CAS INSIGHTS

TECH-ENABLED OUTSOURCED BUSINESS SERVICES MARKET REPORT

2019 YEAR IN REVIEW

CAS
Corporate Advisory Solutions
INTEGRITY • CONFIDENTIALITY • EXPERIENCE

A WELCOME MESSAGE FROM MARK RUSSELL

Greetings and welcome to the Year of the Rat!

For those of you attending the RMA conference in Las Vegas at The Aria, please be prepared for a lot of red and gold colored depictions of the rat. The Aria celebrates the Chinese New Year and will most undoubtedly be in full array by the time we arrive.

For CAS and several constituents of the tech enabled outsourced business services (OBS) sector, 2019 turned out to be the Year of the Deal. There were 37 deals in the ARM sector totaling close to $1.7B in deal value, 73 RCM deals totaling over $9.6B in deal value, and 42 CRM deals totaling over 5.9B in deal value.

We are proud to say we had a record-breaking year, closing 10 transactions and bringing on several new clients. 2019 was a highly active M&A market primarily because acquisition multiples reached historic highs for attractive companies with strong management, earnings performance and growth potential. Plus, there were numerous financial and strategic buyers willing to compete for these opportunities. There were also some engagements that resulted in no deals, primarily due to a mismatch between sellers' and buyers' value expectations.

As 2020 kicks off, we continue to see an aggressive appetite for companies with similar characteristics of what made 2019 such an amazing year. However, as we gaze into our crystal ball, we are cautious to forecast how long this robust M&A environment will last.

Certain economic and political factors are at play that may impact how buyers and lenders approach transactions, if and when they come to bear. In the United States, the ongoing impeachment process of President Trump and the upcoming presidential election are the most notable factors. While we do not anticipate there being any likelihood the Senate will convict President Trump, the process itself will play a role in the upcoming presidential election. In the event President Trump does not again win election, the winning candidate may seek to implement changes that could impact the M&A landscape.

In addition to economic and political circumstances, current health scares (most notably coronavirus), and geopolitical issues involving the United States (i.e., Iran), could also exert long term influence on the U.S. economy and consumer confidence, two leading influencers of M&A activity.

Still, the overall tenor within the tech-enabled OBS sector remains positive. Buyers interested in this space are eager to pursue opportunities. We hope you are enjoying a great start to the New Year. If you are interested in confidentially discussing your business interests, we would be delighted to speak with you.

Sincerely,

Mark Russell

Mark Russell
Managing Partner
Phone: 240-235-6009 | E-mail: mrussell@corpadvisorysolutions.com

P.S. Tech Times are changing for the Collections industry. See page 19 for CAS Managing Partner Michael Lamm's advisory on the subject.

SELECT Q1 2020 CAS CONFERENCE AND EVENT ACTIVITY

Please connect with CAS Deal Team Members to discuss your confidential business interests at these conferences/events:

- **February 3 – 6, 2020: RMA Annual Conference 2020**
    - Aria Resort & Casino, Las Vegas, NV
    - Attended by Michael Lamm, Mark Russell, and the CAS deal team

  To schedule an appointment with Michael and Mark, contact Allie Baurer or Bishara Rahman

- **February 27, 2020: ACG New York 12th Annual Healthcare Conference**
    - Metropolitan Club, New York, NY
    - Attended by Mark Russell

  To schedule an appointment with Mark, contact Bishara Rahman

- **March 11, 2020: SaaS & Tech-Enabled Services Deal Conference**
    - The Bellevue, Philadelphia, PA
    - Attended by Michael Lamm and Nicholas Ciabattone

  To schedule an appointment with Michael and Nick, contact Allie Baurer

- **March 22 – 23, 2020: AFCC Spring Conference – 2020**
    - Eden Roc, Miami Beach, FL
    - Attended by Michael Lamm

  To schedule an appointment with Michael, contact Allie Baurer

- **Spring 2020 Innovation Council & Consumer Relations Consortium Council Meeting**
    - IC - April 1 at Georgetown University School of Continuing Studies
      640 Massachusetts Ave NW, Washington, DC 20001
    - CRC - April 2, at FHI360 Conference Center
      1825 Connecticut Ave. NW, 8th Floor, Washington, DC 20009
    - Attended by Michael Lamm

Get the Most Out Of Industry Conferences

Conferences and trade shows are extremely valuable learning and networking opportunities for your company. Tune into **Getting the Most Out Of Industry Conferences** on "Leadership Fuel with Michael Lamm," featured on ACA Cast, to hear about the value of in-person and online learning, especially for industry up-and-comers, and how to use the information learned going forward.

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SELECT PODCAST ACTIVITY

- **ARM M&A Deal Talk with Michael Lamm**
  - An ongoing, bi-weekly podcast by Mike Gibb with Michael Lamm on a different ARM subject during each session
  - Listen to all the FREE sessions here!

  AccountsRecovery.net | RepoPulse.com ℗ & © 2018 ARM M&A Deal Talk with Michael Lamm

- **Leadership Fuel with Michael Lamm**
  - *Leadership Fuel* is a monthly podcast series produced by ACA International featuring Michael Lamm. This series shows how building and maintaining strong leadership skills is a lifelong process that requires ongoing training and a commitment to greatness.
  - Listen to the most recent podcast here!

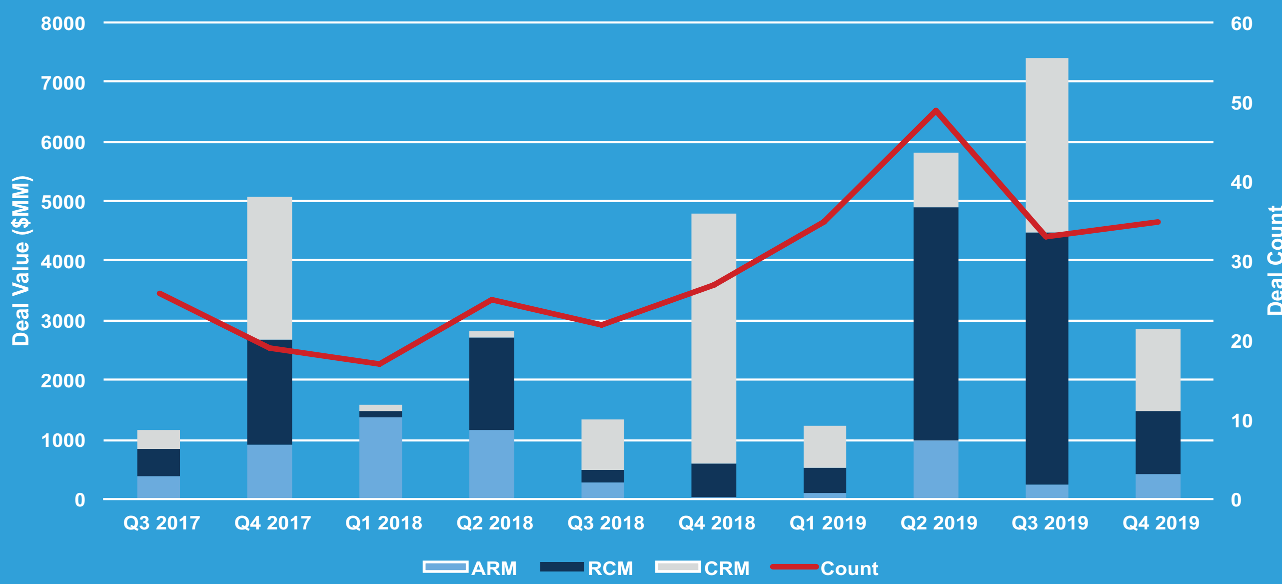
CAS KNOWLEDGE CENTER

- **Check out our new industry resource on the CAS website, a series of informative blogs in the KNOWLEDGE CENTER under Resources!**

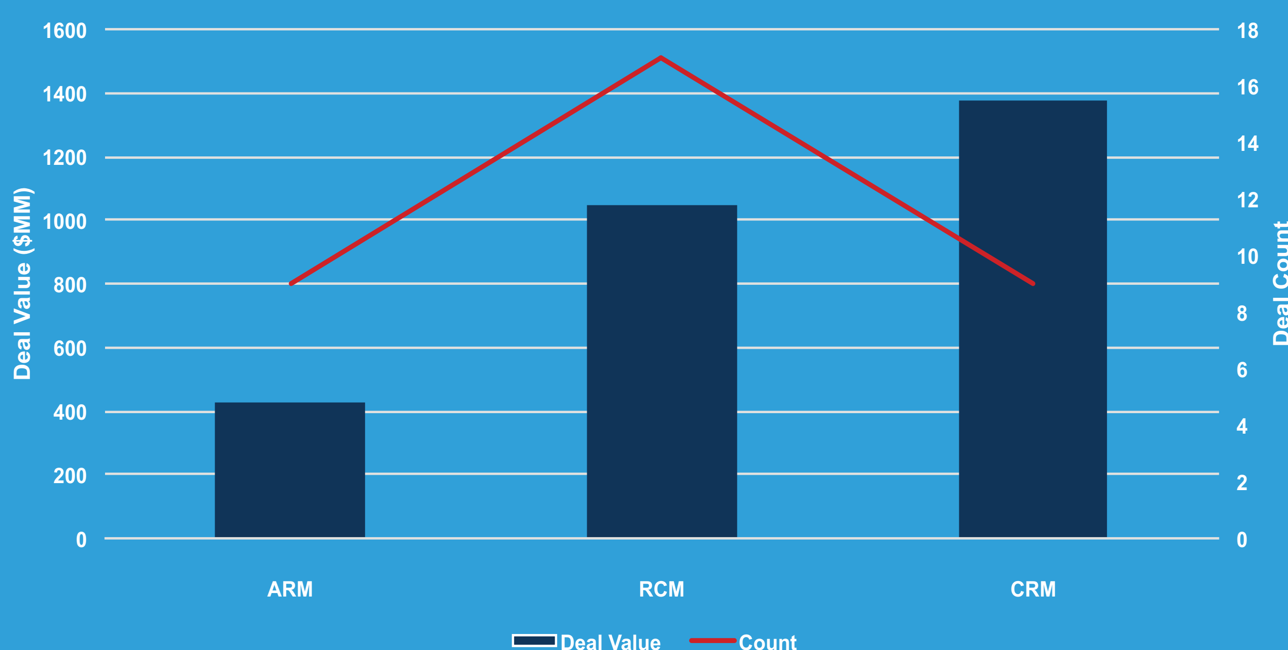
Here are some key highlights of what you will find in this OBS Market Report

- Overview of the M&A Market for the OBS subsectors (ARM, RCM and CRM). Included in the overview: a breakdown of completed OBS transactions, OBS sub-sector overviews, Specialty Finance highlights and noteworthy transactions.
- A current listing of CAS conference, event and website activity.
- A list of Twitter handles for members of the OBS media community.
- Respected authority Joann Needleman's advisory on what you need to know now that states are fulfilling their promise of more regulatory oversight of consumer financial services.
- CAS Managing Partner Michael Lamm predicts during the next two - three years more start-up companies will enter the collections space in which technology is number one, and the call and collect model is secondary.
- Collection software systems in use today are becoming outmoded more quickly and sooner than anticipated. Robert Fite proposes solutions.
- Ten CAS 2019 Transactions

Outsourced Business Services (OBS) Market Overview



We continue to reflect technology companies that service our coverage markets in the Outsourced Business Services (OBS) Market Overview chart above. We began to include technology service companies in Q1 2019. CAS believes these companies represent similar companies we have represented in the past and as technology transforms our markets, they should be included in our deal count.



CAS IS PROUD TO HAVE SERVED AS AN ADVISOR ON TEN 2019 OBS TRANSACTIONS

JH Liquidating Trust I sold its charged-off consumer debt portfolio assets to Reviver Financial LLC

The undersigned initiated the transaction and served as M&A advisor to **JH Liquidating Trust I**

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SECURITY CREDIT SERVICES

PURCHASED THE ASSETS OF

a Mid-Atlantic Debt Purchaser

The undersigned initiated the transaction and served as M&A advisor to **the Mid-Atlantic Debt Purchaser**

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ARCADIA RECOVERY BUREAU
Institutional Strength. Individual Attention.

ACQUIRED THE ASSETS OF

MEDCONN COLLECTION AGENCY LLC

The undersigned initiated the transaction and served as M&A advisor to **MedConn Collection Agency**

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CAS advised a private equity firm in acquiring an ARM legal services company

The undersigned initiated the transaction and served as M&A advisor.

CAS Corporate Advisory Solutions
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(Securities conducted through StillPoint Capital Member FINRA/SIPC, Tampa, FL)

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ACQUIRED THE ASSETS OF

NCC BUSINESS SERVICES
SOLVING THE RECOVERY PUZZLE

The undersigned initiated the transaction and served as M&A advisor to **NCC Business Services, Inc.**

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Windham PROFESSIONALS

ACQUIRED THE ASSETS OF

AMS ALLEN MAXWELL & SILVER

The undersigned initiated the transaction and served as M&A advisor to **Windham Professionals, Inc.**

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SINGLEPoint

ACQUIRED

GENERAL REVENUE CORPORATION

The undersigned initiated the transaction and served as M&A advisor to **SinglePoint Group International.**

CAS Corporate Advisory Solutions
INTEGRITY, CONFIDENTIALITY, EXPERIENCE

(Securities conducted through StillPoint Capital Member FINRA/SIPC, Tampa, FL)

PROFESSIONAL RECOVERY CONSULTANTS

WAS ACQUIRED BY

LaSalle Capital

The undersigned initiated the transaction and served as M&A advisor to **Professional Recovery Consultants, Inc.**

CAS Corporate Advisory Solutions
INTEGRITY, CONFIDENTIALITY, EXPERIENCE

(Securities conducted through StillPoint Capital Member FINRA/SIPC, Tampa, FL)

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ACQUIRED

Altisource Portfolio Solutions S.A.'s Financial Services Business

Altisource

The undersigned initiated the transaction and served as M&A advisor to **Altisource Portfolio Solutions S.A.**

CAS Corporate Advisory Solutions
INTEGRITY, CONFIDENTIALITY, EXPERIENCE

(Securities conducted through StillPoint Capital Member FINRA/SIPC, Tampa, FL)

Fusion BPO subsidiary Vital Solutions acquired a Financial Services and Healthcare ARM Service Provider

The undersigned represented the Financial Services and Healthcare ARM Service Provider.

CAS Corporate Advisory Solutions
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Accounts Receivable Management (ARM)

Consumer spending and demand for accounts receivable services steadily increased during 2019, despite growing speculation of recession hitting the market and concerns regarding a U.S-China Trade war throughout the year.

According to the NY Federal Reserve Bank, the household debt and credit market has continuously expanded and reached an all-time high of $13.95 trillion by the end of Q3 2019. Not only did the total balance of debt increase, aggregate delinquency rates also increased in Q3 2019 and recorded $667 billion delinquent debt of which 64% was seriously delinquent debt. Increasing volume of outstanding debt presents a greater opportunity for the ARM industry. CAS expects debt market trends will continue in 2020 with a historically low unemployment rate (3.5% in December 2019) and the expectation that the Fed will keep the benchmark interest rate low enabling higher consumer spending.

The Consumer Financial Protection Bureau (CFPB) released the industry's long awaited notice of Proposed Rulemaking to help implement the Fair Debt Collection Practices Act (FDCPA) in May 2019. The new rulemaking is exciting for many ARM servicers as it addresses the need for modernization and clarification around newer technologies utilized in the industry. Key rule changes include the lawful use of newer communication technologies such as voicemail, email and text messages. CAS believes this will provide new opportunities by enabling the ARM industry to utilize modern technology promoting more effective and efficient collection activities. CAS envisions these rules going into effect before the upcoming presidential election. The CFPB is also expected to release a Supplemental Rule on Time Barred Debt disclosures in early 2020. This is being done in an effort to reconcile disclosures and to reduce uncertainty for consumers. This is anticipated to impact liquidation on aged consumer accounts, but similar to the timeline for the Proposed Rulemaking, CAS believes this will not go into effect until late 2020.

As modern technologies advance, the ARM industry is also adopting ways to incorporate new technologies into its operations. ARM servicers are increasing adoption rates of utilizing fully functional and conversational IVR (Interactive Voice Response), which is powered by AI and machine learning to improve operational efficiency and lower costs. It is hard to predict who will win and lose when it comes to the ARM technology race, but it should be noted that adopting new technologies will likely result in a significant up-front cost burden, especially for small and mid-size ARM agencies. Recognizing the importance technology plays in the industry, CAS is partnering with insideARM on an exciting project; The iA Innovation Council, where forward-thinking creditors, tech companies, and ARM agencies can collaborate to envision the future.

In 2019, there were increased efforts from both commercial and government bodies to combat illegal robocalling and call spoofing. Major phone carriers begun rolling out STIR/SHAKEN and providing unwanted call blocking services while the Federal Communications Commission (FCC)'s declaratory ruling affirmed robocall blocking by default and the House and Senate announced agreement on the anti-robocall bill, the Pallone-Thune TRACED Act which was signed by the President on December 30, 2019. The FCC will initiate a series of rulemakings in 2020 under the Act for better consumer protection from spam calls and texts. Consumers may benefit from

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better protections from unwanted calls while businesses (especially ARM servicers) are faced with challenges as legitimate calls are erroneously getting blocked and are not able to relay critical information to their consumers. Historically, phone calls and letters have been the most popular contact medium for ARM servicers.

Heading into 2020, it is expected there will be a significant influence on the ARM industry from the upcoming presidential election. CAS has witnessed the ARM industry benefit from a de-prioritization on consumer protection laws as well as the appointment of business-friendly judges with a Republican controlled congress. In the event there is a shift in the political climate and the Democratic Party takes control of both houses of Congress we may see increased regulations and further scrutiny in the ARM sector, as initiatives such as student loan and medical debt forgiveness become priorities. The market's concern for recession in 2020 has somewhat subsided due to the yield curve bouncing back to positive, a low unemployment rate, and the continued strong stock market. CAS believes, however, that one should still carefully monitor market signals for a pending recession and also watch the auto loan and student loan markets, as they will be key drivers in how long a recession will last.

Other trends in the industry that CAS expects to see on the horizon in 2020 will be the further development of CFPB's newly proposed rules and the strengthening of consumer data protections. The California Consumer Privacy Act (CCPA) came into effect at the beginning of 2020 and many other states are considering passing state-level laws on consumer data protection. Although there is some confusion in the market on how and when the CCPA will be enforced, ARM service providers will need to prioritize managing data security to avoid any regulatory breach and the hefty penalties accompanying it.

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Company	Description	Recent News/Trend
KATABAT	IKatabat is a leading global supplier of debt management software solutions headquartered in Wilmington, DE providing collections and machine learning expertise.	Katabat recently announced a partnership with Social Finance, Inc. (SoFi) from San Francisco, CA who is a leading online personal finance company providing student loan refinancing, mortgages, and personal loans. SoFi will leverage Katabat's 'Restore' collections platform that includes easy-to-use customer segmentation and workflow capabilities to enhance SoFi's collections with an omnichannel experience.
interactions	Interactions LLC is a privately held Artificial Intelligence (AI) and Virtual Assistant company headquartered in Franklin, MA.	Interaction's 'Intelligent Virtual Assistant' (IVA) was recently named Product of the Year at CollectTECH 2019, a leading conference that focuses on emerging technology in the collections industry. IVA was awarded for its customizable ability to support receivables professionals in resolving accounts while staying compliant with local regulations, providing excellent customer experience.
NLP LOGIX AI REALIZED	NLP Logix is an analytics and Machine Learning product and services company headquartered in Jacksonville FL, comprised of data scientists who specialize in taking large and disparate data sources and returning actionable and valuable information.	NLP Logix has announced they will integrate their Paypensity solution into the Australian-based CreditSoft Solutions' operations. The Paypensity solution measures the probability that a consumer will pay a debt, while CreditSoft is debt recovery software that has a strong presence in Australia. Working together, CreditSoft will benefit from more holistic analysis of potential bad accounts via advanced machine learning, while Paypensity will gain valuable insights into propensity-to-pay models for an Australian market.

Notable Transactions

- PRA Group (Nasdaq: PRAA) Announces Acquisition of Resurgent Holdings' Canadian entity
- CAS advised SinglePoint on its acquisition of General Revenue Corporation from Navient
- CAS served as the exclusive M&A advisor to Windham Professionals, Inc. (WPI) in its acquisition of Allen, Maxwell & Silver, Inc. (AMS)
- CAS served as the exclusive M&A advisor to NCC Business Services on its sale to Transworld Systems INC. (TSI)
- Incline Acquires Brown & Joseph
- CAS served as the exclusive M&A advisor to Altisource Portfolio Solutions S.A.'s Financial Services Business on its sale to Transworld Systems Inc. (TSI)

Customer Relationship Management (CRM)

Artificial Intelligence and Automation continued to be competitive differentiators for CRM providers in 2019, with major market providers attempting to outperform each other and stay ahead of the technological curve. These are not just technological initiatives, but were shown as being deeply integrated into business applications across industries.

One prominent example included Salesforce leveraging their Einstein AI platform to provide better insights for their Financial Services cloud, allowing companies to have a better understanding of their financial assets and potential flight-risk client relations. Salesforce was also strongly pushing AI-powered chatbots as recognizing a way for businesses to respond to increasing demand for customer interaction while allowing scale-out, with chatbots taking the load of answering simple questions and human resources reserved for more complex interactions.

Not to be left out, Microsoft also announced “Customer Insights” for their Dynamics 365 CRM platform, to help present more holistic 360-degree views of customers and provide “virtual assistants” for AI-driven chat bots that include pre-built “hours saved” dashboards for customer services to gauge the ROI from the new technology.

Internet of Things (IoT) continues to provide value to the market with improved system performance and responsiveness thanks to better integration and feedback with devices. With IoT connected devices projected to climb from 22 billion devices in 2019 to up to 39 billion devices by 2025, it continues to have an ongoing impact in the CRM market.

Other CRM trends CAS is watching into 2020 include the continued expansion of natural language processing (NLP) and voice-driven AI chatbots. Just as in 2019 we saw the Salesforce Einstein voice assistant continue to mature with understanding different accents and speech patterns, as well as other startups using AI and Voice to tackle IVR (Interactive Voice Response) challenges. While human agents aren’t going anywhere anytime soon – with eighty-five percent of service decision makers viewing human agents as integral to the complex aspects of customer service – the coming years will see changes with voice-drive AI providing means for agents to be freed up from menial question-and-answer interactions with more time to deliver value on calls where it is needed.

Another trend to watch in 2020 involves one of the proclaimed ‘Holy Grails’ of digital transformation in CRM, the “360-degree” view of the customer. This is something numerous CRM providers are continuously striving to achieve, such as Salesforce’s Customer Data Platform (CDP), Pegasystems’ Customer Engagement Center, and Microsoft’s Dynamics 365 Customer Insights from 2019. CAS expects this trend to continue developing into 2020, not just with advancements on 360 dashboards, but also as companies work to break down organizational silos with integration to streamline the customer experience between departments and organizational units.

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Company	Description	Recent News/Trend
GONG	Gong.io from San Francisco, CA provides AI-driven revenue intelligence information based on insights from customer interactions data.	Fuze is a leading cloud communications provider with a unified communications and contact center experience, including cloud calling, meetings, chatting, and content sharing in a single platform. A new integration with Gong.io via Fuze's application programming interface (API) now enables customer to apply Gong's machine learning technology to Fuze calls. This empowers Sales reps with insights on effectiveness for talk tracks, questions, and objectives to make more information decisions during sales calls.
CallMiner Eureka	CallMiner is a Massachusetts-based speech analytics software company.	CallMiner closed 2019 with a $75 million investment round with Goldman Sachs. It's one of the largest onetime capital investments made in a Southwest Florida company recently, as well as the largest single investment ever made since founding in 2002. The funds are planned to be used for helping the company grow its customer base within US and worldwide, particularly with their flagship call analytics platform 'Eureka'.
zendesk	Zendesk Inc. is a customer service software company from San Francisco, CA providing software that helps those in helpdesk and customer service industries.	Back in 2018, Zendesk made headway into the CRM space by purchasing sales force automation software Base. Now in Jan 2020, that move has been solidified with the announcement of Zendesk Marketplace for Sell apps. The Sell app, a revamped iteration of the acquired Base, is a central place for sales teams to access critical customer information from additional contexts in marketing, quoting, storage, and invoicing, directly into the Zendesk interface.

Notable Transactions

- Skyview Capital acquired select customer care asset from Conduent (NYSE: CNDT) to form Continuum Global Solutions (Continuum)
- McDonald's (NYSE: MCD) acquired Dynamic Yield
- SugarCRM acquired Salesfusion
- Groupe Bruxelles Lambert acquired the Webhelp group, a BPO outsourcing company based in France
- TELUS International to acquire Competence Call Center (CCC)

Healthcare Revenue Cycle Management (RCM)

In 2019, nearly 1,000 US government agencies, educational establishments and healthcare providers were hit with ransomware attacks.

Healthcare providers are one of the top targets for cybersecurity attacks, which have resulted in cancelled operations, interruptions to service and delays in procedures. Hospitals and healthcare providers are going to place a further emphasis on risk assessment measures which will trickle down to ensure that any vendors onboarded or contracted will have the necessary cybersecurity requirements, security policies/procedures and disaster recovery plans in place.

Big Tech is attempting to acquire its way into expanding their efforts to collect, analyze and aggregate health data. Google offered millions of dollars in incentives and discounts to Cerner with the inability to answer basic questions around the purpose and use of the information they were looking to gain access to by partnering with the healthcare data giant to providing cloud-based information storage. Instead, the tech giants are now partnering with hospital systems and healthcare providers to gain access and information. Google submitted a proposal to work with Intermountain Hospital in Utah to integrate Google's search tool into its systems to access patient records. This project was ultimately scrapped but demonstrates how close we are to a world in which tech giants gain access to sensitive healthcare data. Amazon purchased a digital healthcare company called Health Navigator in Q4 2019 to bolster its Amazon Care brand. The intention is to provide a service that eliminates travel and wait time by connecting employees and their families to physician or nurse practitioner care through live chat or video. With access to large datasets related to healthcare and sensitive information Big Tech feels it can "make the world a better place." It will be interesting to see in 2020 how the healthcare market's relationship with technology (and the vendors providing tech-based solutions) are perceived.

As described in our Q3 CAS Insights, hospital consolidation trends are witnessing a slowdown from the high volume in 2017 and 2018. However, the market for distressed hospitals, or deals with hospitals that have net income losses, is up 30% from the same point in 2018. This is seen as a function of the costs associated with running a smaller hospital system (as rural and community-owned hospitals were the targets in these distressed scenarios) and the inability to profit without economies of scale. This is a trend CAS is following closely into 2020 as there will be a lot of political discussion around this topic, as well as the potential for RCM vendor expansion/consolidation.

The New York Times posted an article related to hospitals in rural towns in America opening hundreds of cases related to suing patients over unpaid medical debts. In a separate piece highlighted by The Atlantic, they describe the federal government collecting on behalf of treatment in military hospitals. In what seems to be a direct response to the collective headline risk; in December 2019, Rep. Rashida Tlaib from Michigan introduced a piece of legislation to the House of Representatives titled the Fair Medical Debt Collection Act which proposes to delay the ability to report medical to debt to credit reporting agencies for one year and creates a ban on reporting debt arising out of "medically necessary procedures."

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New Jersey's legislature has proposed a new bill related to how medical debt is handled prior to being referred to a debt collection agency. The bill, which was introduced on January 14, 2020, outlines multiple specificities healthcare service providers must follow in attempting to collect a debt. There are multiple associated externalities with the proposed legislation, but most of the questioning of said externalities is around the subjectivity and vague or "loose" language proposed. For example, the bill proposes to require healthcare services providers to offer an income-repayment option that cannot exceed 15% of the patient's discretionary income without providing a definition of discretionary income. This is one example of this legislation's potential impact. CAS is closely following the actions of other states as we head into 2020.

Company	Description	Recent News/Trend
MSOC HEALTH A CORONIS HEALTH COMPANY	MSOC is a healthcare revenue cycle management that specializes in medical billing services.	MSOC was acquired by Baltimore-based Coronis in Q4 2019. Coronis is a multi-specialty provider of RCM services for healthcare providers across the United States.
encore EXCHANGE	Encore Exchange, formerly known as Computer Credit Inc., is a patient focused services and payment technology company.	Along with rebranding, Encore Exchange announced their expanded platform called the Flexible Business Office. This is seen as a way to extend the company's commitment to simplifying the patient experience.
RECORDCONNECT	RecordConnect is a Michigan-based revenue cycle management company that provides record management services for hospitals, health systems, community clinics, and physician practices of any size.	RecordConnect was acquired by NextGen Growth Partners, a Chicago based private equity firm that partners with entrepreneurs. RecordConnect founder will remain with the business post acquisition.

Notable Transactions

- NextGen Growth Partners invest in Record Connect, Inc., a leading provider of release of information services for healthcare providers.
- Kareo sells managed billing services business to Health Prime International.
- CAS served as the exclusive M&A advisor to Professional Recovery Consultants in their sale to LaSalle Capital.
- CAS served as the exclusive M&A advisor MedConn Collection Agency in their sale to Arcadia Recovery Bureau.
- Alltran Health joins Meduit to form one of the largest RCM companies in the nation.

Specialty Finance

As we progress further into the economic cycle, CAS is closely watching trends that will be prevalent in the debt settlement space.

At the federal level, the Federal Trade Commission (FTC) has kept a close watch on the student loan debt relief space. Numerous companies were fined throughout 2019 for perceived deceptive practices and found in violation of the Telemarketing Sales Rule. At a state level, New Jersey just denied a bill which would allow for-profit debt adjusters to be licensed in the state of New Jersey. CAS is monitoring the impact and outcome in early 2020 to see if any other states follow suit as total household debt levels continue to reach record highs.

In the consumer debt origination vertical, Capital One's financial health is often seen as an indicator for the state of the consumer credit card lending market as a significant portion of their business is exposed to these market dynamics. 2019 was an incredibly strong year with net charge-off rates at 4.58%, down from near 4.74% in 2018 and 5% in 2017. Delinquency rates are also down from a year prior. CAS is closely monitoring these rates as they can be an indicator for the continued expansion of the consumer credit market in the first half of 2020. TransUnion shared similar sentiments towards the consumer credit market for early 2020 and beyond.

Proactive credit line increases, or PCLIs, took a significant hit after 2008 as regulators tightened down on the practice. The practice is seen in negative light so much so that Australia banned the practice in the 1990s. However, they are making a comeback as U.S. credit issuers boosted credit lines for about 4% of cards in each quarter of 2018 per Bloomberg. This is nearly double the rate from 2012. This trend is concurrent with record high debt levels we are witnessing. The over-extension of credit is something to monitor when economic contraction occurs and consumer's ability to pay back decreases.

An area we at CAS are paying attention to heading into 2020 is the subprime auto lending space. Anecdotal accounts are surfacing all over with a common trend; buyers defaulting on their loosely underwritten auto loan. A story posted in The Wall Street Journal describes a car loan being underwritten with a payment due of $808 per month when take-home income for the individual was only $660. The fraudulent flow of information and loose underwriting standards has CAS believing it is creating a potential bubble in the market. Companies like Ally Financial are extending terms on their loans to 6 or 7 years, where underlying assets are losing value well prior to seeing out the life of the loan. Consumers are trading in their vehicles, often with negative equity, or when the car is worth less than what is due to pay off their loan. 33% of trade ins in 2019 were done with negative equity, up from 19% over a decade ago. As consumers "kick the can down the road," many default and their asset is repossessed while still owing additional money to pay off the remaining balance of the loan.

As we gear up for 2020, an important trend to monitor is the shift of focus from companies into a larger emphasis on their Gen Z consumers. Per the American Banker, Gen Z now controls $45B in annual spend and the oldest Gen Z consumers are nearing 24 years old. This group nearly totals 60M people in the United States. It will be interesting to see which companies across all industries achieve market dominance with the growing Gen Z consumer base.

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Company	Description	Recent News/Trend
affirm	Affirm is a San Francisco-based company that operates as a financial lender of instalment loans for consumers to use at the point of sale to finance a purchase.	Affirm has dominated the news related to the "buy now pay later" trend. In January 2020, the Company announced a partnership with StubHub to enter the market for live entertainment and sports.
HealPay	HealPay is a Michigan & Washington D.C-based payment processing and technology company geared toward the collection industry. The Company offers a suite of technology-based products designed to enhance the collection process.	HealPay was identified as one of the Electronic Transaction Association (ETA) ten technology startups to participate in their NexTen program. This will enable the company with educational tools and industry knowledge to better serve their client base.
REPAY Realtime Electronic Payments	REPAY Holdings (NASDAQ: RPAY) is a leading provider of payment solutions to the US consumer finance industry. It's offerings include credit and debit cards, Automated Clearing House functions and electronic bill payment and instant funding.	In January 2020, Repay announced an integration with Nortridge Software LLC and their platform the Nortridge Loan System. This provides REPAY access to additional lenders and loan servicing companies to utilize their platform for payment processing and additional services.

States Fulfill Their Promise of More Regulatory Oversight of Consumer Financial Services: What Industry Needs to Know

Joann Needleman, Clark Hill PLC Member, Leader, Consumer Financial Services Regulatory & Compliance Practices Group, Philadelphia, Ann E. Lemmo, Associate in the Philadelphia office of Clark Hill PLC

Both the departure of Richard Cordray at the Consumer Financial Protection Bureau (CFPB) and the Trump Administration's priority to ease regulatory burden spurred speculation that the states would fill the void as the consumer financial services' watchdog. In March 2018, then acting Director of the CFPB Mick Mulvaney told a gathering of states' attorneys general that "States know best how to protect their own consumers."[i] States now have been taking that directive to task. Since the fall of 2017, states like Pennsylvania, New Jersey, and Maryland revamped divisions of Attorneys General offices or reshuffled state regulators' offices to focus solely on consumer financial protection. However, with this week's much-publicized announcements by the Governors of New York and California that their respective regulators are ready to get down to business, the threat of state oversight of financial services institutions is now a reality.

In the case of New York, the announcement was quite puzzling since, in April of last year, the Department of Financial Services (DFS) merged their Enforcement Division with the Financial Frauds and Consumer Protection Division to create the Consumer Protection and Financial Enforcement Division. Since its inception in 2011, DFS was always an aggressive financial services regulator. In June 2019, Linda Lacewell was confirmed by the New York state senate as Superintendent of DFS. A press release announcing her confirmation noted that in her first 100 days as Acting Superintendent, Lacewell took comprehensive steps to protect consumers "at a time when Washington was dismantling vital consumer protections."[ii] Recently, DFS hired Leandra English as a special policy advisor, who for a short time claimed to be Richard Cordray's successor. Ms. English recently penned an article with the New York Daily News where she confirmed that Governor Cuomo's proposals would further establish New York as the "consumer protection capital of the nation." [iii] Ms. English also stated in her op-ed that the "use of aggressive debt collection tactics is on the rise." This unfortunately conflicts with the CFPB's data which shows approximately 46,000 debt collection complaints in 2019 down from approximately 81,000 complaints in 2018.[iv]

In May 2019, Manny Alverez, a former CFPB enforcement attorney, was named the new commissioner for the California Department of Business Oversight (DBO). Governor Newsome's proposals include renaming DBO to the Department of Financial Protection and Innovation ("DFPI"), which would regulate similar markets that were also under the CFPB's jurisdiction. The Governor is looking to add ninety positions to the DFPI with sixteen of those positions devoted exclusively to enforcement. DFPI will also focus on financial innovation to "cultivate the responsible development of new consumer financial products."[v] Although little detail has been revealed about what such an office might look like, it will probably not look like the CFPB's current sandbox. California's Attorney General, Xavier Becerra, strongly opposed the sandbox, calling it "a free pass to avoid the law."[vi]

For the consumer financial services industry, compliance consistency has been critical to ensuring that operations run smoothly and that regulatory expectations are met. The cost of compliance for financial services firms grew

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exponentially in the last decade and that infrastructure will not be abandoned. However, the announcements by the two largest states in the country suggest not only additional resources will need to be put into place, but industry will need to adjust for the varying degrees of policies and procedures to meet each state's respective requirements. This will be complicated and costly for those financial services firms that have a national footprint.

Whatever the details of the new legislation or regulation in California or New York, as well as other states, industry should consider and pay attention to the following:

Licensing
Whatever financial product or service you deliver to consumers, if you were not licensed before, you will more than likely be licensed in the future. While licensing fees varying from state to state, requirements for licensing can be onerous including the posting of a surety bond, criminal background checks, and on-going reporting and auditing. More importantly, licensing is an invitation to have regulators knocking at your door without any advanced warning and sometimes without justification.

State Consumer Protection Laws can have a Broader Scope than Federal Law
While many consumer financial services providers may comply with federal law, state laws may have a broader scope. For example, in several states, debt collection laws can apply to creditors, who are specifically exempt under federal law. In the student loan servicing space, many states have enacted laws that impose legal requirements well beyond what the federal law requires, including licensing and requiring servicers to evaluate a borrower's eligibility for certain income repayment plans.

Fair Lending
From Congress to local consumer advocates, much criticism has been directed at the CFPB for failing to bring any fair lending enforcement actions. States and even cities like Philadelphia and Miami have been active in going after financial institutions for redlining and discriminatory lending practices. Expect these new mini-CFPBs to coordinate with state attorneys general in picking up on the CFPB's very aggressive enforcement from several years ago.

Unfair, Deceptive and Abusive Acts and Practices (UDAAP)
Both California and New York have indicated that they will pursue unfair, deceptive, and abusive acts and practices. Dodd-Frank granted the CFPB authority to pursue abusive conduct but did not otherwise define the term. Borrowing from the CFPB's enforcement playbook, UDAAP interpretation is entirely subjective and dependent on the enforcement attorney's interpretation at the time. What wasn't considered abusive today could run afoul of UDAAP tomorrow. Such a lack of clarity can result in a compliance nightmare of uncertainty.

Now maybe a good time to refresh yourself on the various state laws that impact the products or services you sell in a particular state, to set aside additional resources for increased costs for licensing and to engage in assessment or readiness audits should a regulator "come-a-knocking."

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[i] Remarks delivered at the winter meeting of the National Association of Attorneys General ("NAAG") on February 28, 2018.

[ii] New York State Department of Financial Services Press Release of June 21, 2019, available at https://www.dfs.ny.gov/reports_and_publications/press_releases/pr1906211.

[iii] Leandra English, The Fight to Protect Consumers, at a Crossroads, (Jan. 14, 2020).

[iv] Bureau of Consumer Financial Protection, Consumer Response Annual Report, January 1- December 31, 2018, available at https://files.consumerfinance.gov/f/documents/cfpb_consumer-response-annual-report_2018.pdf.

[v] Gavin Newsom, Governor's Budget Summary 2020-21, 174 (Jan. 10, 2020) available at http://www.ebudget.ca.gov/FullBudgetSummary.pdf.

[vi] Press Release, California Dep't Justice, Attorney General Becerra Opposes CFPB Proposal to Exempt Companies from Oversight (Feb. 12, 2019) available at https://oag.ca.gov/news/press-releases/attorney-general-becerra-opposes-cfpb-proposal-exempt-companies-oversight.

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Could Call and Collect Become a Thing of the Past?

Michael Lamm, Managing Partner, Corporate Advisory Solutions

Although the collections industry hasn't traditionally been a hotbed of activity for startups, there is an appetite and growing interest for new entrants in the marketplace. How can we account for this change?

Once upon a time – 20+ years ago – an entrepreneur could start up a debt collection business in his bedroom, garage, guest room or basement. The cost to start and eventually grow a business wasn't prohibitive. In fact, some of the biggest companies in the industry that grew and were eventually exited can claim these modest beginnings.

During the past two decades, though, the evolution of the CFPB joined with burdensome compliance and regulatory requirements, has caused starting a debt buyer, agency or hybrid to become an imposing undertaking.

Things have been changing, though.

A number of start-ups backed by venture capital have entered the industry during the past 2 – 3 years. The structure and sophistication of these companies has veered significantly from previous norms. Because these start-ups have come in with a heavy technological emphasis, the call and collect model has become secondary to tech-enabled models.

Baked into the heavy technological emphasis, there has been a transformational shift to text, e-mail and chat messaging. This has happened even though rule making hasn't yet indicated these technologies are acceptable. We are nevertheless starting to see companies take the risk of going into the market even without clear rule making, as they develop tech-enabled business plans to support their activities.

Since tech-enabled infrastructure can carry a high price tag, the cost structure to start a tech-enabled practice in the collections industry has changed. To do it right a start-up will be looking at an investment of at least $1 million expense before earning even a dime of revenue. This amount takes into account licensing, bonding, technology platform, facility and people.

So far, tech-enabled processes have been mixed in with legacy call and collect activities. There is the possibility, though, we will some day see 100% non-voice entrants. These new entrants could either partner with a technology provider or develop their own solutions organically.

What is the risk to companies that adhere solely to the call and collect model?

New tech-enabled entrants could have an advantage getting business from clients ranging from financial services to utilities to health care, because they have evolved beyond legacy and mechanical ways of thinking. Tech offers innovative solutions to the collections problem.

What's more, some of the new collections space entrants are coming from different areas including specialty finance. Their new view will be well received because they are coming at the market with new ideas, new technologies and new ways of handling compliance that haven't previously been looked at by legacy players in the collections space.

As a result, tech-enabled newcomers could have a competitive advantage over legacy call and collect market participants.

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The issue of business expense is also a consideration.

With the money presently being spent on people in the legacy collections model, a well-run collections agency should throw off a 15% - 20% EBITDA margin. New entrants are testing the proposition if you reduce head count and automate certain functions through tech-enabled solutions, couldn't margins go above 20% to 30%?

Tech-enabled new entrants are also asking why so many phone calls are being made to a delinquent consumer base, when tech-enabled solutions can be more effective when that account is charged off or is in the process of being charged off.

Tech-enabled entrants are challenging the status quo. Why isn't technology used before call and collect? Why is calling primary and technology secondary? New entrants want to evolve the business model as quickly as possible to change the margin profile of the collections business. As noted earlier, margins could increase above 20% to 30% EBITDA on average by replacing headcount with tech-enabled solutions. It becomes a much different valuation game, as well, when shopping a collections business to new owners or investors.

What should legacy collections companies do to counter the threat posed by tech-enabled new entrants?

Just because CFPB rule making has not yet caught up to the reality of where the collections industry is, this is no reason to operate the same way you have been for the past 10 to 20 years. Evolve and start looking into technologies that can transform and drive higher margins in your business vs. just assuming the regulatory environment is the way it is and won't change. Owners/operators in mature businesses must be open and receptive to technology shifts. The old way of doing things isn't always optimal.

At the same time, new solutions must always be challenged. Some of the new technologies will fit right into the collections industry's sweet spot, while some others won't. Some new entrants will take significant positions in technologies that won't necessarily move the valuation needle. They are making a bet to determine what will and won't fit the industry. That is the challenge as they choose among technologies and try to strike the right balance between new and legacy processes.

Wrap up

Significant opportunity is available to start-ups. During the next 2 – 3 years more start-up companies will enter the collections space in which technology is number one, and the call and collect model is secondary.

*This article originally appeared in the January 2020 edition of Collector Magazine, published by ACA International.*The issue of business expense is also a consideration.

Michael Lamm is a Managing Partner at Corporate Advisory Solutions (CAS), a boutique merchant bank headquartered in Philadelphia, serving the Outsourced Business Services Sector.

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Three out of Five Collection Systems are Outmoded. Is Yours One of Them?

Robert Fite, Vice President, Business Development & Marketing – North America at Telrock

Identifying The Problem

Most traditional collection software platforms in use today are based on old underlying technology and outdated designs. They were never built to support the latest needs of today's collection organizations. **Even collection software systems deployed in the past five years may already be outmoded.**

Much like a well-maintained car that has a new appearance but an old, inefficient, gas-guzzling engine under the hood, some collection software appears modern but is powered by old, inefficient code. Both can still get you from point A to point B, but the journey is likely not a very smooth and efficient ride. Outdated software is fraught with too many manual activities, elongated processing times, limited insight, higher operational costs, and increased compliance risk.

Perhaps the collection software system was never very feature-rich or functionality-rich from the start. In this case, new systems quickly surpassed it with better capabilities. Maybe the system's underlying technology or designs were outdated and inflexible from the start. In this situation, it is difficult for the collection software to incorporate software updates or enhancements that offer new capabilities or provide them to the degree needed to support the organization as it grows and evolves. Even when outmoded systems can be upgraded, they may provide only minor, incremental benefits. The upgrade effort itself may require more work than it is worth. As such, collection organizations tend to skip upgrades and enhancements.

This practice of "kicking the upgrade can down the street" only compounds the situation, accelerating the system's demise. As such, collection organizations can quickly fall behind with their collection software releases or upgrades and paint themselves into a corner that is very difficult to escape without a lot of effort, resources, and cost. For this situation, moving to an entirely new collection system may be a smoother, more cost-effective and more time-efficient solution compared to making a significant jump to the latest version of an outmoded system—if that jump is even possible.

Unfortunately, it's not always evident that a collection system has become outmoded. The decline occurs gradually but steadily over time. Typically, the realization occurs after overall collection performance has significantly declined or when a system is unable to properly support changes to the organization's collections operations, approach, or practices.

By the time the organization identifies its limited collection software capabilities as the root cause of the performance decline or operation strategy roadblock, it has missed out on a significant amount of collection dollars. The company may have even lost customers, market position, and competent employees. Many organizations try quick, "duct tape" fixes by incorporating manual processes or inserting clunky "bolt-on" remedies as workarounds for their system's shortcomings. These efforts typically yield less than desired results and only camouflage the real solution—replacing the outmoded collection software system entirely.

Choosing The Solution

While outmoded collection systems can create the dilemma of "upgrade or replace," the good news is that certain

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modern collection software platforms at the forefront of the collection industry can make the switching decision easy. They offer increased levels of efficiency, effectiveness, control, and overall performance. Their advantages over outmoded systems are rich and distinct. They offer the latest and greatest capabilities, rapid deployment ability, relatively low switching effort, and easier upgrade process.

These new collection software systems are designed and built from the ground up, using modern technology and more intelligent designs that help collection organizations reach the next level of performance and results.

In addition to adding the latest "bells and whistles," modern collection software systems provide all of the fundamental capabilities found in existing, older platforms, but in a much easier, efficient, and better way. **These new collection systems—specifically those developed to reside in "the cloud"—represent tremendous overall value**. They offer a broad and richer set of modern, on-demand capabilities that provide increased ease-of-use, more flexibility, better manageability, stronger security, greater compliance, more support, quicker deployment, less internal IT resource requirements, and lower overall cost.

Moving Forward

The collection industry and associated collection technology are rapidly changing. Existing collection software systems in use today are becoming outmoded more quickly and sooner than anticipated, putting organizations using these outdated systems at a distinct performance and competitive disadvantage.

Collection organizations that move to the latest and greatest collection software platform technology and associated capabilities can reap the rewards of better collections results, reduced operational expenses, and lower risk exposure. As such, collection organizations need to be continually evaluating the capabilities and effectiveness of their existing collection software system against the rapidly changing market conditions and evolving business needs. Equally important, they should be proactive about replacing outdated collection software systems, and less "penny-wise and pound-foolish" about switching. Those that don't will become just another Blackberry in an iPhone world.

Robert Fite is Vice President, Business Development & Marketing – North America at Telrock, a global provider of modern, more intelligent software solutions that improve customer contact, engagement, and collections management. He can be reached at **rob.fite@telrock.com**.

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TEC Services Group, Inc. is pleased to announce its annual Scholarship Program has returned for 2020. TEC is also excited to announce CAS as a sponsor of this year's program, which is now in its fourth year. The program is open to employees of the Accounts Receivable Management (ARM) industry and their dependent children. Selected participants will be awarded up to $1,000 in scholarship funds. Applicants are eligible to receive an award up to four times during the term of their undergraduate program.

TEC began the program in 2016 to promote continuing education for the ARM community and to recognize academic excellence in students. To be eligible to participate, applicants must be a United States citizen and will be required to participate in an essay, and have a record of academic achievement and community involvement.

For more information about the program or to request an application, please contact TEC directly at (941) 375-0300 or Scholarship@TECsg.com.

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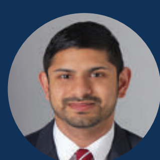

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