# CAS INSIGHTS

## EXPERTS IN OUTSOURCED BUSINESS SERVICES

**SECOND QUARTER 2016**

CAS
Corporate Advisory Solutions
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# CAS INSIGHTS

The second quarter of 2016 continued to highlight many of the key trends we observed in 2015 and during the first quarter of 2016. The mergers and acquisitions (M&A) activity within the Outsourced Business Services (OBS) sector continued to strengthen as we experienced strong interest within our three core sub-sectors: Accounts Receivables Management (ARM), Healthcare Revenue Cycle Management (RCM) and Customer Relationship Management (CRM).
CAS and ARM industry professionals will closely monitor the highly anticipated CFPB field hearing on Thursday, July 28th regarding possible new regulation for ARM servicing firms. The newsletter will provide an M&A market overview as well as discuss key trends in each of the OBS sub-sectors.

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The interest in M&A in these three sub-sectors was largely prompted by the following factors:

- Increased Regulation: Consolidation continues to be a pragmatic option for smaller firms that struggle with compliance due to an ever-changing regulatory environment. The stricter requirements, specifically within ARM, have led smaller companies to look to merge with, or sell to, larger companies who have greater capabilities and the ability to satisfy new regulatory measures.
- Strategic BPO Buyers: As we saw at the end of 2015, there has been renewed interest from international, strategic buyers in finding a compliant footprint in the U.S. through platform acquisitions. The ability of these offshore, Business Process Outsourcing (BPO) buyers to leverage their low cost structures to find an entrance into the U.S. market has led to a globalization of the OBS sector.
- Private Equity Activity: We expect the trend of private equity involvement in the OBS sector to increase, as these financial buyers continue to be motivated by their high cash balances and ultra-low financing costs. This is especially true following the Brexit, which has created uncertainty in the global environment and thus, for the U.S. Federal Reserve Open Market Committee, which sets the interest rate.

The high level of activity within the OBS sector has been in contrast to the broader M&A market, which has continued to decline in the past two quarters. In the near future, the macro trends within the OBS sub-sectors will continue to create opportunities for companies to grow through acquisition in the face of stagnant economic recovery.

This Spring, CAS reached a milestone, as we celebrated our third year of operation. We have continued to grow and have expanded our company with three additions, two Junior Analysts and an Administrative Support member. We look forward to continuing our growth and providing our services across the OBS sectors.

Please connect with us at one of the upcoming conferences/seminars that will be attended by CAS team members:

- September 13-15, 2016 – Debt Connection Symposium and Expo
- September 27-28, 2016 – ACG Philadelphia M&A East 2016
- October 25, 2016 – ACA Teleseminar titled "Valuation in an Uncertain Market" hosted by Michael Lamm and Mark Russell. Click here to learn more about the teleseminar and RSVP for the event.
- October 26-29, 2016 – NARCA 2016 Fall Conference
- November 9-11, 2016 – ACA Fall Forum, Michael Lamm will be presenting

We hope that you find our newsletter a useful insight into the OBS sector and welcome any discussion of business interests or feedback you may have. Our contact information can be found at the end of this report.

Sincerely,
Michael Lamm
Managing Partner



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Here are a few highlights of what you will find in the newsletter:

- Overview of the M&A market for OBS sub-sectors (ARM, RCM and CRM). Included in the overview: a breakdown on completed OBS transactions, leverage analysis for completed M&A transactions, OBS sub-sector overviews, public comparable research and details surrounding noteworthy transactions within each sub-sector.
- ARM Regulatory Update from CAS team member Elaine Rowley detailing the latest government news, regulation and compliance activities in the ARM sector.
- Industry insight from Linda Straub Jones, Director of Market Planning and Compliance at LexisNexis Risk Solutions: The 'Credit Invisible' Consumer - Lending and Collecting Challenges, which details what we can expect next from the CFPB.
- Industry insight from Mary Ann McLaughlin, Managing Partner at Butler Street Consulting: How Should I Compensate my Salesforce, which touches on the best ways to motivate your salesforce.
- Industry insight from Erik Strand, Vice President of Innovation at CallMiner: Looking ahead to the next five years, we expect the ARM, RCM and CRM sub-sectors to sustain their current growth levels.

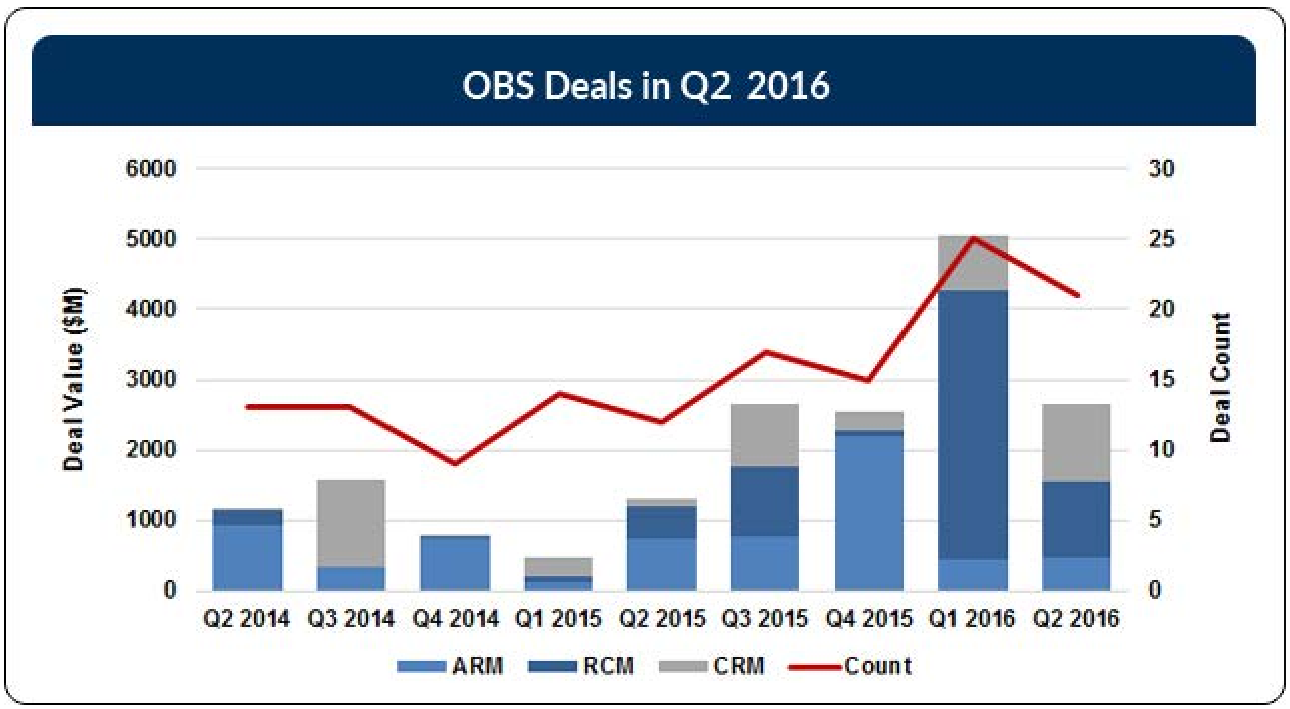
Looking ahead to the next five years, we found that the ARM, RCM and CRM sub-sectors within the OBS sector are expected to sustain their growth.

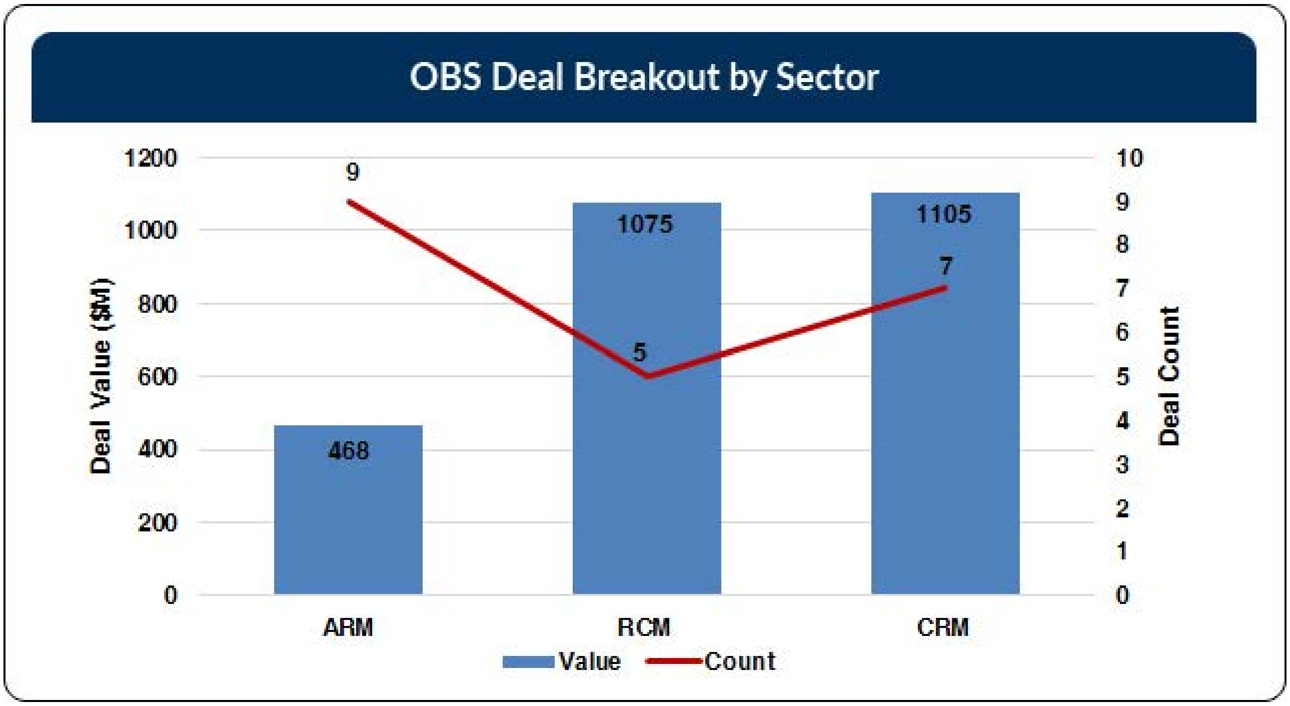
The United States ARM sector has an approximate market size of $14.1 billion and is estimated to grow at a CAGR of 1.5% between 2016-2021, according to IBIS World. As unemployment declines and the housing market continues to strengthen, recovery rates for ARM service providers will improve. Household debt and outsourcing services are also projected to continue growing, both of which will support sector growth as outstanding debt levels continue to rise. The ARM sector is likely to receive greater regulation from the CFPB's proposed ruling that will take place on July 28 in Sacramento, California. The proposed ruling is further detailed in the ARM Regulatory Update section shown later in this newsletter.

The RCM sector will be experiencing significant growth in the next five years. The RCM sector has an approximate market size of $20.5 billion and is estimated to reach $40.4 billion by 2021 with a CAGR of 12%, according to a report from MicroMarketMonitor. The anticipated growth is largely driven by the consolidation of healthcare providers, a reduction in overall healthcare costs, and decreasing reimbursements. The implementation of ICD-10 will also be a driver for the RCM sector. ICD-10 will increase the number of codes, making the coding process more complex and difficult. Healthcare providers and hospitals will increasingly outsource RCM solutions to combat the inefficiencies of internal servicing.

The United States CRM sector has an approximate market size of $21.2 billion and is estimated to grow at a CAGR of 0.7%, according to IBIS World. The annual growth rate will be hampered by the increase in offshoring of domestic U.S. operations. Growth in the CRM sector is anticipated to stem from an increase in consumer spending in retail and other downstream markets, which will create a greater need for customer relations and lead to increased spending on telemarketing services.

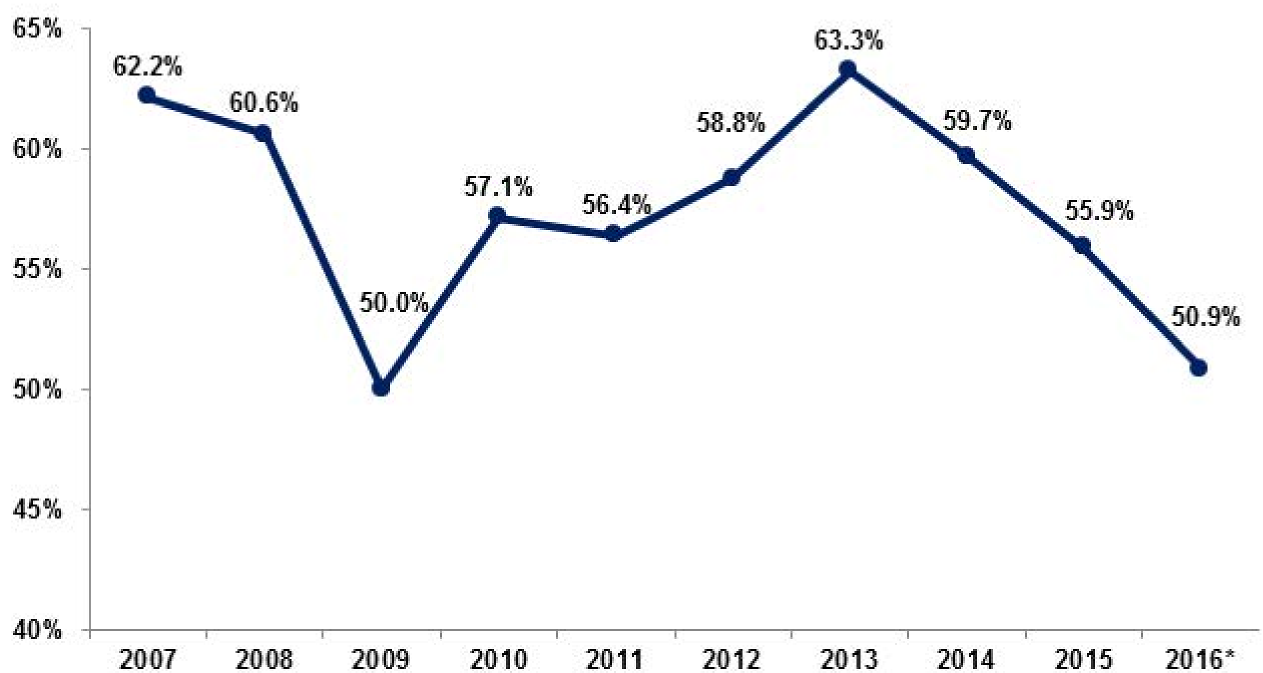
New regulations, such as the proposed ruling by the CFPB and ICD-10, not only drive sector growth but increase M&A activity as well. Each of the sub-sectors within OBS have seen increased M&A activity as regulation pushes smaller companies toward merging with, or selling to larger players. Our newsletter focuses on M&A activity and market trends that we have observed in the second quarter of 2016.






Through June 30th deal value in the OBS sector totaled $7.69 billion dollars and comprised of 46 announced deals. Second quarter deal value totaled $2.65 billion dollars and consisted of 21 announced deals. Deal value in the second quarter increased approximately 104% year over year and the number of deals rose 75%. Total deal value through the first half of 2016 exceeded the aggregate deal value for 2015 by roughly 10%. Information for the OBS deals was obtained from public filings, press releases, confidential discussions with individuals in the OBS sector, and proprietary deal activity.

We have also included an analysis on the trend of leverage utilized to complete M&A transactions market-wide as of June 30, 2016. The chart below illustrates the median debt levels used to complete and fund M&A transactions.



Note: 2016 data is through 6/30/16. Source: PitchBook.

The data above illustrates median debt levels are in line with percentages last seen in 2009, immediately following the Great Recession. The information above is provided on a market-wide basis and is not specific to the OBS sector, however, we are also seeing these trends take place in the OBS sector. Dealmakers are becoming risk adverse in deal structuring as the future brings increased uncertainty. PitchBook has noted that dealmakers in the middle market have had less trouble securing financing compared to dealmakers operating on the more extreme ends of the value spectrum. These figures come even as leverage costs continue to remain at historically low levels.

# ACCOUNTS RECEIVABLE MANAGEMENT (ARM)

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## Overview:

The ARM sector experienced a solid quarter with nine completed deals comprising of roughly $468M in enterprise value. We continue to maintain our optimistic outlook on the ARM sector, driven by continued industry consolidation. While compliance and regulatory changes continue to make a daily impact on operations for ARM companies, macroeconomic data is favorable for the sector. Job creation has increased and wages are slightly higher, according to James Chessen, the American Bankruptcy Associations' chief economist. Additionally, a series of minimum wage increases will begin to take effect in New York, California, Washington D.C. and Oregon this year. While labor costs may increase for ARM firms, the propensity to pay may increase for consumers with accounts being serviced. Bankruptcy filings have declined 6% during the first half of the year, according to the American Bankruptcy Institute, creating a more secure environment for ARM firms that could risk facing a circumvent of debt repayment all together. While consumer bankruptcies declined 7%, commercial Chapter 11 bankruptcies increased roughly 25% as companies in the energy and retail sector seek to repair their balance sheets. While this could possibly lead to greater outsourcing of bad debt, it also places a greater importance on diversification of client revenue. We have seen a shift in focus to attractive end-markets and verticals. Buyers have a greater focus on the end-markets that ARM companies are servicing. Verticals with attractive growth rates, such as auto or healthcare, are garnering greater attention and higher valuations. Servicing federal debt also became more favorable with the recent ruling from the FCC clarifying that TCPA allows ARM companies servicing debts on behalf of the federal government to make automated calls to individual's cell phones. While short-term economic conditions are favorable, uncertainties in the economy and regulatory changes remain constant. Consequently, M&A activity is driven by firms looking to diversify revenue streams into attractive verticals to provide down-side protection.

## Public Comparables

**Analysis of Selected Publicly Traded Outsourced Business Services Companies (In Millions)**

All data as of June 30, 2016

| Company Name | Ticker | Price | Market Cap (1) | TEV (2) | LTM Revenue | LTM EBITDA | LTM Net Income | TEV/ Revenue | TEV/ EBITDA | TEV/ Net Income |
|---|---|---|---|---|---|---|---|---|---|---|
| Asta Funding, Inc. | ASFI | 10.57 | 126.96 | 164.37 | 38.92 | 3.63 | 0.65 | 4.22 | 45.26 | 251.72 |
| Collection House Limited (3) | CLH-AU | 0.82 | 108.95 | 196.96 | 29.47 | -20.24 | 11.02 | 6.68 | (9.73) | 17.87 |
| Credit Corp Group Limited (3) | CCP-AU | 8.94 | 418.00 | 481.06 | 116.79 | 31.42 | 21.91 | 4.12 | 15.31 | 21.95 |
| Encore Capital Group, Inc. | ECPG | 29.08 | 600.20 | 3,397.37 | 1,164.83 | 167.90 | 44.59 | 2.92 | 20.23 | 76.20 |
| Intrum Justitia AB (3) | IJ-SE | 34.14 | 2,252.85 | 3,006.48 | 78.93 | 25.81 | 16.32 | 38.09 | 116.49 | 184.18 |
| Performant Financial Corporation | PFMT | 1.62 | 80.98 | 93.11 | 159.10 | 20.28 | 2.69 | 0.59 | 4.59 | 34.65 |
| PRA Group Inc | PRAA | 24.14 | 1,118.36 | 3,034.56 | 921.69 | 219.70 | 141.77 | 3.29 | 13.81 | 21.40 |
| **MEAN (ARM)** | | | **672.33** | **1,481.99** | **358.53** | **64.07** | **34.14** | **8.56** | **29.42** | **86.85** |
| **MEDIAN (ARM)** | | | **418.00** | **481.06** | **116.79** | **25.81** | **16.32** | **4.12** | **15.31** | **34.65** |

Notes:
(1) - Market Cap equates to total shares outstanding multiplied by the price per share.
(2) - Total enterprise value consists of market cap plus debt less cash.
(3) - Converted local currency to United States Dollars using the conversion rate at 6/30/16.

Source: FactSet Database

Within the publicly traded ARM sector, one transaction closed in the second quarter of 2016. PRA Group (NASDAQ: PRAA) announced the closing of their previously announced transaction of DTP SA, an investment holding company in Poland for a purchase price of approximately $45M USD. The acquisition offers an opportunity to strengthen PRA Group's position in the Polish market. In early July, PRA Group also announced they have acquired eGov Systems, a provider of web-based payment portals for the government sector. During the quarter, Mangrove Partner's tender offer for Asta Funding (NASDAQ: ASFI) was terminated. This came after the Board of Director's reaffirmed the belief that the revised tender offer of $9.50/share undervalued the company. As of June 30th the stock was trading at $10.57. Other key takeaways from the quarter include: Intrum Justitia (STO: IJ) indicating consolidation is also taking place in the European ARM market, Encore Capital Group (NASDAQ: ECPG) indicating they are experiencing a slow-down in legal suits and a pick-up in Call Center work and Performant Financial Corporation (NASDAQ:PFMT) illustrating the growing importance of staying ahead of regulatory changes through their creation of a Chief Compliance Officer position.

Below are some additional noteworthy transactions that took place in the ARM sector in Q2 2016:

- ✓ SquareTwo Financial, a distressed asset purchasing firm in the U.S. and Canada, was involved in a leveraged recapitalization and announced the early settlement of an exchange offer they previously disclosed.
- ✓ Ontario Systems, an ARM and RCM software and services provider, acquired Columbia Ultimate Business Systems (CUBS) to provide customers with expanded product offerings and access a broader set of compliance consulting services.
- ✓ JBW Group was acquired by Outsourcing Inc., a Japanese multinational outsourcing firm, in a deal valued at over $27M. JBW Group is a judicial services business providing ARM services to agencies of the UK government.

Earlier this year, CAS served as the exclusive M&A advisor on two transactions within the ARM sector:

- Altus Global Trade Solutions, a commercial ARM servicing subsidiary of Natixis, was acquired by NewSpring Capital, Evergreen Industries and Spring Capital Partners. Corporate divestitures offer a unique and valuable opportunity for financial buyers to enter the ARM sector through a platform investment, allowing buyers to capitalize on the industry consolidation taking place in the ARM sector.

- Vital Solutions, an ARM servicing firm focused on the automotive and financial services industries, was acquired by O'Currance Teleservices, a fully owned subsidiary of Fusion BPO Services. The transaction signifies the renewed buyer interest from multi-national BPO firms, re-entering the U.S. via acquisition or partnerships.

# REVENUE CYCLE MANAGEMENT (RCM)

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## Overview:

The RCM sector experienced an impressive quarter with five deals comprising of roughly $1.1B in enterprise value. We continue to see an active market for RCM companies from both strategic and financial buyers. Strategic buyers are seeking healthcare RCM add-on's as an attractive vertical to diversify their business stream, especially since the ARM sector continues to face increasing compliance and regulatory uncertainty. Financial buyers are seeking to expand their platform investments through add-on acquisitions of smaller RCM companies in order to recognize significant synergies. Financial buyers who are not currently involved in the space are seeking large and scalable business with a stable client base. Confidence is shared with sector professionals as well; vendors have become more optimistic about the outsourcing opportunities available as operational efficiencies improve and the cost-to-collect figures make outsourcing a favorable alternative to internal servicing. The implementation of ICD-10 and the Affordable Care Act continue to play a critical role in the evolution of the RCM space, as evident by the shift in focus to MARCA legislation adoption. We expect M&A activity to remain high as interest in the sector continues to grow and fundamentals remain strong.

### Public Comparables

**Analysis of Selected Publicly Traded Outsourced Business Services Companies (In Millions)**

All data as of June 30, 2016

| Company Name | Ticker | Price | Market Cap (1) | TEV (2) | LTM Revenue | LTM EBITDA | LTM Net Income | TEV/ Revenue | TEV/ EBITDA | TEV/ Net Income |
|---|---|---|---|---|---|---|---|---|---|---|
| Accretive Health, Inc. | ACHI | 2.00 | 221.19 | 98.38 | 458.46 | 220.43 | 113.59 | 0.21 | 0.45 | 0.87 |
| Advisory Board Company | ABCO | 35.39 | 1,446.57 | 1,944.64 | 789.29 | 142.69 | -84.99 | 2.46 | 13.63 | (22.88) |
| HMS Holdings Corp. | HMSY | 17.61 | 1,481.57 | 1,535.92 | 483.66 | 106.36 | 25.57 | 3.18 | 14.44 | 60.08 |
| Allscripts Healthcare Solutions, Inc. | MDRX | 12.70 | 2,374.57 | 2,885.54 | 1,397.40 | 209.05 | 9.91 | 2.06 | 13.80 | 291.26 |
| Cerner Corporation | CERN | 58.60 | 19,801.31 | 19,893.31 | 4,567.31 | 1,397.58 | 578.79 | 4.36 | 14.23 | 34.37 |
| Huron Consulting Group Inc. | HURN | 60.42 | 1,313.49 | 1,650.04 | 761.07 | 161.99 | 67.26 | 2.17 | 10.19 | 24.53 |
| Quality Systems, Inc. | QSII | 11.91 | 726.25 | 789.45 | 492.48 | 74.26 | 5.66 | 1.60 | 10.63 | 139.55 |
| **MEAN (RCM)** | | | **3,909.28** | **4,113.90** | **1,278.52** | **330.34** | **102.25** | **2.29** | **11.05** | **75.40** |
| **MEDIAN (RCM)** | | | **1,446.57** | **1,650.04** | **761.07** | **161.99** | **25.57** | **2.17** | **13.63** | **34.37** |

Notes:
(1) - Market Cap equates to total shares outstanding multiplied by the price per share.
(2) - Total enterprise value consists of market cap plus debt less cash.

Source: FactSet Database

Within the publically traded RCM sector, two transactions closed in the second quarter of 2016. Huron Consulting Group, Inc. (NASDAQ: HURN) acquired ADI Strategies, allowing cross-selling opportunities to an expanded client base. During the quarter, Allscripts Healthcare Solutions, Inc. (NASDAQ: MDRX) closed their previously announced merger with Netsmart Technologies, Inc., in an effort to expand and strengthen their service offerings. Other key takeaways from the quarter include: Huron Consulting Group, Inc. indicating the healthcare market is strong as their healthcare revenue increased 16% year-over-year and Allscripts Healthcare Solutions, Inc. noting that the market is moving ahead to focus on the next wave of regulatory requirements following ICD-10, specifically Meaningful Use 3 and reimbursement changes from CMS under the MARCA legislation.

Below are some additional noteworthy transactions that took place in the RCM sector in Q2 2016:

- ✓ Avadyne Health, a provider of outsourced RCM services, announced that funds managed by MTS Health Investors have recapitalized the firm to support future growth and expand the company's capabilities.
- ✓ Bolder Healthcare Solutions, a healthcare RCM firm for the hospital and physician market, continued to expand their presence and service offerings through two add-on acquisitions of Healthcare Receivable Professionals, Inc. and Prospective Payment Specialists.
- ✓ North American Partners in Anesthesia, a specialty anesthesia management company with additional service offerings covering billing, ARM servicing and coding; announced a recapitalization with American Securities LLC.

## CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

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### Overview:

The CRM sector experienced a solid quarter with six deals comprising of roughly $1.1B in enterprise value. As the landscape around ARM servicing changes, we are seeing a shift from third party servicing to first party servicing and the customer care business model. CRM firms are able to take advantage of this shift through their existing infrastructure and experience in the space. CRM firms benefit as technology implementation continues to play a critical role in operational improvements as firms continue to adopt Omni-channel and Interactive Voice Response systems, which are vastly improving inbound calling efficiency. We are also seeing firms seeking acquisitions in the space to broaden and diversify their existing client base, as client concentration within CRM companies becomes a greater issue. Acquisitions offer an easier alternative to expand businesses into new verticals, rather than through organic growth. We anticipate the consolidation trend in the CRM sector to continue as companies seek growth opportunities in the face of an uncertain global economic outlook.

## Public Comparables:

**Analysis of Selected Publicly Traded Outsourced Business Services Companies (In Millions)**

All data as of June 30, 2016

| Company Name | Ticker | Price | Market Cap (1) | TEV (2) | LTM Revenue | LTM EBITDA | LTM Net Income | TEV/ Revenue | TEV/ EBITDA | TEV/ Net Income |
|---|---|---|---|---|---|---|---|---|---|---|
| Atento SA | ATTO | 8.91 | 657.12 | 1,104.63 | 1,869.06 | 232.30 | 23.87 | 0.59 | 4.76 | 46.27 |
| Convergys Corporation | CVG | 25.00 | 2,412.50 | 2,561.20 | 2,932.30 | 418.20 | 173.60 | 0.87 | 6.12 | 14.75 |
| Sykes Enterprises, Incorporated | SYKE | 28.96 | 1,231.50 | 1,033.48 | 1,281.90 | 151.27 | 66.91 | 0.81 | 6.83 | 15.45 |
| StarTek, Inc. | SRT | 4.37 | 68.66 | 105.84 | 296.52 | 10.70 | -12.41 | 0.36 | 9.89 | (8.53) |
| Teleperformance SE (3) | RCF-FR | 85.45 | 4,875.51 | 5,275.18 | 4,183.36 | 577.40 | 246.22 | 1.26 | 9.14 | 21.42 |
| TeleTech Holdings, Inc. | TTEC | 27.13 | 1,308.52 | 1,377.29 | 1,291.03 | 174.56 | 54.12 | 1.07 | 7.89 | 25.45 |
| West Corporation | WSTC | 19.66 | 1,621.52 | 4,791.52 | 2,280.26 | 655.02 | 173.04 | 2.10 | 7.32 | 27.69 |
| **MEAN (CRM)** | | | **1,739.33** | **2,321.31** | **2,019.20** | **317.06** | **103.62** | **1.01** | **7.42** | **20.36** |
| **MEDIAN (CRM)** | | | **1,308.52** | **1,377.29** | **1,869.06** | **232.30** | **66.91** | **0.87** | **7.32** | **21.42** |

Notes:

(1) - Market Cap equates to total shares outstanding multiplied by the price per share.

(2) - Total enterprise value consists of market cap plus debt less cash.

(3) - Converted local currency to United States Dollars using the conversion rate at 6/30/16.

Source: FactSet Database

Within the publically traded CRM sector, one transaction closed in the first quarter of 2016. Sykes Enterprises (NASDAQ: SYKE) acquired Clear Link Holdings LLC, an inbound call center based in Salt Lake City, UT. This transaction is in line with the growth strategy of the firm as they look to expand their presence globally. Other key takeaways from the quarter include: Convergys Corporation (NYSE: CVG) announcing in early July an agreement to acquire buw, a customer care provider based in Germany for roughly $137 million. buw has approximately 5% market share in Germany and will enhance Convergys' presence in Europe. Teleperformance SE (EPA: RCF), similar to Convergys, is focused on diversifying their client base from Telecom, which now accounts for 26% rather than 30% of revenue.

Below are some additional noteworthy transactions that took place in the CRM sector in Q2 2016:

- ✓ Expert Global Solutions was acquired by Alorica, creating the largest domestic delivery network in the U.S. market and the third largest customer experience BPO firm in the world with projected 2016 revenue of $2.4 billion.
- ✓ Corporate Call Center, Inc. was acquired by The Results Companies, a customer experience management prover. The acquisition strengthens the combined firm's client base with expanded capabilities in the healthcare vertical.
- ✓ TELUS International, a global provider of CRM services, sold a 35% stake in the company to Baring Private Equity Asia, valuing the firm at approximately $1 billion. The transaction aids TELUS in its efforts to continue expanding their market presence.

## CAS TRANSACTIONS

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VITAL SOLUTIONS

WAS ACQUIRED BY

FUSION

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

CAS Corporate Advisory Solutions

Securites conducted through StillPoint Capital Member FINRA/SIPC, Tampa, FL.

altus GLOBAL TRADE SOLUTIONS

A SUBSIDARY OF NATIXIS

WAS ACQUIRED BY

NewSpring Capital

Spring Capital

Evergreen

The undersigned initiated the transaction and served as M&A advisor to Altus Global Trade Solutions.

CAS Corporate Advisory Solutions

Securites conducted through StillPoint Capital Member FINRA/SIPC, Tampa, FL.

Credit Bureau of Traverse City, Inc.

WAS ACQUIRED BY

MERCHANTS ASSOCIATION COLLECTION DIVISION, INC

The undersigned initiated the transaction and served as M&A advisor to Credit Bureau of Traverse City.

CAS Corporate Advisory Solutions

Berlin-Wheeler, Inc.

A Receivables Management Company

WAS ACQUIRED BY

WAKEFIELD & ASSOCIATES

The undersigned initiated the transaction and served as M&A advisor to Berlin-Wheeler, Inc.

CAS Corporate Advisory Solutions

Securites conducted through StillPoint Capital Member FINRA/SIPC, Tampa, FL.

PRS®

PROFESSIONAL RECOVERY SERVICES, INC.

WAS ACQUIRED BY

CREDITCONTROL℠

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

CAS Corporate Advisory Solutions

Securites conducted through StillPoint Capital Member FINRA/SIPC, Tampa, FL.

KADENT

THE TEAM THAT COUNTS

WAS ACQUIRED BY

ARB

ARCADIA RECOVERY BUREAU

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

CAS Corporate Advisory Solutions

Integrity Solution Services, Inc.

WAS ACQUIRED BY

Oakville Consolidated Limited

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

CAS Corporate Advisory Solutions

Securites conducted through StillPoint Capital Member FINRA/SIPC, Tampa, FL.

LEADING EDGE RECOVERY SOLUTIONS

WAS ACQUIRED BY

Affinity Global

Connecting People with Solutions

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

CAS Corporate Advisory Solutions

PENNCRO ASSOCIATES, INC.

A FINANCIAL SERVICES COMPANY

WAS ACQUIRED BY

radius

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

CAS Corporate Advisory Solutions

The next section features guest articles from a variety of industry professionals that will provide insight into a diverse set of OBS industry topics. CAS team member, Elaine Rowley, provides an ARM Regulatory Update detailing the latest government news, regulation and compliance activities in the ARM sector. Director of Market Planning and Compliance at LexisNexis Risk Solutions, Linda Straub Jones, discusses the 'Credit Invisible' Consumer and what we can expect next from the CFPB. Mary Ann McLaughlin, Managing Partner at Butler Street Consulting details successful tactics to motivate your salesforce. Erik Strand, Vice President of Innovation at CallMiner, describes the impacts of speech analytics technology on call center operations. Please feel free to contact the guest authors to further discuss the information they have detailed in their respective pieces below.

# ARM REGULATORY UPDATE

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## Elaine Rowley

Corporate Advisory Solutions, LLC
Chevy Chase, Maryland
240-235-6008


The ARM Regulatory Update is the CAS quarterly Newsletter feature focused on government news, regulation and compliance so you are informed of the latest activities of government agencies with oversight over the ARM sector. Your comments and suggestions are welcome!

## Consumer Financial Protection Bureau (CFPB)

### CFPB Notices of Proposed Regulation:

### JUST ANNOUNCED

The Consumer Financial Protection Bureau will hold a field hearing on debt collection on July 28 in Sacramento, California at 11:00 am PDT, an event that might see the bureau release a new proposed regulation for ARM servicing firms. The hearing will feature remarks from CFPB Director Richard Cordray, as well as testimony from consumer groups, industry representatives, and members of the public. This event is open to the public, but requires an RSVP.

June 2016, Notice of Proposed Rulemaking on Payday, Vehicle Title, and Certain High-Cost Installment Loans. The proposal generally would cover two categories of loans: loans with a term of 45 days or less and loans with a term greater than 45 days, provided that they (1) have an all-in annual percentage rate greater than 36 percent; and (2) either are repaid directly from the consumer's account or income or are secured by the consumer's vehicle. For both categories of covered loans, the proposal would identify it as an abusive and unfair practice for a lender to make a covered loan without reasonably determining that the consumer has the ability to repay the loan.

May of 2016, The CFPB issued a proposed rule to establish regulations governing arbitration agreements in contracts for consumer financial products and services. First, the proposed rule would prohibit covered providers from using an arbitration agreement to bar the consumer from filing or participating in a class action. Second, the proposal would require a provider that is involved in an arbitration to submit specified arbitral records to the Bureau.

## CFPB Spring 2016 Regulatory Agenda

(See the article: The 'Credit Invisible' Consumer – Lending and Collecting Challenges by Linda Straub Jones in this Newsletter for more detail on CFPB proposed rules.)

## CFPB Reports:

### Semi-Annual Report Spring 2016 issued July 1, 2016

The CFPB presents this Semi-Annual Report to the President, Congress, and the American people in fulfillment of its statutory responsibility and commitment to accountability and transparency. This report provides an update on the Bureau's mission, activities, accomplishments, and publications since the last Semi-Annual Report, and provides additional information required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank or Dodd-Frank Act), for the period of October 1, 2015 through March 31, 2016.

### Online Payday Loan Payments, April 2016

This report provides detailed analyses on the payment practices of online lenders making high-cost, short-term loans online, with an emphasis on outcomes after payment requests fail. The report, which covers an 18-month period, further measures fees associated with payment requests that fail or overdraft, as well as account closure rates for consumers using these products.

### 'Payback Playbook'

to provide borrowers with a personalized snapshot of repayment options, a set of prototype disclosures that outline a path to affordable payments for borrowers trying to avoid student debt distress. The Payback Playbook provides borrowers with personalized information about their repayment options from loan servicers so they can secure a monthly payment they can afford. The Payback Playbook would be available to borrowers on their monthly bills, in regular email communications from their student loan servicers, or when they log into their student loan accounts.

### Supervisory Highlights, March 2016

In this tenth issue of Supervisory Highlights, the CFPB shares findings from recent examinations in the areas of student loan servicing, remittances, mortgage origination, debt collection, and consumer reporting. This issue also shares important updates to past fair lending settlements reached by the Bureau. As in past editions, this report includes information about recent public enforcement actions that resulted, at least in part, from CFPB supervisory work.

## Department of Labor (DOL)

On May 18, 2016, President Obama and Secretary Perez announced the publication of the Department of Labor's final rule updating the overtime regulations, which will automatically extend overtime pay protections to over 4 million workers within the first year of implementation.

The final rule will:

- Raise the salary threshold indicating eligibility from $455/week to $913 ($47,476 per year), ensuring protections to 4.2 million workers.
- Automatically update the salary threshold every three years, based on wage growth over time, increasing predictability.
- Strengthen overtime protections for salaried workers already entitled to overtime.
- Provide greater clarity for workers and employers.

The final rule will become effective on December 1, 2016, giving employers more than six months to prepare. The final rule does not make any changes to the duties test for executive, administrative and professional employees.

## Federal Deposit Insurance Corporation (FDIC)

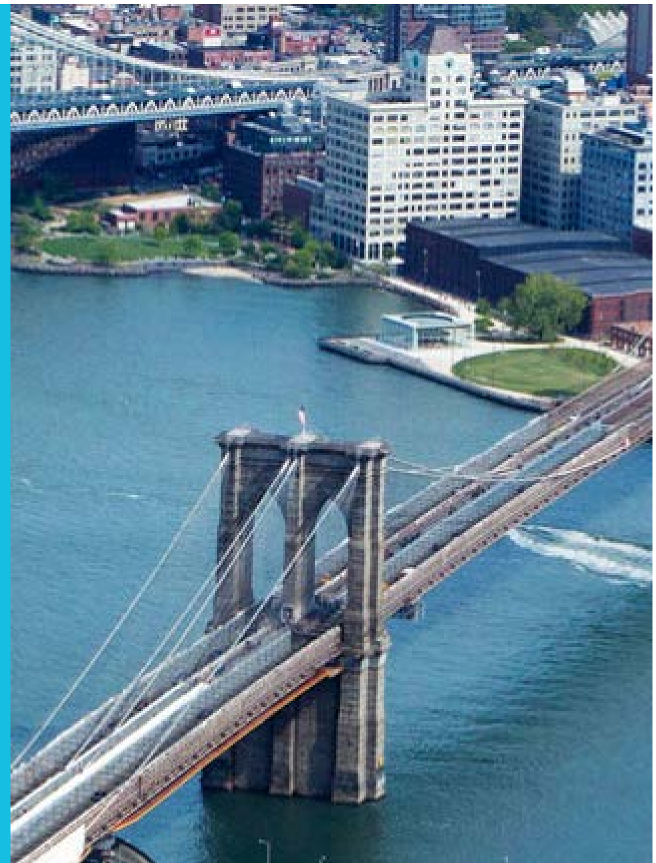
FDIC Notices of Proposed Regulation: Proposed Rulemaking to Implement Liquidity Risk Standards for Certain FDIC Supervised Institutions. The proposed Net Stable Funding Ratio Rule, or NSFR, would ensure that lending and investing activities of large banking organizations are sufficiently supported by sources of stable funding over a one-year horizon. Maintaining sufficient amounts of stable funding strengthens a bank's liquidity profile by reducing the risk of funding disruptions.

## Federal Trade Commission (FTC)

Federal Trade Commission Chairwoman Edith Ramirez issued the enclosed statement following the European Commission's approval of the EU-U.S. Privacy Shield Framework in Brussels, Belgium on July 13, 2016:

*"I welcome the European Commission's approval of the EU-U.S. Privacy Shield Framework. The FTC has a strong track record of protecting consumer privacy, and we will remain vigilant as we enforce the new framework. We will also continue to work closely with our European counterparts to provide robust privacy and data security protections for consumers in the United States and Europe."*

The Privacy Shield Framework provides a set of robust and enforceable protections for the personal data of EU individuals.



## Internal Revenue Service (IRS)

If you have not reviewed and updated your Employee Handbook for Affordable Care Act Compliance in the past year, it may be timely to do so and there are several reasons to take on this exercise. The handbook can be used to help document an "offer of coverage" and if an employer is audited, the IRS or DOL will probably ask to see the handbook. See link above for full information on employer compliance related to ACA.

## The House Financial Services Committee

In April, The House Financial Services Committee voted to repeal Title II of the Dodd-Frank Act. This was significant because, when the Dodd-Frank Act was passed, Title II was celebrated as the heart of the act. It would, in the inflated language of its supporters and sponsors in the administration and Congress, put an end to the problem of Too-Big-To-Fail (TBTF) by providing a mechanism through which the FDIC could take over and resolve the largest nonbank financial firms without the use of taxpayer funds. The repeal of Title II will be the most important step in the repeal process.

## CAS Resource Links:

CFPB, July 1, 2016 Semi-Annual Report of the CFPB, October 1, 2014-March 31, 2015
CFPB, Regulatory Agenda, Spring 2016
CFPB, April 2016 Online Payday Loan Payments
CFPB, April 2016, Student Loan 'Payback Playbook'
CFPB, March 2016, Winter Supervisory Highlights

CFPB, March 2016 Annual Report on Fair Debt Collection Practices Act
CFPB, Monthly Complaint Report
CFPB Report on Private Student Loans
DOL, Overtime Final Rule, May 2016
FTC, EU-U.S. Privacy Shield Framework, July 2016
FTC, Fair Debt Collection Practices Act
FTC, Memorandum of Understanding between the CFPB and the FTC, March 2015.
IRS, Internal Revenue Service Affordable Care Act
Office of the Comptroller of the Currency, Risk Management Guidance
Protecting Personal Information: A Guide for Business

# THE 'CREDIT INVISIBLE' CONSUMER LENDING AND COLLECTING CHALLENGES

READ MORE

Linda Straub Jones, Director of Market Planning, Compliance
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In February 2016 the CFPB posted its top 9 priorities for the next 24 months. For those of us who have been watching the CFPB closely and wondering "what next?" this is the information we've been waiting for. Their priorities include arbitration clauses, consumer reporting, debt collection (from the ANPR released in November 2013), demand-side consumer behavior, household balance sheets, mortgages, open-use credit, small business lending and student lending.

Regarding consumer reporting, the CFPB mentions two very different topics. First is the way that creditors and collection agencies furnish items to the credit bureaus and second is a better understanding of 'credit invisible' or 'unscorable' consumers. The CFPB issued a bulletin on furnishing to credit bureaus (Bulletin 2016-01) and a whitepaper/report on credit invisibles (Data Point: Credit Invisibles, May 2015). We can glean a lot of information of where the CFPB is heading from the bulletin and report.

The CFPB's Credit Invisibles report states there are 26 Million consumers that are "credit invisible". This equates to one in every 10 adults that do not have any credit history with a nationwide consumer reporting agency. The CFPB further states in their February "Top 9 Initiatives" that in addition to the 26 million consumers that lack a credit report there are an additional 19 million that have insufficient information for a credit score, which makes it difficult for these consumers to obtain credit from mainstream lenders.

Bureaus and data companies have been working together to use alternative data to create scores for consumers who do not have enough information in their credit report to create a score or enough information for creditors to formulate an opinion on the consumer's credit worthiness. I believe this is what the CFPB has been looking for. In their February "Top 9 Priorities" report, they state they will be gathering information to explore how alternative data is or can be used in the consumer reporting system to improve access to financial services. It appears that companies have already been doing just that.

However, what we haven't seen yet is information on what may happen when these credit invisible consumers head into collections. If those consumers do not have a credit file or a credit footprint, and if they go delinquent on these new credit accounts they are obtaining, then what will be the fallout for the creditors and collectors trying to locate and collect from these consumers? There is no credit bureau history to review, and traditional skip tracing methods may not work.

Creditors and collection agencies are going to have to rely on the same alternative data that lenders use to offer credit to these consumers in the first place. But what are these alternative data sources? They are things such as public records, address history, professional licenses, hunting and fishing licenses, motor vehicle data, criminal records, evictions, liens, utility data and more. Big data companies offer this information and more to help locate consumers and make the most of your collection efforts.

Therefore, if you collect sub-prime debt, or debt from creditors who use alternative data to lend, make sure you are geared up to also use that same alternative data for your collection efforts. Alternative data is also a great tool to use in your regular collection and skip tracing activities. It gives you a fresh and different look at your consumers, and allows you to access data that is not on a typical credit report.

Linda Straub Jones is the Director of Market Planning for Compliance for LexisNexis Risk Solutions. She has over 30 years of experience in the credit/collections industry. In her current position, Linda is responsible for understanding and staying current on the rules and regulations that impact the credit and collections industry and strategizing on how LexisNexis's data may help customers with those regulations.

## HOW SHOULD I COMPENSATE MY SALESFORCE? 4 CRITICAL AREAS TO CONSIDER

READ MORE

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The salesforce represents your brand in the marketplace, makes or breaks your revenue and margin expectations, and advances your company mission and vision. They also have power to create incredibly strong and rewarding client relationships that deliver exponential lifetime value to your organization.

That is, if they are incentivized to stay - and stay focused.

And because of the power of the sales force, one of the most critical plans in any organization and the single most common question we receive is... "How should I craft a compensation plan for my salesforce?"

First it is important to understand that "compensation" actually consists several items such as:

- Salary
- Commissions
- Increases
- Status
- Perks

All of these must be considered when the plan is created. More importantly, however, are the interconnectivity of the following four areas that drive engagement and we call them the 4 B's:

### Basics, Backing, Becoming and Belonging.

With the baby-boomers' retirement years are in full swing, the war for talent is becoming readily apparent. As an organization that specializes in both client and talent development, Butler Street understands exactly how closely related these two initiatives are and also how talent (salesforce) engagement is the key to driving client results. Engagement defines the relationship your sales professional has with their work. An engaged employee is one that gives tremendous effort to try and achieve organizational goals. This is quite different from the satisfied employee who shows up and just does his or her job.

The impact of this extra effort is measurable. A wealth of data exists on how engagement improves business results. Based on extensive research, companies with high engagement levels have:

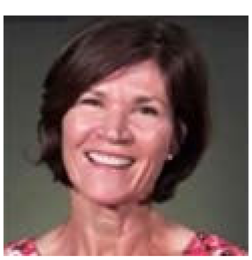
- Employee retention that is 50% higher
- Customer loyalty that is 56% above average
- Productivity that is 38% above average
- Profitability that is 27% higher

So how do you create compensation plans that work? Make sure that your plan provides both a financial and a psychological paycheck, drives engagement, and that each of the 4Bs are represented in full. Here are some things to consider:

- Basics: The salesforce feels they have the items fundamental to their success such as fair pay, understanding expectations and having tools to perform their work.
    - Target your Compensation Salary Bands commensurate with the market and ensure everyone with the same role/title and expectation is within the same salary band. Make it fair and trustworthy
    - Onboard the salesforce with appropriate product/service training and provide access to reports and report cards that let them know how they

are doing compared to others and compared to expectations
    - Provide a commission/bonus structure that rewards them for the work you have asked them to do. For example, if the sales team sells and turns over the account, don't compensate them on margin in year 3 of the contract. Do however, compensate them for the positive impact the client has and will have on your organization which may be more than a one-time bonus.
- Backing: The salesforce feels they have the support they need to be successful.
    - Give each of your sales professionals weekly one on one time. Create a culture where every sales person is coached. Today's generation cares more about their forward progress than they do about money. Your culture and processes need to reflect that
    - Communicate how they can earn more and learn more and don't change the rules if it all possible
- Belonging: Sales feels aligned with the organization and the people on their team.
    - No one wants to work alone. Ensure that there is a team that can help each other find success. Even if you have only one or a couple of sales professionals, they need to belong to the team.
    - Create opportunities to be recognized and rewarded in public ways. Whether it's a trip or dinner with the CEO, creating an emotional connection to the company will pay off in the market place
    - Be sure that the salesforce understands the problems you solve for you customers and how because of that, you make the world a better place. And recognize when he/she advances that mission.
- Becoming: Each sales professional feels they are being given opportunities to learn and grow.
    - Create a clear career path for the sales professional and honor the milestones in place
    - Titles that reflect status, Certifications that reflect performance and bonuses in the form of money and perks are critical here

Much like Maslow's hierarchy of needs, delivering on these 4 areas are all necessary to find and keep talented sales professionals. Studies show that the top three reasons people leave organizations due to lack of trust, lack of a strong relationship with their manager, and lack of meaning in their role. Throwing money at your sales team without addressing these 4 areas will never lead to sustainable results. If you are looking to build a highly talented, and engaged sales force that will deliver significant and consistent results, then understand this, it's going to take more than a competitive salary and commission plan.



Mary Ann McLaughlin brings over 32 years of sales and operational experience to the Butler Street table. She has spent 13 years in roles such as Chief Operating Officer, President, and Managing Director. In her career, Mary Ann has always led the way for women, including becoming the first female Vice President in company history as well as highest ranking female in sales honors. She is a Six Sigma Certified Champion, active mentor and recreational tri-athlete. Chicago 2015 was her fourth marathon in addition to having competed in numerous triathlons.

# A PERPETUAL BALANCING ACT FOR COLLECTIONS AND ARM FIRMS

READ MORE

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Collections contact centers and ARM firms face a constant challenge – balancing the need to maximize payments while maintaining quality service and strict compliance. A tightening regulatory environment puts small firms at risk of extinction and forces large outfits to make sweeping and costly changes. Process improvements to meet these challenges have historically been reactive and incremental. So, what can be done to put ARM outfits ahead of the regulatory curve, and differentiate "the best" from "the rest"?

Speech analytics technology (also becoming known as Interaction or Omni-channel Analytics for its ability to analyze other forms of communications such as Chat, Text, Email, etc.) is rapidly being adopted by leading collections contact centers that want better results -- on faster timelines -- than traditional quality, compliance, and training approaches. It works by converting spoken conversations into analytical data, either post-call by analyzing recordings, or in real-time while conversations are happening. Replacing the "old fashioned" method of manual listening and review of a statistically insignificant number of calls, Speech analytics takes advantage of cutting-edge advances in Speech recognition and machine learning to automatically score every call on customizable criteria for high quality and regulatory compliance. Accurate, up-to-the-minute performance metrics are automatically delivered to supervisors and collectors for immediate process improvement and collector effectiveness. Speech analytics allows today's top collections firms to meet new regulatory requirements with speed and agility, and emerge victorious in a shifting competitive landscape.

## Staying Compliant - Identify language and agent practices to mitigate risk

The alphabet soup of regulations on collections practices (FCRA, FDCPA, TCPA, and others) poses an existential threat to players in the ARM space. With household debt continuing to recover, and as new agents are onboarded to handle increased call volumes, it is critical to mitigate the risks introduced by anything but strict compliance with state and federal laws – and the fines they impose. While manual sampling of recorded calls offers moderate success as a program of corrective action, feedback loops for training collectors are long and often untargeted, and the process itself is labor intensive and costly. A rogue or inexperienced collector might persist in bad behavior for days or weeks.

Speech analytics transcribes and automatically evaluates 100% of interactions for Mini Miranda language, Right Party Contact language, FDCPA violations, abusive language from either party, and other risky language. Potential violations are flagged in real time, and patterns of non-compliant behavior are detected immediately. As adaptations to new regulations or client-driven collections policies become necessary, Speech analytics applications can be configured within hours or minutes to monitor the desired behavior. Quality Assurance teams become dramatically more efficient, and reported violations decrease. Importantly, regulatory bodies such as the CFPB have taken a favorable stance toward the comprehensive, proactive approach to compliance that Speech analytics offers.

## Take care of what is stored

Every client may have different rules for how long calls/data should be stored. From a compliance and risk perspective, it is important to make sure what is being stored has the least amount of risk possible. There are two ways to protect against these risks. First, because recorded calls are subject to the same rules as any other method of capturing and storing customer data, a redaction software solution should be used to prevent the recording of sensitive information. Second, limit the number of staff exposed to sensitive data by only giving them access to information they need to do their job. For example, some staff may have access to customer details but may not be able to update or delete any customer details. Doing so minimizes sources of violation or non-compliance while agents are interacting with customers.

## Improve Agent Performance

Raising the game of every agent can transform the performance of the entire contact center. By helping every agent become better at everything they do, the impact on the contact center and the agent will be transformational.

Interaction analytics enables managers to identify the potential for these small improvements for every agent. For example, if an agent is struggling with a single step in the call handling process, implement some immediate and very targeted coaching or training to correct the behavior. Alternatively, if the analytics identifies best practice by one agent that delivers better results, this can be deployed to the whole team.

Additionally, with regards to specific areas like payments, track specific language to understand what drives payments and revenue. For example, did an agent ask for a balance in full or go immediately to a settlement; did they ask for a payment directly or passively. These trends and behaviors can easily be tracked and corrected. Lastly, calibration on coaching and training will be significantly increased through analytics.

## Optimize collections & boost revenue

Analyzing interactions provides a deeper understanding of what's happening between agents and debtors and makes it easier to enforce collections best practices. Each agent has a diverse range of skills. Some might be better at calming down agitated customers and providing solutions to complaints or other issues, while others might be great at recovery. Interaction analytics helps spot the superstars and also isolates successful techniques that can be used to create best practices that can be shared with the rest of the team or used for agent training sessions.

Sharing these best practices very rapidly raises the game of the entire agent team.

## Reveal trends contributing to negative performance and coach to improve results

Speech analytics has helped collections and ARM clients quickly identify specific factors contributing to negative performance trends as well as determining the root causes of issues, and helps to boost company revenue overall. Often, agencies discover that their collectors are not asking for payment as often as they should, or are consistently asking for lower repayments. Some agents may display a pattern of overly long calls, reducing overall dialer throughput. ARM agencies that work quickly to improve and refine their business processes based on the intelligence mined from their collector interactions can materially increase their revenues. Promise to pay ratio, script adherence, and the ability to spot and develop high-flyers can all be enhanced.

In addition to boosting individual collector performance, customer insights allow ARM agencies to consistently place higher in their client rankings, solidifying key relationships.

## The Takeaway

Speech analytics in the collections contact center helps collections and ARM firms strike the desired balance between mitigating compliance risk, improving agent performance and increases recovery rates. This indispensable tool is quickly becoming a critical component to a winning ARM strategy.

Erik Strand serves as the Vice President of Innovation at CallMiner, which is a provider of speech analytics solutions for improving agent performance. With over 10 years of industry leadership and over 2 billion hours of conversations mined, CallMiner is able to deliver exceptional value to customers by delivering highly effective, usable, and scalable speech analytics solutions.

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