M&A UPDATE

Greenberg Advisors
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Issue Highlights

- $256 million of aggregate transaction value in 2Q10
- Purchase price multiples show increase in 2Q10
- The percentage of transactions using contingent consideration rose again to 33% in 2Q10
- All three deals utilizing contingent consideration in 2Q10 were for companies with a high growth profile
- Strategic buyers account for 89% of 2Q10 transactions

Transaction Value Rebounds in 2Q 2010

M&A transaction value in 2Q 2010 in the Accounts Receivable Management (ARM) sector surpassed $255 million, a 197% increase over 1Q 2010 (Fig. 1), and a sign of a strengthening M&A environment. The largest of these deals was the **Sherman Financial** management buyout of the remaining 29% of its equity held by **Radian Group** for $173 million. Interesting to note (but not surprising, given the market), is the fact that this buyout was completed at an implied valuation of approximately $800 million less than Sherman's 2007 buyout of Radian. In addition, **The Outsource Group**, backed by **Clearlight Partners**, completed its second and third acquisitions of 2010, expanding its depth in healthcare ARM. The ARM industry also saw its first IPO in many years with the $138 million offering of **Accretive Health**, which provides revenue cycle management services including debt collection. While clearly not an M&A transaction, and therefore not included in our statistics, this is a notable indicator of increasing exit alternatives for owners of large ARM firms, which should drive further investment in the sector.

Deal Structures Reflect Capital Markets. Thirty-three percent of the completed deals in 2Q 2010 included contingent consideration (i.e. a seller note, earn-out, or similar), steadily increasing from 9.1% in 2Q 2009 (Fig. 2). Often used to "bridge the valuation gap" between buyers and sellers, contingent payments have gotten more play recently, primarily in the case of well-performing sellers that are confident in their ability to achieve certain growth hurdles. This is due to the financing market, which is improving but still relatively tight. For example, in the 2Q 2010 deals that included contingent consideration, all of the acquired companies were profitable and growing relatively fast. We expect this trend to continue until deal financing terms loosen further. However, as M&A activity increases and more capital enters the market, purchasers may need to pay more of the deal consideration up front in order to beat out competing bidders.

Strategic Buyers Dominate…For Now. Strategic buyers controlled the buying activity in 2Q 2010 (Fig. 3), as they completed eight of the nine ARM transactions in the quarter, including **Aditya Birla Minacs'** acquisition of **Bureau of Collection Recovery (BCR)**. This has been the trend in 4 of the last 5 quarters, with 4Q 2009 being the lone exception. It remains to be seen whether the 4Q 2009 emergence of financial buyers was an outlier. Attractive financing terms continue to elude many financial buyers, forcing them to either bid lower multiples than strategic buyers, or structure creative deals that appeal to sellers. Some financial buyers such as London-based **Duke Street Capital** have successfully done this in recent months. With that said, according to Cambridge Associates there is a $425 billion private equity "overhang" (i.e. committed but uninvested capital). As a result, we expect financial buyers to start bidding somewhat more aggressively, as they are forced to either put capital to work or return it to their investors due to time constraints.

Prices Rise for ARM firms. Purchase price multiples were up slightly in 2Q 2010 (Fig. 4), as the median Price / EBITDA multiple was 4.5x, up from 4.4x in 1Q 2010, and the median Price / Revenue multiple was 1.0x, up from 0.7x in 1Q 2010. It's important to note that prices rose despite the fact that one third of the completed deals in the quarter involved distressed sellers, which inherently trade at lower levels. While distressed deals have been prevalent in the industry and the overall economy for a few years, we are encouraged by the valuation gains, and expect purchase multiples to continue rising as the capital markets improve, and as more capital and investors enter the ARM industry.

As always, we look forward to hearing from you and would welcome your thoughts or questions. Visit our website for more information at www.greenberg-advisors.com.

__Greenberg Advisors, LLC__ is among the most experienced advisors to owners, executives, and investors in the Accounts Receivable Management (ARM) industry worldwide. With nearly 15 years of experience dedicated to the ARM sector, the firm's staff has completed over 65 M&A and strategic advisory transactions in ARM, including recent transactions with TRAKAmerica and NARS, among others. The firm's advisory services focus on M&A, capital raising and valuation, as well as operational advice to assist clients in resolving critical operational challenges to enhance the value of their business.

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Figure 1

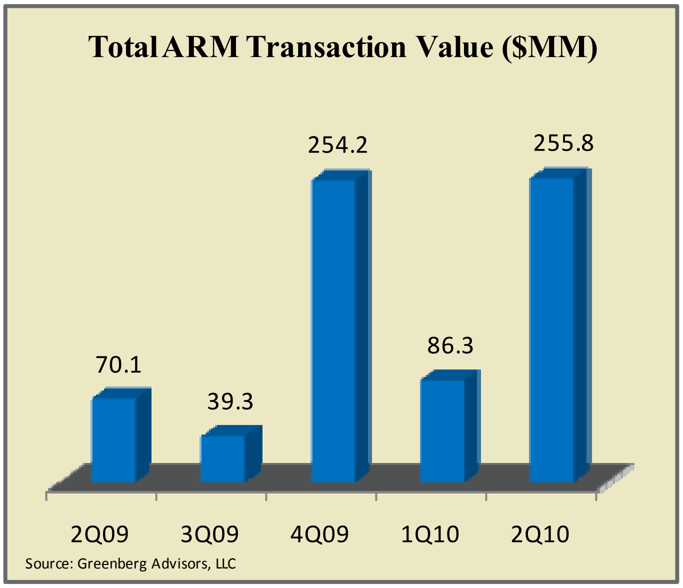


Figure 2

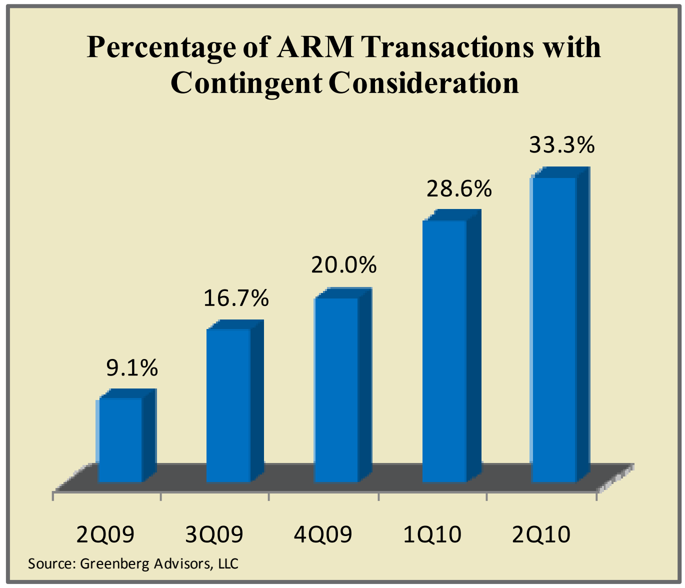


Figure 3

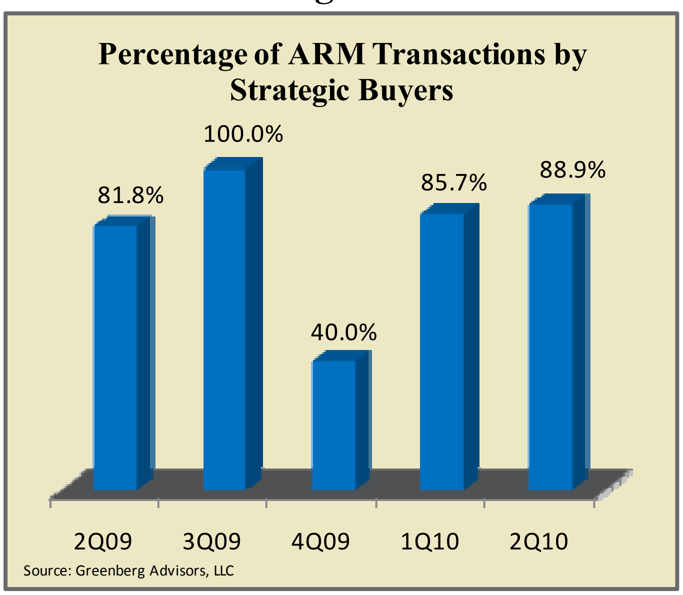
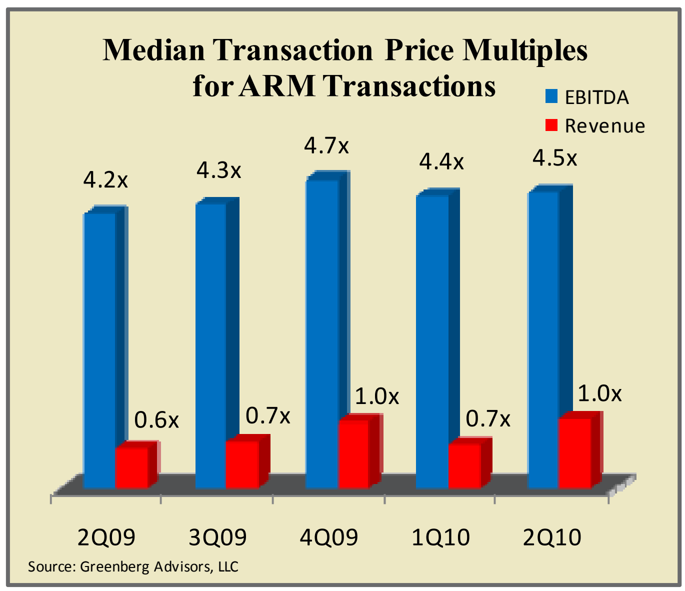


Figure 4



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