

WHO ARE THE BUYERS?



1ST HALF OF 2015



2ND HALF OF 2015



Source: Greenberg Advisors

M&A Market Primed for Continued Growth

The buyer profile is changing as private equity enters the market.

The credit and collection industry has seen plenty of merger and acquisition activity in the last few years, and 2016 looks to continue that trend. The scarcity of mid-size and larger collection firms is driving interest and valuations up, according to Brian Greenberg, founder and CEO of Greenberg Advisors, whereas smaller companies today sell more frequently due to changes in regulations or additional client requirements that make it difficult to operate profitably.

While deal value decreased slightly last year—\$3 billion in 2015, down from \$3.4 billion in 2014—the number of transactions increased. Valuations rose in 2015 by approximately 13 percent, which Greenberg attributes to the fact that a good majority—89 percent—of the buyers were strategic, which usually means they'll value and structure deals more aggressively.

Buyers continue to be attracted to a handful of big markets in the collection industry, including healthcare, government and telecom/utility.

"It's common knowledge that the CFPB's requirements place considerable pressure on ARM firms of all sizes," Greenberg said. "As a result, some owners will elect to sell their company and move on rather than trying to comply with new requirements. The smaller the firm, the larger the challenge to absorb the additional costs of compliance. Fact is, there is a lot of money chasing deals today and firms of all sizes have attractive alternatives for selling."

Regulatory issues have been driving deals for years, and with the CFPB proposed rule changes for the collection industry coming soon, that will likely continue throughout 2016, especially for smaller firms.

"The majority of companies in the collection industry have less than \$25 million in revenue," Greenberg said. "Couple that with

the increasing compliance requirements, whether they are government-driven or client-driven, and you have an industry where many owners are seriously assessing whether they should grow through acquisition or if this may be the right time to sell. As a result, the industry remains a hotbed for M&A activity."

Increasingly, private equity buyers are involved in the M&A activity, making up nearly 40 percent of the buyers in 2015, up from 28 percent in 2014.

What drove that big jump? "As a highly fragmented industry, it offers considerable opportunity for follow-on acquisitions," Greenberg said. "There are a number of firms that have already invested in [the industry] and they do need to grow to fulfill their return objectives, so acquisition is a good way for them to do that. Just by virtue of their proximity to the industry, they're going to be an increasingly significant player in the deal picture." ❏