M&A Deals for Small to Midsize ARM Firms Soared in 2017

Sellers should consider building capacity and consent to communicate via technology.

This year promises to be a strong one for mergers and acquisitions in the accounts receivables management industry given the current regulatory environment and continued interest from both financial and strategic buyers.

In 2017 there were 44 transactions completed in the ARM space worth an estimated $5 billion in enterprise value, according to data from Greenberg Advisors LLC. This reflects a 19 percent increase in deal volume and value over the previous year.

In approximately 70 percent of the 2017 deals, the transaction value was less than $25 million, noted Brian Greenberg, founder and CEO of Greenberg Advisors.

"This is promising for small and midsized firms, including those that are performing as well as those that may be experiencing pain points, such as needing additional sales power or needing more capital in order to achieve or maintain compliance," Greenberg said. "They fulfill a significant part of the overall M&A picture, and the fact that deals with companies of this size are so prevalent reflects the volumes of buyers we interact with that seek these transactions."

More financial buyers entered the ARM market in the first half of 2017 than in any six-month period since the second half of 2011, according to a report from Greenberg Advisors. This high level of activity wasn't evenly distributed throughout the year, however, as 33 deals were completed in the first half of 2017 and only 11 were done in the second half.

Michael Lamm, managing partner of Corporate Advisory Solutions LLC, cited two main drivers of mergers and acquisitions activity in 2017: upheaval at the Consumer Financial Protection Bureau and the potential for a market correction or credit crisis, possibly involving the automotive or student loan markets.

"Investors often want to acquire a position before a correction to experience several years of growth," Lamm said. "No one is expecting a market correction like we had in 2008, but even if it's half of what we experienced during the Great Recession, there is a substantial opportunity at stake."

Right now, the healthcare and financial services verticals are the most active M&A asset classes within the ARM space.

While collection companies are seeing more interest from buyers, they still face some challenges—chiefly, increased competition.

Sellers need to make sure they have a "differentiated offering that will drive buyer interest and result in a completed transaction," Greenberg told ACA International's *Pulse* newsletter earlier this year.

Lamm believes collection agencies looking to sell will need to have the capacity and consent to communicate with consumers via cell phone, email and text—even if the agencies are not using that technology today, due to unclear and conflicting laws and regulations.

"I think there is a high probability of those laws changing while Trump is in power," Lamm said. "Revised laws and regulation could open up the widespread use of additional communication technologies. If companies in our industry aren't prepared to embrace this technology to communicate with consumers in a compliant fashion, they will have a difficult time competing and surviving in the marketplace."