

Changes in the M&A Landscape

Opportunities abound for mergers and acquisitions and raising capital – despite economic and industry changes now underway.

THE FINANCING MARKET continues to change, affecting mergers and acquisitions activity in the accounts receivable management (ARM) sector – and every other sector. The question is: with considerable capital waiting to be deployed, are deals still being done? If so, how and what kinds?

Today's deals look different, and can be a challenge, but they are still taking place. Our statistics show that 57 ARM deals were completed in 2007, most of them in the first three quarters, with a total value of about \$2.2 billion.

Creativity is the key. Having advised ARM owners since the mid-1990s, it used to be that taking a sell-side client to "the market" was enough to ensure that a deal would get done. Times were good. Buyers were interested. Debt and equity sources were eager. Everyone went home a winner.

Since last summer, however, it is clear those circumstances alone are no longer enough. To succeed in advising owners in M&A activities today, creativity and knowledge of financial solutions are a critical part of the puzzle.

In the M&A world, creativity comes not only from understanding ARM, but from knowing how currents in the financial markets will impact deals, and from knowing how deals are getting done in related markets. It comes from having exposure to as many deal structures as possible to build the best structure for the transaction at hand. Employing the benefit from all of these experiences improves your odds of success, especially when obstacles arise in the transaction. That said, a number of deal trends are emerging.

CREATIVE DEAL STRUCTURES

More and more, deals are structured to include a "reasonable" payout at closing (to accommodate today's tight financing market), as well as provide the seller a chance at another payday.

In the past, it wasn't unusual to complete deals that were 100% paid for in cash at closing. To be sure, those deals still happen with exceptional companies or when shareholders will accept a discounted valuation to cash out today.

The question revolves around whether the buyer or seller will accept the risk associated with future performance. There are structures that can minimize the risk, and as you might guess, these are critical to creating good deals.

Today, most investors want sellers to keep "skin" in the game. As a result, we've seen an increase in deals where sellers retain equity in their company for a few years or more. A traditional private equity structure is one in which they acquire 80% or less of a company while the owner retains the rest. This aligns buyer-seller interests and can create another large payout for the seller upon the sale of the retained equity. In these transactions, it's critical that the rules for post-transaction operations are fully agreed upon, since so much is riding on the outcome for both sides.

Additional financial tools for owners to maximize their payday include earn-outs (pay for performance

as appeared in:

Collections & CREDITRISK

April 2008

by Brian Greenberg

Managing Director

Milestone Advisors, LLC

mechanisms) and seller notes, and both have pros and cons. In all, a realistic and flexible approach to the market will facilitate the best possible deal and ensure that owners are paid well for the company they've built.

CAPITAL BACKING MANAGEMENT

Sometimes there's no company in the deal at all. Quality management teams are tough to find. You know it. I know it. Financial sources know it.

As a result, there's keen interest in finding good teams and supporting them in a growth strategy, rather than acquiring a company and its legacy, which may include some negatives. It's a creative way to pair up capital with talent. At any given time in ARM, there are senior executives who have either sold their company (and whose non-compete has expired), or who have recently left a position and are seeking their next venture. At the same time, capital providers are constantly seeking new opportunities. When the two groups intersect, very good ideas and companies are often created.

INTEREST IN "DEBT BUYERS"

Outside of ARM, "debt buying" is often categorized as a form of Specialty Finance, and that sector has a host of experienced investors. Most of them used to deploy capital in distressed markets that are now dried up, namely the sectors surrounding mortgage-backed and asset-backed securities.

As a result of this market dislocation, they are looking for opportunities in ARM and the consumer charge-off sectors, and they are dipping well below their normal minimum investment thresholds to consider deals starting in the \$5 million range.

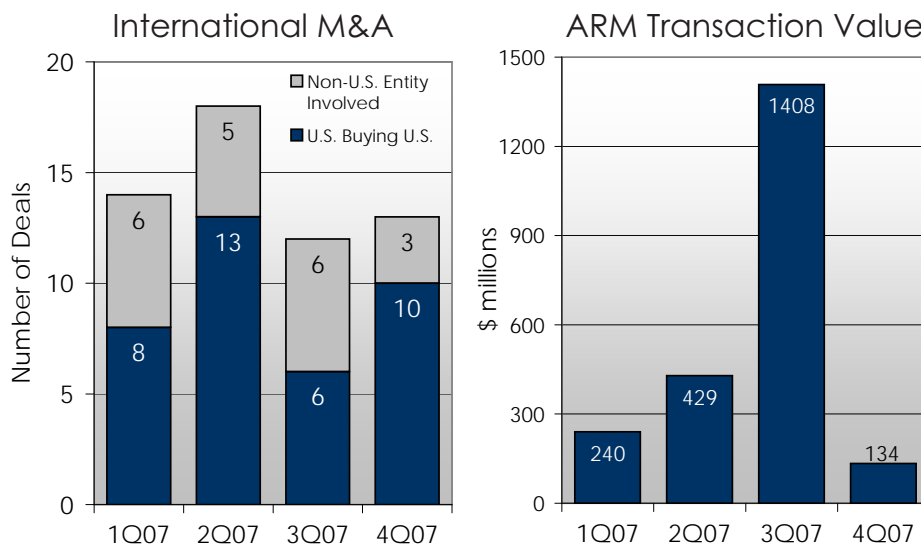
More interesting is the fact many of these groups will invest both debt and/or equity, and will view opportunities from the standpoint of not just how much they can invest today, but will keep in mind the potential total investment over the "life of the investment" with a particular company or management team.

At the recent Debt Buyers Association conference, I also met with a number of these investors who were in Las Vegas to attend the Asset Securitization Forum, a conference well attended by hedge funds and Wall Street bankers, all of whom have been highly active in the securitization markets, which are no longer available to them. They view investments in the unsecured consumer debt arena as a great opportunity, and they are right, but I view the real opportunity as one for ARM executives to articulate their vision and gain a professional financial partner for their company's growth.

INTERNATIONAL DEALS

Approximately 35% of all ARM deals in 2007 involved a non-U.S. entity. And 11% involved a non-U.S. entity buying into the U.S. market.

Deals involving Euler Hermes' acquisition of commer-



cial debt collector United Mercantile, and Essar Global's acquisition of Global Vantage are examples. The most important force behind this activity is that the consolidation that the U.S. saw in the late '90s is occurring in Europe and elsewhere and there are many cash-rich companies seeking acquisitions. Also, the strength of foreign currencies compared to the U.S. dollar makes U.S.ARM firms a relative bargain.

LOOKING AHEAD

When I look at these trends among ARM firms, and I overlay them on the trends in the financial markets and the economy, I can see a few things lining up for 2008. I believe that pent-up capital will ultimately be deployed, through a combination of M&A transactions and acquisitions of non-performing and performing assets.

I also believe we'll see a number of new entrants to the market this year. These new players will bring further change, such as new analytics and new ideas. This will also bring added publicity and regulatory scrutiny, and that can be either good or bad, depending on your perspective. In the end, all of these things should translate well within our industry, as it continues to evolve from its "mom and pop" origins to a professional, well-managed and respected part of the economy.



BRIAN GREENBERG is Managing Director of Milestone Advisors, a US-based investment bank with offices in Washington, DC and Miami, Florida that specializes in advising owners and investors in ARM and Financial Services companies worldwide. He has been involved in approximately 60 industry transactions over the past 12 years, with former clients that include Sallie Mae, West Corp., Vertex Customer Management, FCA International, and Risk Management Alternatives, among others. Brian is one of the most experienced advisors to focus exclusively on the ARM sector, and is currently on the Board of Advisors of Collections & Credit Risk magazine.

Contact Brian Greenberg at (USA) 202-741-3669 or bgreenberg@milestonecap.com.



MILESTONE ADVISORS, LLC

www.milestonecap.com

NEWPORT BEACH
450 Newport Center Drive
Suite 595
Newport Beach, CA 92660
P: 949.335.1000
F: 949.335.1010

WASHINGTON, DC
1775 Eye Street NW
Suite 800
Washington, DC 20006
P: 202.367.3000
F: 202.367.3001

MIAMI, FL
18851 NE 29 Avenue
Suite 775
Miami, FL 33180
P: 305.749.3121
F: 305.749.3123