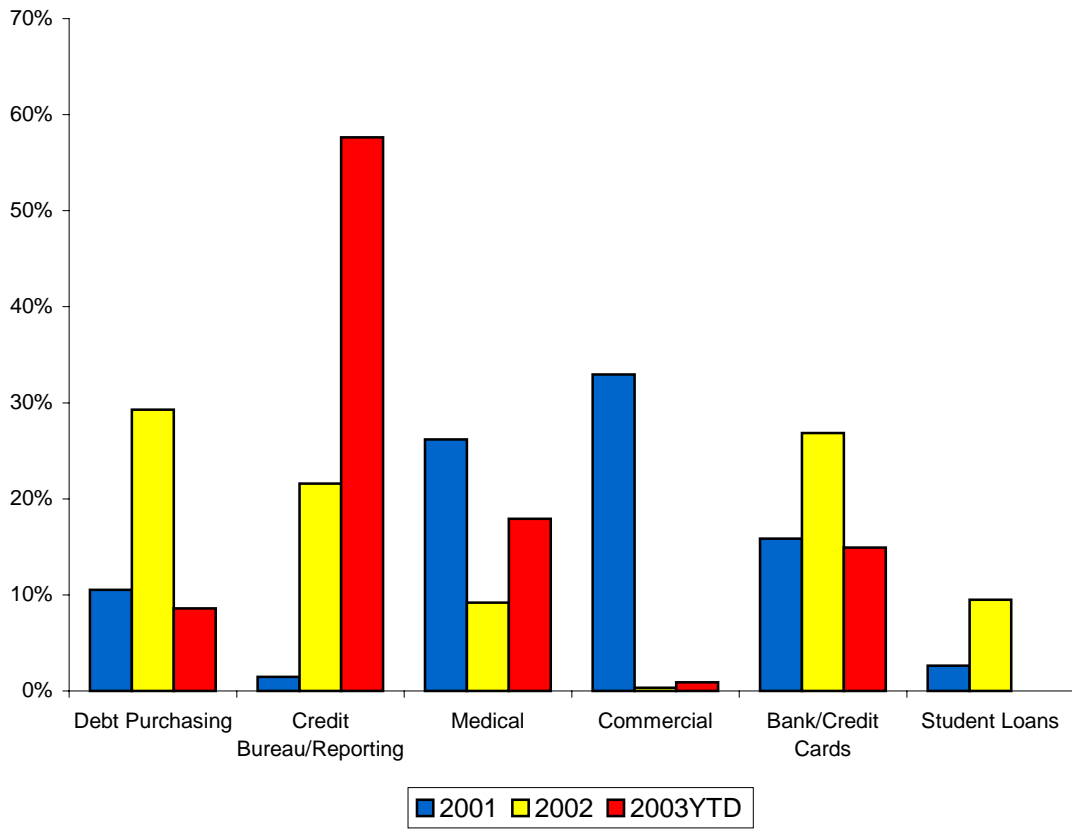
### Number of Completed Transactions



### Total Deal Value (\$MMs)



### Deal Value By Industry Segment



## Announced ARM Transactions in 2003 as of June 1, 2003

| Buyer                                | Industry                  | Seller(s)                            | Industry                  |
|--------------------------------------|---------------------------|--------------------------------------|---------------------------|
| ChoicePoint, Inc.<br>(NYSE: CPS)     | Information Services      | National Data Retrieval              | Credit Services           |
| National Credit<br>Management LTD    | Receivables<br>Management | CCS Hunter & Stewart                 | Receivables<br>Management |
| Intrum Justitia                      | Receivables<br>Management | Cofreco and<br>Jean Riou Contentieux | Receivables<br>Management |
| Experian                             | Credit Reporting          | Credit Data Services                 | Credit Services           |
| Johnson, Morgan and<br>White         | Receivables<br>Management | Titan Business Solutions             | Receivables<br>Management |
| Alliance One                         | Receivables<br>Management | Pacific Coast Collections            | Receivables<br>Management |
| Collecto Inc.                        | Receivables<br>Management | ACA Healthcare Mgmt.<br>Services     | Receivables<br>Management |
| Alliance One                         | Receivables<br>Management | TriAdvantage Credit<br>Services      | Receivables<br>Management |
| Experian                             | Credit Reporting          | Centroplex Credit and<br>Collections | Credit Bureau             |
| Experian                             | Credit Reporting          | Credit Bureau of Provo, UT           | Credit Bureau             |
| Experian                             | Credit Reporting          | Credit Bureau of Ogden,<br>UT        | Credit Bureau             |
| Experian                             | Credit Reporting          | United One Resources                 | Credit Bureau             |
| Wall Street Horizon                  | Information Services      | Net Earnings                         | Credit Services           |
| GUS, PLC                             | UK Holding Company        | Experian Scorex                      | Credit Scoring            |
| Consumer Portfolio<br>(NASDAQ: CPSS) | Financial Services        | TFC Enterprises                      | Receivables<br>Management |
| Prospect Partners, LLC               | Private Equity            | Marina Medical Billing<br>Service    | Medical Billing           |
| Experian                             | Credit Reporting          | Credit Bureau of El Paso,<br>TX      | Credit Bureau             |
| Experian                             | Credit Reporting          | Credit Bureau of Lawton,<br>OK       | Credit Bureau             |
| 1st Credit Holdings                  | Receivables<br>Management | Edward James Int'l                   | Receivables<br>Management |
| PHNS                                 | Receivables<br>Management | Canfield & Associates                | Receivables<br>Management |

\* There were 4 unannounced transactions in the first two quarters of 2003.

## 2003 Pricing and Deal Structures

- Well-managed and profitable ARM companies with diverse client base continue to realize strong value.
  - Up to 6 times or more of normalized EBITDA (earnings before interest, taxes, depreciation and amortization adjusted for excess and/or one-time operating expenses).
  - Primary value generators include: Exceptional management teams, blue chip clients, stellar operating performance and significant growth potential.
  - These deals are typically structured with cash for current performance and earn-outs for future performance and retention.
- Deal analysis and structure more involved than before.
  - Buyers putting more effort into analyzing the operational platform, technology infrastructure and management capabilities, and developing a post-sale business plan.
  - Many sellers are required to remain proactive post-sale for at least an interim period.
  - Lending markets remain tight, restricting buyers' ability to obtain leverage for deals, forcing them to either lower their deal values or provide other forms of structure to bridge the valuation gap – earn-outs, seller notes, etc.

## Expectations for rest of 2003 and beyond

- Current and pending deal flow suggests 2003 will produce a similar, if not greater amount of transaction volume, as 2002.
- Financial investors will continue to invest in the debt purchasing and contingency sectors.
- Additional strategic buyers from the CRM and other outsourced business services sectors will look for platform operations in the ARM industry.
- Industry buyers will continue to generate the vast amount of deal volume, seeking opportunities to increase their market share, service offerings, industry focus, and client base.
- The lending markets will likely remain tight for the rest of 2003 and perhaps longer, requiring buyers and sellers to continue using non-cash instruments as part of their deal structure.

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If you have any questions regarding the information provided in this M&A wrap-up report, please contact Mark Russell at 301-907-0840 x120 or by email at [mark@kaulkin.com](mailto:mark@kaulkin.com).