M&A UPDATE

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Issue Highlights

4Q 2011

- $1.54 billion aggregate ARM transaction value in 2011, a 27% increase over 2010
- Average deal size up 25% in 2011
- Financial firms active both buying and selling in 2011
- Pricing multiples of EBITDA up again in 2011
- Many drivers for continued strong activity in 2012

M&A Activity in ARM Soars in 2011

With 2011 in the books, we can now say, unequivocally, what we have known for some time: M&A in the ARM sector had a very big year. Aggregate ARM transaction value in 2011 was $1.54 billion **(Figure 1)**, 27% greater than in 2010, and a massive 163% greater than in 2009. Major transactions of note globally in the first 3 quarters included **TDR Capital's** acquisition of **Lowell Group**, **ABRY Partners'** acquisition of **Trover Solutions**, and several acquisitions by **EOS Group**, among others. In the 4th quarter, significant deals included **Sherman Financial Group's** acquisition of bankruptcy buyer **B-Line**, BPO giant **Capgemini's** acquisition of **Vengroff, Williams & Associates'** Order to Cash Division, **United Recovery Systems'** acquisition of **Plaza Associates**, and Canadian-based **CBV Collection Services'** acquisition of **Primary Financial Services**, a transaction in which Greenberg Advisors advised CBV.

Larger Deals Completed as Financial Firms are Increasingly Active. There were 52 ARM M&A transactions in 2011, with 11 completed in the 4th quarter for $445 million in aggregate ARM deal value. The average deal size for the year jumped to $29.6 million, up 25% from $23.8 million in 2010 **(Figure 2)**. This is not surprising as financial buyers, which often gravitate toward larger deals, were more active in 2011 where they were responsible for 25% of deal activity. On the "sell-side", private equity exits of ARM firms also increased for the 3rd consecutive year **(Figure 3)**. In addition, many sizable strategic buyers that had been building up cash reserves and "sitting on the sidelines" utilized these reserves in M&A deals.

Lift in Pricing Multiples. The median Price / EBITDA multiple rose to 5.3x in 2011 **(Figure 4)**. In the 4th quarter, the median Price / EBITDA multiple was 6.0x, continuing a seasonal trend since 2008, where the 4th quarter has brought the highest multiple of the year. Although not likely to remain at that elevated (quarterly) level, median pricing multiples between 5x and 6x will continue, barring major positive or negative developments in industry dynamics. Industry participants are still hoping for improvement in the financial condition of consumers, which would be a boon to debt collectors whether or not they seek external investors. This would also drive greater interest from would-be investors that may still be wary of firms with consumer exposure.

2012 Outlook and M&A Drivers. Steady, albeit slow economic improvement in the U.S. and parts of Europe (faster in developing credit economies), should be a key catalyst. Larger deals and financial buyer activity will also persist, as investors are seeing a measure of increased (but still choppy) access to deal financing. As well, costs associated with increased compliance and technology requirements should continue driving M&A activity, as scale advantages can better equip larger firms to absorb these costs, while smaller firms may struggle. For some struggling firms, there will be buyers seeking "value" opportunities to invest into otherwise good companies with good characteristics. Last, a key driver for 2012 activity (in the U.S., anyway) will be the federal student loan collection contract from the U.S. Department of Education, which is up for re-bid during the year and always generates a buzz. Contractors and sub-contractors will see significant interest from potential acquirers due to the sheer size and company-transforming potential of the contract. Based on these and other factors, we expect 2012 to be another very active year, full of opportunities in ARM and related sectors of Specialty Finance and Financial Services.

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Figure 1

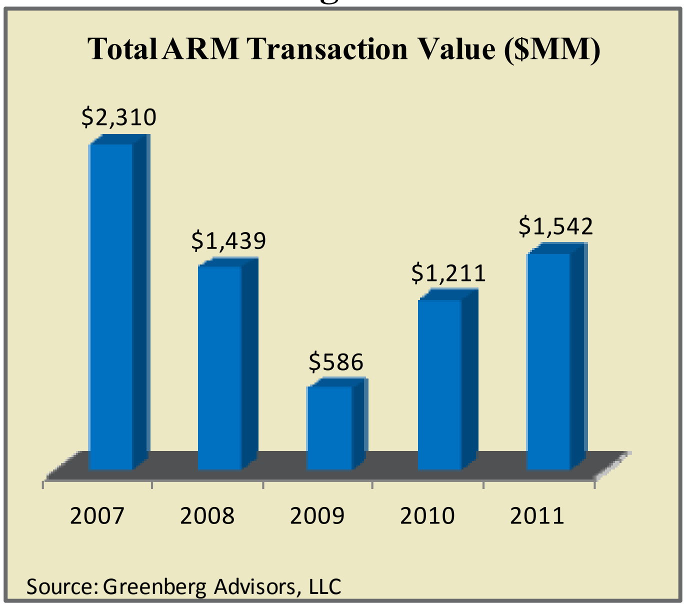


Figure 2

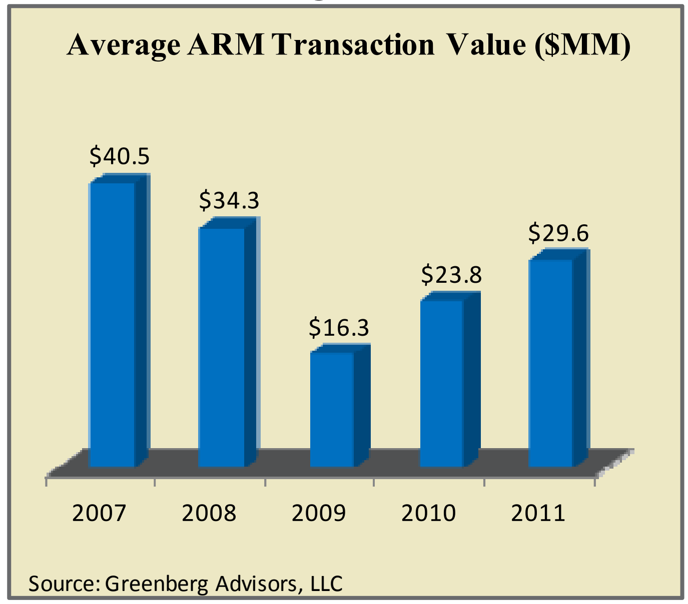


Figure 3

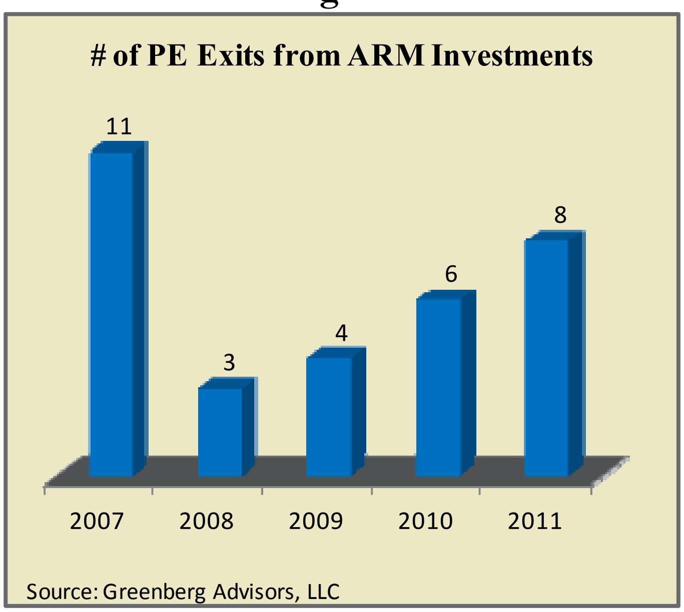
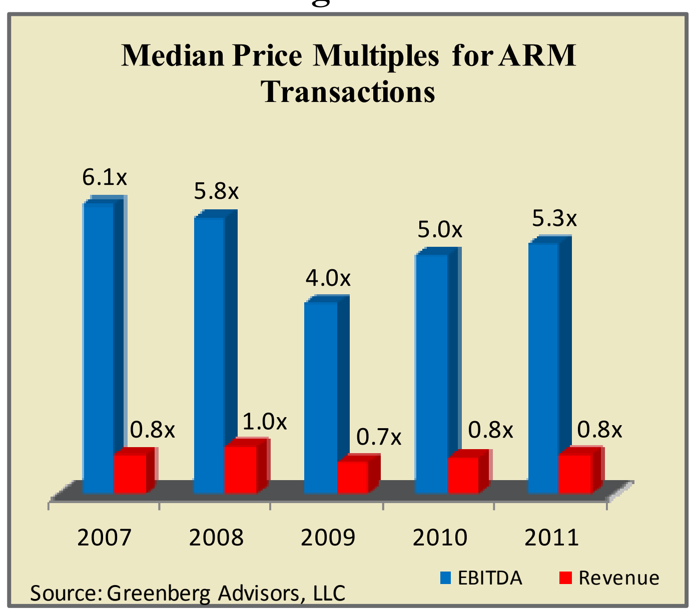


Figure 4



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