CAS INSIGHTS

EXPERTS IN OUTSOURCED BUSINESS SERVICES

2018 YEAR IN REVIEW

CAS
Corporate Advisory Solutions
INTEGRITY • CONFIDENTIALITY • EXPERIENCE

A WELCOME MESSAGE FROM MICHAEL LAMM

Welcome to our contribution to the multitude of 2018 reviews and predictions for 2019, in this year-end edition of *CAS INSIGHTS*.

In a 1948 speech to the House of Commons, Winston Churchill quipped one of his most repeated quotes: *"Those who fail to learn from history are condemned to repeat it."* At CAS, as always, we learn something new from every client project we engage in, however, with all due respect to Mr. Churchill, we wouldn't mind repeating 2018 in many aspects. It was a great year for CAS and we are very grateful for our clients, employees, interns and consultants.

Outsourced Business Services (OBS) Market Overview

In 2018, there were over $10B in Deal Value and while 2018 M&A activity was down compared to 2017, it still produced strong results. The Accounts Receivable Management (ARM) industry generated 30 transactions valued in aggregate at just over $3.4 billion. **CAS recognized its strongest year yet, completing six transactions**. Consolidation, interest in acquiring collection agencies and debt buyers continued in 2018, driven by improved financial performance and business trends. We expect this trend to continue in 2019, with M&A off to a strong start.

The Healthcare Revenue Cycle Management (RCM) services market generated 39 transactions representing just north of $2.4 billion in deal value and Customer Relationship Management (CRM) saw 23 deals with a value of $4.8 billion.

Technology transformation is hitting industry sectors and modifying how companies will interact with consumers and businesses. Modernization of technology infrastructure has led to collaboration of traditional banks and a surge in FinTech companies as there is no longer a high barrier to entry in the banking industry. As a result, heightened M&A activity has been observed to increase scale, market share and convenience options within the cross-border payments, multipayment integration and B2B payments industries, and it is expected to continue (Deloitte).

CAS also predicts a continued expansion of cloud-based business processes for 2019 and notes that OBS businesses are embracing disruptive outsourcing technologies such as cloud and robotic process automation (RPA). (Deloitte).

Increased technology goes hand-in-hand with increased data security, therefore, data security will, or should, be at the top of the list of priorities for many companies in 2019.

As we pointed out in our previous newsletter, we predict that almost 50% of calls in 2019 will be robocalls. We believe call blocking and labeling technology will increase in popularity, which will directly impact the efficient collections process. To combat this, ARM Service Providers may need to turn to some low-tech and cost-effective means of communicating, such as mailing letters.

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In terms of the overall U.S. economy, while the latest jobs report was unexpectedly strong, and the economy continues to grow, it might be time to start thinking about a "correction." As reported on NPR: *"A majority of economists surveyed by the Wall Street Journal predict a recession by the end of 2020."* While we do not expect a deep recession, more a correction, the levers that are usually pulled to stop a recession (lower interest rates, stimulus package) will not work as they have in the past thanks to the ongoing chaos on Capitol Hill, the White House and the federal government debt.

Finally, we would be remiss to not bring up the subject of the government shutdown and its impact on our industry. The federal government shutdown has affected hundreds of thousands of federal government employees nationwide, who are either being furloughed or forced to work without pay. As of this writing, Friday, January 25th, President Donald Trump said he's reached a deal to temporarily reopen the federal government for three weeks. Hopefully, an agreement can be met during that time and the government will remain open. However, in the meantime, employees have already missed two paychecks and will continue to miss them as long as the shutdown continues. Without pay, some employees may not make their regular debt payments. Additionally, with IRS employees furloughed, we have to assume tax refunds will be delayed by weeks if not months irrespective of the fact that some tax return processors have been recalled, without pay. Debt collectors need to determine how aggressive they want to be in collecting debts from federal employees and contractors during the shutdown.

The CAS team is attending the RMA Annual Conference at the Aria in Las Vegas in February. I am speaking at the conference on Wednesday, February 6th at 2:00 pm PT, *"Top Ten Things to Prepare a Debt Buyer for a Sale."* We hope to see you at the conference! Contact Elaine Rowley if you would like to make an appointment to see any of our team members.

And, last, but by no means least, we have revised and refreshed the CAS website. While the URL remains the same, www.corpadvisorysolutions.com, the site has a completely new look and feel, with some additional features and provides a smoother, more intuitive user experience.

You will find more detail on all of these topics in the newsletter. We look forward to being of service and continuing to work with you, and are available to confidentially discuss your interests.

Sincerely,

Michael Lamm

Michael Lamm
Managing Partner

SELECT CAS CONFERENCE AND EVENT ACTIVITY

Please connect with us at these conferences/events that will be attended by CAS team members:

- **February 5-7, 2019 – Receivables Management Association (RMA) 22nd Annual Conference**
  - The Aria, Las Vegas
  - Attended by Michael Lamm, Mark Russell, Nick Ciabattone, Mickey Kaiser and Elaine Rowley

[To schedule an appointment with Michael or Mark, contact Elaine Rowley]

- **February 11-15, 2019 – ACA Committee of 100***
  - Kauai Resort, Hawaii
  - Attended by Michael and Simone Lamm

***This event is by Invitation Only**

- **April 3-5, 2019 – Debt Collection Forum**
  - Trump International Hotel & Tower® Chicago
  - Attended by Michael Lamm

[To schedule an appointment with Michael, contact Elaine Rowley]

- **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. In the first episode, which debuted earlier this month, Michael discusses creating a positive, transparent work environment that inspires employees to achieve greatness.
  - Listen to the first podcast here!

Here are some key highlights of what you will find in this 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, OBS sub-sector overviews, public comparable research and details surrounding noteworthy transactions within each sub-sector. Specialty Financing Industry Highlights. Overview of some of the largest publicly traded specialty finance companies, key industry trends and noteworthy transactions.
- ARM Regulatory Update from CAS team member Elaine Rowley detailing the latest government news, regulation and compliance activities in the ARM sector.
- Latest blog post from Nick Jarman, owner of Right Away, LLC, an accounts receivables industry consulting firm.

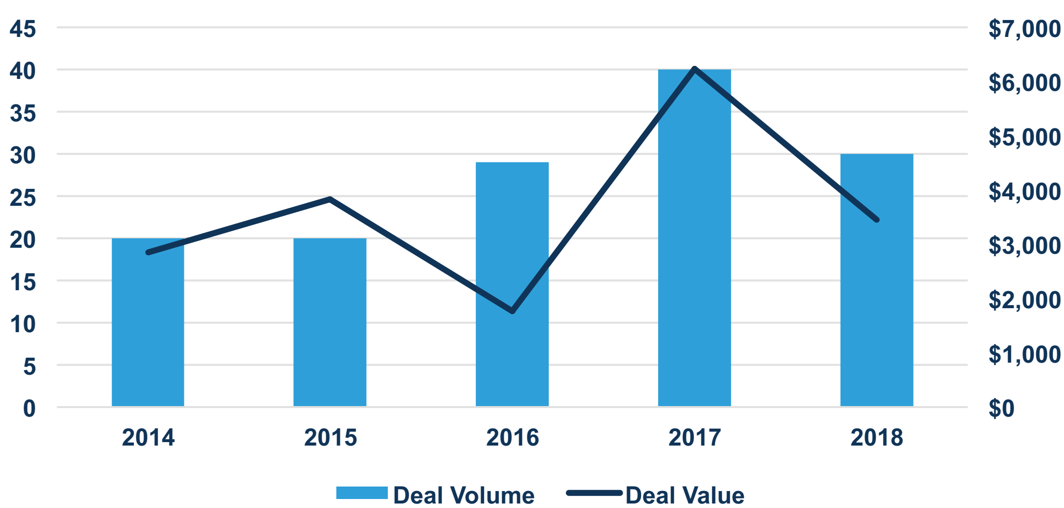
Accounts Receivable Management (ARM)

2018 was a strong year for the ARM industry, both in terms of placement and liquidation performance, and M&A deal activity.

Throughout 2018, collection agencies, collection law firms and debt buyers shared positive news in terms of increased business in most market segments, particularly financial services. In fact, our discussions with several leading credit issuers in the financial services market have indicated that, due to rising delinquency and charged-off volumes, they are in process of expanding their agency and legal networks and preparing for increased portfolio sale activity. We haven't had these types of discussions with financial institutions for over 10 years! Based on this feedback, we anticipate the upcoming RMA conference to be well attended and highly active.

In terms of deal activity, the ARM industry generated 30 transactions valued in aggregate at just over $3.4 billion in deal value. While 2018 M&A activity was down compared to 2017, it still produced strong results. CAS recognized its strongest year yet, completing six transactions. Interest in acquiring collection agencies and debt buyers continued in 2018, driven by improved financial performance and business trends. We expect this trend to continue in 2019.

ARM Annual Deal Volume and Value
($ in millions)



The chart data was obtained from public announcements and private confirmations obtained by CAS.

2018 was a continuation of 2017's robust market trends, driven by improved macro-economic conditions (e.g., increased consumer spending), a more business friendly stance from the Trump administration and regulatory authorities including the Bureau of Consumer Financial Protection (BCFP). However, several market analysts in the second half of 2018 began to indicate concerns regarding a market correction due to the level of outstanding consumer debt coupled with overinflated valuations in the public market indices. These concerns seemed to be

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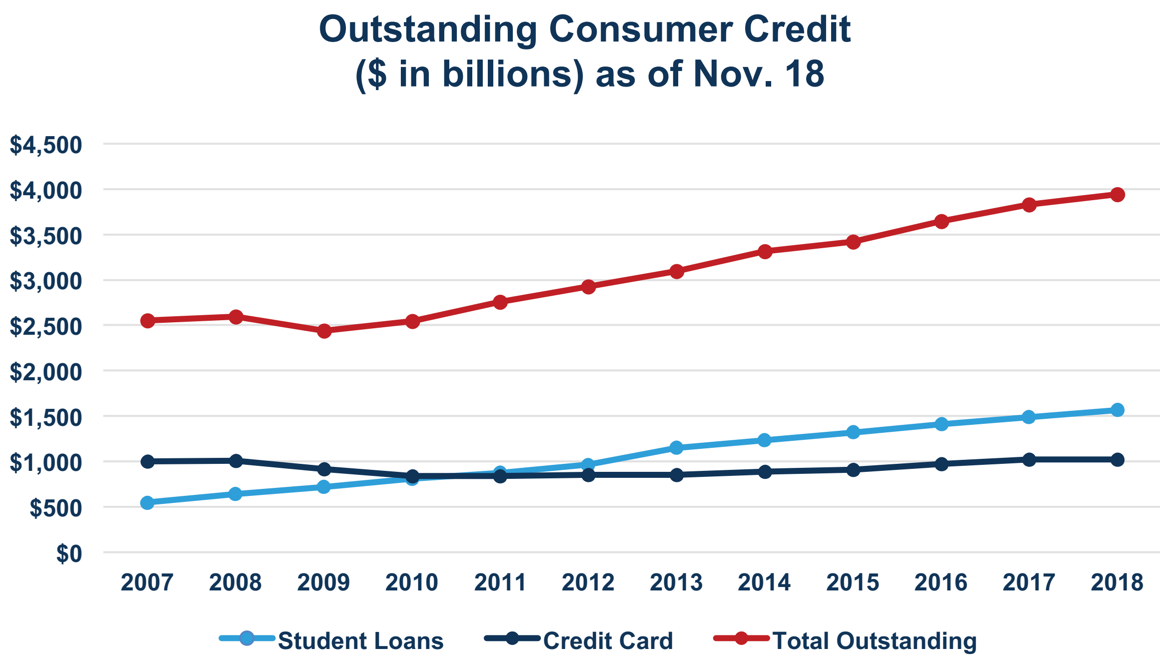
validated based on the change in market performance during Q4 of 2018. According to the Federal Reserve's Consumer Credit G.19 Report (released in January 2019), total consumer credit outstanding (not seasonally adjusted) has increased from just north of $3.3 trillion to just under $4 trillion (not including mortgage debt) in the past five years. At about $1.5 trillion, student loans represent almost half this amount. Credit card debt is hovering around $1 trillion. These amounts exceed the pre-Great Recession levels and are causing certain analysts and bear market forecasters concern regarding the United States' economic stability. However, other trends are not pointing toward a significant downturn, indicating a correction is in order but not a serious or long-term recession. Therefore, we anticipate placement volumes to continue to increase in 2019, while liquidation rates stabilize and possibly drop slightly toward the second half of the year. An additional turning point has been the prevailing job market and unemployment rate nationwide. The national unemployment rate reached a 50 year low during Q3 at 3.7% but finished off 2018 at 3.9%. While ending on a slight increase, this is still the lowest year end unemployment rate in the past decade.



The chart data was obtained from the Federal Reserve's Consumer Credit – G.19 Report (non-seasonally adjusted). A link is provided above.

One upcoming announcement that the ARM industry is highly anticipating, which may impact 2019 performance, is the BCFP's delivery of its proposed rules by the end of Q1. The ARM industry has been waiting for these rules since the creation of the BCFP and hopes for clarity on how they can communicate with consumers in a compliant manner. Stay tuned.

Other notable trends for 2019 include a continued focus on non-voice interaction solutions with consumers, and the never-ending roller coaster ride that has become the Department of Education contract. The small business contractors are enjoying their status and financial performance, while the large business contractors are still fighting to secure their rights to participate as well. We will see what happens over the next several months. Also, the U.S. government is still planning to pay out tax returns regardless of the current government shutdown. Due to the uncertainty of the situation, there is speculation surrounding when these returns will be processed,

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and when funds made available to filers. If tax returns are delayed the ARM industry may experience a delay in their seasonal performance.

Links to articles with additional details on these subjects are provided at the end of this section.

ARM trends we are watching in 2019

- Moody's Investors Services indicates that consumer spending increased at an average rate of 2.7% through September of 2018. Furthermore, consumer debt, which includes credit cards, auto loans, student loans and personal loans is expected to continue growing into 2019. An increase in 30-day delinquencies on credit cards has countered improvement from previous quarters and total consumer debt may rise above $4 trillion in the coming year.

- U.S. Secretary of Education Betsy DeVos has indicated a crisis is at hand for higher education and student debt. Currently only 24% of student loan borrowers are actively paying down their principal and interest and about 20% of total loans are delinquent. Currently, average individual student debt totals $29,000 and is forecasted to continually increase year over year. These rising debt levels and uncertainty surrounding future employment may result in increased delinquency rates.

- Two rulings held down by the Federal Communications Commission (FCC) will likely impact cell phone users in the future. They ruled that text messages will continue to be considered as information services and not telecommunication services under their standards. This will allow carriers to cull spam messages and deliver only their approved messages. Additionally, the FCC adopted a recycled number database that will aid new phone consumers receiving unwanted telephone calls. Both rulings lean towards consumer protection and indicate increased regulatory measures for the future to come.

- The Federal Communications Commission (FCC) and Federal Trade Commission (FTC) have both encountered a shutdown at the tail end of Q4. The shutdown of the FCC makes their Do Not Call Registry, Complaint Assistant, and identity theft material unavailable to use. This may result in unfavorable consumer reactions until the government is able to come to a solution.

- Kathy Kraninger was confirmed as the next Director of the Bureau of Consumer Financial Protection (BCFP) by the senate. As the predecessor to Mick Mulvaney, many of Kraninger's plans are unknown along with the potential impacts on the ARM industry. If Mulvaney's actions are any indication of what is to come, we expect a future that consists of similar rulemaking.

Notable 2018 ARM Transactions

- J.C. Flowers' acquisition of Jefferson Capital
- Stevens Financial Group's support of TrakAmerica's management buyout
- Clearlake Capital's recapitalization of Transworld Systems (TSI)
- Encore Capital's completion of its acquisition of Cabot Credit Management (J.C. Flowers exits stake in Encore)
- LaSalle Capital's acquisition of Brown & Joseph

ARM Public Comparables:

Analysis of Selected Publicly Traded Accounts Receivable Management (ARM) Companies
($ In Millions)
All Data as of 12/31/2018

Company Name	Ticker	Price	Market Cap (1)	TEV (2) (4)	LTM Revenue	LTM EBITDA (4)	LTM Net Income	TEV/ Revenue	TEV/ EBITDA	TEV/ Net Income
Arrow Global Group, PLC (3)	LON:ARW	2.25	395.9	404.2	453.6	150.0	59.6	0.89x	2.69x	6.78x
Collection House Limited (3)	ASX:CLH	0.96	132.4	196.4	98.8	32.8	20.2	1.99x	5.98x	9.70x
Credit Corp Group Limited (3)	ASX:CCP	13.21	630.5	668.1	222.2	80.0	49.8	3.01x	8.35x	13.41x
Encore Capital Group	ECPG	23.50	725.0	4,082.2	1,330.8	381.8	81.5	3.07x	10.69x	50.07x
Intrum Justitia (3)	STO:INTRUM	22.88	3,004.5	6,884.8	1,529.6	507.1	223.7	4.50x	13.58x	30.78x
Performant Financial Group	PFMT	2.25	119.2	154.0	149.2	10.6	(2.2)	1.03x	14.57x	-69.25x
PRA Group	PRAA	24.37	1,104.0	3,227.9	865.1	221.0	137.5	3.73x	14.61x	23.48x
Mean (ARM)			873.1	2231.1	664.2	197.6	81.5	2.60x	10.07x	9.28x
Median (ARM)			630.5	668.1	453.6	150.0	59.6	3.01x	10.69x	13.41x

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 to USD from Pitchbook using exchange rate as of 6/30/2018
(4) - Information not available for certain businesses
(5) - Revenue, EBITDA and Net Income ratios calculated using Market Cap

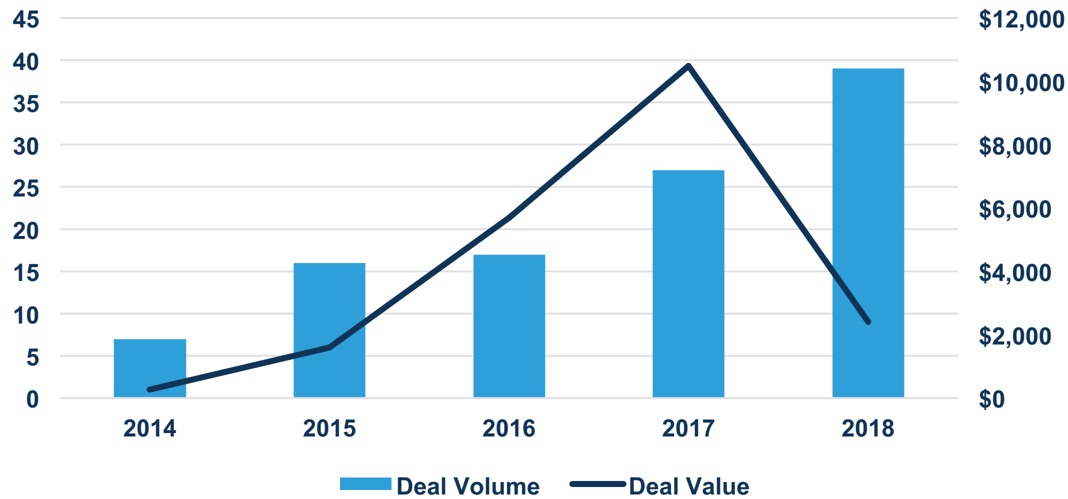
Source: PitchBook

Revenue Cycle Management (RCM)

In 2018, the Healthcare RCM services market generated 39 transactions representing just north of $2.4 billion in deal value.

Deals are being driven by overall market growth, attractive financial performance and a healthy forecast for outsourced Healthcare RCM services – Healthcare Revenue Cycle Management Market is expected to surge at 11.8% CAGR up to 2024.

RCM Annual Deal Volume and Value ($ in millions)



The chart data was obtained from public announcements and private confirmations obtained by CAS.

As the Healthcare market continues to grow, we are seeing a greater percentage of healthcare provider revenue coming from patients. Patient out-of-pocket costs (particularly those with private insurance plans) have increased due to changes to insurance plans most notably increased deductibles. Additionally, hospitals face renewed pressure to improve their quality of care and operate more efficiently. This is forcing hospitals to focus more on capturing transactional cost synergies and achieving operational efficiencies, motivating them to further seek out automated and outsourced business solutions that better meet their needs.

Firms are beginning to unlock the true value of data to improve collection rates and overall customer experience. Proactively gathering information during the scheduling, preregistration, and registration processes must be a complete and accurate process which should include checking medical necessity for outpatient services and providing estimates of cost and patient liability. Verifying insurance and checking for prior authorizations will prevent disruptions to the billing process and more importantly, care. It is key that patient access controls are meticulous to limit the risk of billing mistakes, lost revenue, and poor patient and physician satisfaction. This entire process has started to become an

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outsourced solution for certain healthcare providers, while others are trying to streamline the process utilizing integrated technology and more efficient operational solutions.

There are still complex claims that require human intervention. To best handle those, a specialized team that knows their payer will allow faster and more accurate work. Technology will be able to direct such issues to the proper department, or outsourced vendor, who specializes in that type of claim.

Many owners believe adopting a platform-based business model and collaborating with digital partners is crucial for future success. As artificial intelligence makes its way into the Healthcare RCM industry, 48% of executives use IT to automate tasks, 70% report more investments in embedded artificial intelligence (AI) and 69% in machine learning.

39% of healthcare executives believe investing in a platform-based business models and partnering with digital companies is crucial for the success of their business. Growth for health application-programming interfaces (APIs) is expected to grow 10x in the next 5 years.

According to Jeff Hurst of Cerner, "Leveraging AI, healthcare technology will be positioned to further the work to reduce the cost to collect in registration, scheduling, charge capture, health information management and billing and collections". Estimation tools that give patients an idea of what their out of pocket expenses will be provides transparency to the consumer and increases collectability.

RCM trends we are watching in 2019

- The nature of RCM is rather repetitive making it a good candidate for Robotic Process Automation (RPA). A robot can process claims and enter data faster, more efficiently and with less chance of error than a human all at a lower cost. Significant investments and upkeep is required to adapt such a business model; however, it is far less than human.

- Increases in denials and actual write-offs from insurance companies are anticipated in 2019. Denial rates have come down over the past few years but the battle between payers and providers has heated up again as they fight for reimburse dollars. As artificial intelligence is integrated, errors in data entry are expected to fall and the revenue cycle is expected to shorten in length. This is due to its ability to identify patterns and make decisions with minimal human interaction.

- As revenue cycle leaders are continuing to look for ways to improve performance, it will require courageous steps in switching over to a data-driven highly autonomous revenue cycle. Disruption in the industry will allow health systems to free up human capital and allow them to focus on patient integration by putting customer service and patient treatment at the forefront of healthcare revenue management.

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Notable 2018 Healthcare RCM Transactions

- Wakefield & Associates, Inc., a national revenue cycle management company based in Aurora, CO, acquired the assets of RMB, Inc., a healthcare focused early out receivables management company headquartered in Knoxville, TN. CAS acted as the exclusive sell-side advisor to RMB, Inc.
- Cognizant Technology Solutions acquired Bolder Healthcare Solutions to further expand their digital capabilities.
- Pine Tree Equity has recapitalized RevMd, a provider in revenue cycle management services focused on insurance claims resolution and self-pay collections for hospitals, large physician groups and other healthcare providers in October 2018.
- New Jersey based Revenue Cycle Management company Professional Recoveries Network (PRN) has combined with Kemberton.

RCM Public Comparables:

Analysis of Selected Publicly Traded Revenue Cycle Management (RCM) Companies
($ In Millions)
All Data as of 12/31/2018

Company Name	Ticker	Price	Market Cap (1)	TEV (2)	LTM Revenue	LTM EBITDA	LTM Net Income	TEV/ Revenue	TEV/ EBITDA	TEV/ Net Income
HMS Holdings Corp.	HMSY	28.13	2,360.3	2,476.0	591.0	111.4	47.3	4.19x	22.23x	52.32x
Allscripts Healthcare Solutions, Inc.	MDRX	9.64	1,684.2	3,429.8	2,079.1	344.7	42.2	1.65x	9.95x	81.30x
Cerner Corporation	CERN	52.44	17,278.4	16,905.9	5,314.4	1,469.0	835.4	3.18x	11.51x	20.24x
Huron Consulting Group Inc.	HURN	51.31	1,157.2	1,463.9	854.6	45.3	(19.0)	1.71x	32.32x	–
Nextgen Healthcare Inc. *(Formally Quality Systems)*	NXGN	15.15	980.3	991.2	531.0	46.2	6.2	1.87x	21.44x	158.94x
Mean (RCM)				5,053.4	1,874.0	403.3	182.4	2.52x	19.49x	78.20x
Median (RCM)			1,684.2	2,476.0	854.6	111.4	42.2	1.87x	21.44x	66.81x

Notes

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Source: PitchBook

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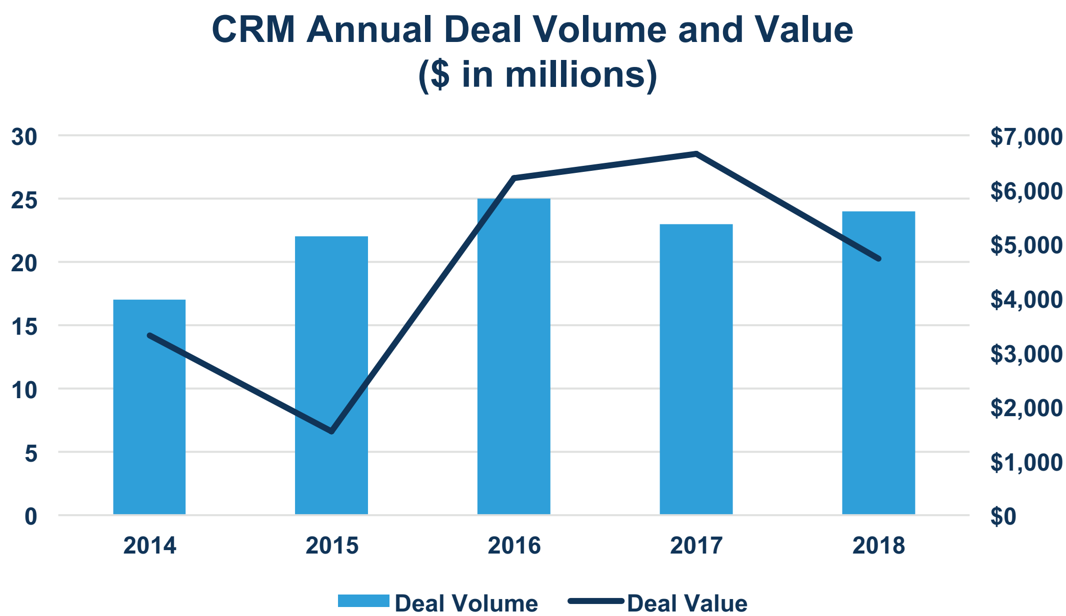
Customer Relationship Management (CRM)

2018 was another active year for the CRM industry, generating 23 transactions that totaled more than $4.8 billion in deal value.

Outsourced call center companies have received increased interest over the past year, predominantly from strategic buyers that seek to improve financial performance through the implementation of operational efficiencies and synergistic cost savings. Implementing a near-shore/offshore model is one area of great interest, but also utilizing improved technology solutions to provide an enhanced client experience at a more affordable cost seems to be the driving force in today's market.



Artificial Intelligence (AI) continues to develop into a mandatory tool for businesses to assist in workflow processing. Based on a report by Deloitte, 57% of their respondents currently utilize some sort of AI solutions with 37% planning to integrate it within the next two years. Hardware manufacturers such as Nvidia have already began creating devices strictly designed to process and develop the most efficient AI possible. These signal a continued forward push for AI solutions. We predict that these solutions will continue to impact the job market, especially in contact centers where automation is starting to build a significant foundation.

Data integration and software solutions are becoming a heightened priority for contact centers to improve operating efficiency. As cloud-based contact centers become more visible in the market, maintaining secure consumer data is a key compliance component. A recent study by Vanson Bourne estimated that businesses within the US and UK lose over $140 billion year over year due to miscalculated data investments. To thrive within the space, CAS believes contact centers must develop a strict plan of action on how to optimize their data integration. By doing so this can lead to a reduction in expenses and greater margins for the future.

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Customer experience continues to be at the forefront of priorities for call centers in retaining clients and generating revenue. Contact centers are consistently struggling to retain clients solely from product quality and price as the market continues to develop. The customer experience management market is expected to reach $1.5 billion in 2023 growing at a CAGR of 16%. In addition, the increased popularity of social media platforms has created numerous different verticals for call centers to interact with consumers. A recent study indicates that phone calls are expected to consist of 47% of call center interactions in 2019, down from 64% in 2018. CAS predicts call centers will continue to put emphasis on omnichannel communications as multiple sources of customer engagement become more reliable.

Chatbots are now an increasingly valuable tool for supplementing customer engagement within call centers globally. A report by Gartner states that by 2020 more than 85% of questions will be handled by chatbots and AI in comparison to the 70% that is today. On the contrary, research by NewVoiceMedia suggests that 75% of consumers prefer live agents over self-service options or chatbots when interacting with contact centers. This may create tension regarding the most efficient platform for call centers to preform collections on.

CRM trends we are watching in 2019

- The cloud-based contact center model continues to be the desirable route for many companies across the globe. The cloud market is expected to reach $24.11 billion by 2023 and grow at a CAGR of 25% from now onward. CAS expects much of the industry to transition to the cloud to streamline workflows.
- The Philippines is continuing to give tough competition to India as the most desired call center outsourcing location. Tax incentives, lower employment costs, and better English skills are driving servicers to shift their focus towards the region. In 2018, the Philippines GDP was expected to rise by 7.5%. CAS believes this is a trend worth watching as the BPO market begins to diversify its locations.
- CAS believes that call centers will continually become more technology focused to meet the increasing demands of the market. Interactive Voice Response (IVR) and Omnichannel communication techniques allow servicers to work with increased efficiency and route caller's simple requests. This increased emphasis on AI and evolving technology indicates call centers will continue to make software investments in the future.

Notable 2018 CRM Transactions

- Teleperformance (Paris: TEP) a leader in outsourced omnichannel customer experience recently acquired Intelenet for an enterprise value of $1 billion.
- Kohlberg Kravis Roberts (KKR) executed another round of funding for Calabrio to help further their growth into the cloud.
- Mobeus Equity Parters recently provided $11.5 million in financing to the European award-winning contact center.
- Convergys Corporation was acquired by SYNNEX Corporation in a roughly $2.63 billion deal. The combined entity operates out of approximately 275 locations in over 40 countries across 6 continents.

CRM Public Comparables:

Analysis of Selected Publicly Traded Customer Relationship Management (CRM) Companies
($ In Millions)
All Data as of 12/31/2018

Company Name	Ticker	Price	Market Cap (1)	TEV (2) (4)	LTM Revenue	LTM EBITDA (4)	LTM Net Income	TEV/ Revenue	TEV/ EBITDA	TEV/ Net Income
Atento SA	ATTO	4.01	296.4	665.9	1,874.7	144.4	(5.9)	0.36x	4.61x	–
Genpact Ltd.	G	26.99	5,130.5	6,080.3	2,899.9	475.9	270.0	2.10x	12.78x	22.52x
StarTek, Inc.	SRT	6.65	248.9	460.5	399.9	(7.8)	(27.1)	1.15x	–	–
Sykes Enterprises. Incorporated	SYKE	24.73	1,058.0	982.7	1,629.7	134.1	14.8	0.60x	7.33x	66.21x
Teleperformace SE [3]	PAR:TEP	159.69	9,197.6	10,706.4	4,972.6	707.3	380.5	2.15x	15.14x	28.14x
TTEC, Inc. *(Formally TeleTech Holdings)*	TTEC	28.57	1,319.7	1,506.6	1,516.7	144.1	(26.0)	0.99x	10.45x	–
WNS Global Services	WNS	41.26	2,060.3	2,044.6	790.2	155.6	98.0	2.59x	13.14x	20.87x
Mean (CRM)			2,758.8	3,206.7	2,012.0	250.5	100.6	1.42x	10.58x	34.44x
Median (CRM)			1,319.7	1,506.6	1,629.7	144.4	14.8	1.15x	11.62x	25.33x

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(5) - Revenue, EBITDA and Net Income ratios calculated using Market Cap

Source: PitchBook

Specialty Finance

We are beginning to witness a fundamental shift in the way people are accessing, depositing, investing and processing funds. Consumer behavior and demographics are shifting, which is creating a need for adaption within the OBS market.

Specialty Finance, which is a relatively young segment of the market, is acting as a disrupter for change by solving issues through the development of consumer-centric, data-driven, fully-integrated technology enhanced solutions. The increased popularity of e-commerce and technology literacy is pushing consumers away from traditional behaviors and toward those solutions that seamlessly integrate into their daily lives. OBS companies are increasingly forced to augment their traditional processes with technology and analytical solutions to remain competitive and relevant in the marketplace. Financial investors and strategic industry participants continue to stress high levels of interest in acquiring into, partnering with, or increasing end-market exposure to the Specialty Finance industry.

Companies are introducing new mediums for payment in response to customer demand and the rise of consumerism. People want to be able to pay their bills with the same ease as they can with their favorite retailer. The introduction of mobile and text payment options should yield substantial savings and better customer experience. The CVS-Aetna deal is an example of this and should make health care available to these consumers over the phone, at a retail clinic or via an app.

65% of consumers pay their bill on the first text sent out and 80% of people who are given the option, use it. Mobile devices and the internet are the center of communication and commerce today. A well-timed call or letter used to be the premier method to get in contact with someone, but today's generations are best reached via their smart phone which has email, internet and a pleather of apps. Given that mobile devices are the preferred communication method and way to pay bills, banks and health systems must provide the same type of experience and convenience to consumers that they love at their favorite retailer.

New technology that handles highly sensitive personal and financial information comes with risk and exposure to data breaches. Millennials have expressed that they are willing to sacrifice privacy or give personal information in exchange for convenience. We expect to see investment in security alongside new payment methods leading to heightened M&A, especially companies looking to purchase platform companies. It is best practice to collect data on customers yourself, because according to Deloitte, 71% of purchased data is inaccurate. This gold mine must be protected as government regulation applies pressure to keep personal information secure.

Peer to Peer lending (P2P) continues to grow at rapid rates; especially in foreign countries where access to capital is not quite as easy as it is in the US. Brazil's central Bank authorized peer-to-peer lending in attempt to increase competition and lower the country's notoriously high interest rates. Laying out clear rules leaves investors feeling safer and confident in the industry. On the flip side, P2P has grown enormously in China, but regulation is heading in the opposite direction. As the nation intensifies a crackdown on riskier forms of financing, the market could shrink by as much as 70% in China.

(continued on next page)

Specialty Finance trends we are watching in 2019

- Modernization of technology infrastructure has led to collaboration of traditional banks and a surge in FinTech companies as there is no longer a high barrier to entry in the banking industry. As stated by Deloitte, heighted M&A activity has been observed to increase scale, market share and convenience options within the cross-border payments, multipayment integration and B2B payments, and it is expected to continue. An uptick in valuation multiples could be observed as companies are willing to pay for synergies and the ability to provide the technology and convenience consumers want. Underbanked sectors like marijuana and rural areas are benefitting with increased access to such services and bypassing the traditional banking system.

- Digital wallets are expected to gain popularity in 2019 and be accepted by retailers. It's as easy as talking into your phone and providing a biometric to authenticate a transaction. All payments, purchases and other banking transactions are moving towards a centralized digital platform on mobile devices. Investments in security, much like the adoption of blockchain, is likely to increase alongside the implementation of new digital payment methods to protect consumers' identity.

- Recent federal research published shows that student debt is linked to the decrease in homeownership (9%) for people aged 24 to 32 from 2005-2014. Many students are unable to fully participate in the economy due to student loan burdens and in the case of a recession, delinquent student loans could spike as millennials are forced to pay rent and other bills first.

Specialty Finance Public Comparables:

Analysis of Selected Publicly Traded Specialty Finance Companies
($ In Millions)
All Data as of 12/31/2018

Company Name	Ticker	Price	Market Cap (1)	TEV (2) (3)	LTM Revenue	LTM EBITDA (3)	LTM Net Income	TEV/ Revenue	TEV/ EBITDA	TEV/ Net Income
LendingClub Corporation [4]	LC	2.63	1,120.9	–	669.7	–	(206.9)	0.60x	–	–
Navient Solutions Inc. [4]	NAVI	8.81	2,176.1	–	2,070.0	–	239.0	0.95x	–	0.11x
OneMain Holdings, Inc. [4]	OMF	24.29	3,298.4	–	3,282.0	–	318.0	1.00x	–	0.10x
Credit Acceptance Corp.	CACC	381.76	7,371.6	10,996.1	1,230.3	841.1	599.2	8.94x	13.07x	18.35x
Mean (Specialty Finance)			3,491.8	10,996.1	1,813.0	841.1	237.3	2.87x	13.07x	6.19x
Median (Specialty Finance)			2,737.3	10,996.1	1,650.2	841.1	278.5	0.97x	13.07x	0.11x

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) - Information not available for certain businesses
(4) - Revenue, EBITDA and Net Income ratios calculated using Market Cap

Source: PitchBook

CAS is pleased to provide a link to the Site Selection Group's News Blog

Site Selection Group is a leading, conflict-free location advisory, economic incentive and corporate real estate services firm providing solutions to corporations and communities across the world. We offer four core services to our customers: Location Advisory Services, Economic Incentive Services, Corporate Real Estate Services and Economic Development Consulting. Our mission is to align the needs of corporations with the optimal locations in order to provide the absolute maximum economic benefit.

Click HERE for the latest *Site Selection News Blog*

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ARM REGULATORY RESOURCE

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

Bobby Petner, CAS Intern, contributor
Philadelphia, PA

The *ARM Regulatory Resource* 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 the most oversight over the ARM sector. Your comments and suggestions are welcome!

- U.S. Secretary of Education Betsy DeVos has indicated a crisis is at hand for higher education and student debt. Currently only 24% of student loan borrowers are actively paying down their principal and interest and about 20% of total loans are delinquent. Currently, average individual student debt totals $29,000 and is forecasted to continually increase year over year. These rising debt levels and uncertainty surrounding future employment may result in increased delinquency rates in the future.
- Two rulings held down by the Federal Communications Commission (FCC) will likely impact cell phone users in the future. They ruled that text messages will continue to be considered as information services and not telecommunication services under their standards. This will allow carriers to cull spam messages and deliver only their approved messages. Additionally, the FCC adopted a recycled number database that will aid new phone consumers receiving unwanted telephone calls. Both rulings lean towards consumer protection and indicate increased regulatory measures for the future to come.
- The Federal Communications Commission (FCC) and Federal Trade Commission (FTC) have both encountered a shutdown at the tail end of Q4. The shutdown of the FCC makes their Do Not Call Registry, Complaint Assistant, and identity theft material unavailable to use. This may result in unfavorable consumer reactions until the government is able to come to a solution.

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- Kathy Kraninger was confirmed as the next Director of the Bureau of Consumer Financial Protection (BCFP) by the senate. As the predecessor to Mick Mulvaney, many of Kraninger's plans are unknown along with the potential impacts on the ARM industry. If Mulvaney's actions are any indication of what is to come, we expect a future that consists of similar rulemaking.
- A group of 13 state attorneys general and the District of Columbia AG have sent a letter to the FDIC commenting on the agency's request for information on small-dollar lending. The RFI, published in November 2018, seeks input on "steps the FDIC could take to encourage FDIC-supervised institutions to offer responsible, prudently underwritten small-dollar credit products that are economically viable and address the credit needs of bank customers." Source: CFPB Monitor.
- CFPB issued a report on December 13, 2018, Financial Well-being of Older Americans The report describes the distribution of financial well-being scores for adults ages 62 and older in the United States, and the relationship between financial well-being and age. The report shows that financial well-being generally increases with age, but declines again at later ages. In addition, the report examines and quantifies for the first time the association of financial well-being and a range of topics including employment and retirement; housing situation; debt; family and living arrangement; health-related experience; and financial knowledge, skill, and behavior.

*CAS is an RMA Authorized Audit Provider

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Letters: To Send or Not to Send

Nick Jarman, Owner, RIGHT AWAY LLC

To send or not to send, when it comes to letters in today's hyper sensitive climate that is thy question. In our industry there have always been two conflicting views, just as Republicans stand up for their beliefs so do Democrats for theirs, there are those who view letters as a revenue source while others view letters as a revenue drain. So, what is the answer, who is right and who is wrong? The answer lies somewhere in the middle. In the middle of perception, expectation, and necessity.

Let's talk about the perception of letters, notably the initial dunning letter which would be the first letter sent on an account. How do you, the reader of this article perceive letters. There is a good chance how you perceive the receiving of letters to how you feel about their place in the credit and collection industry. If you are a person that opens each piece of mail and reviews it contents, then your perception of letters would be positive. There are those individuals who find themselves somewhere in the middle, maybe they open some of the mail, letters that include colored copies or perforated edges as those may indicate very important information. Finally, some individual finds themselves on the opposite end of the spectrum and discard letters as they receive them without every opening them, maybe because they have signed up to receive electronic statements from their creditors or event text message reminders. So, in order to determine the success and/or failure of a letter strategy in your organization there must be a fundamental belief in how those at decision makers perceive it.

Next up is an understanding of expectations. If you decide to send letters, as an organization it is very important to be goal oriented with expectations in mind. Some of those expectations should be the amount of mail that will go unreturned, the amount of call backs generated, from the call backs being generated how many were right party contacts, and lastly what was the revenue generated from the letters and was it a profitable venture. In order to account for the number of calls backs generated by letters an organization needs to adopt a dedicated phone number that is only listed on letters with the systemic ability to generate reporting in order to review the metrics and where if the expectations were met or not. For those who decide against sending non-required letters, asking what the expectations are is on the table as well. Just as those who sent letters generated right party contacts and revenue that traditional cold calling wouldn't, what revenue and production are they potentially losing out on.

One of, it not the most major considerations into a letter strategy is the requirement under the Fair Debt Collection Practices Act that requires a letter be sent to a consumer within five days after the initial communication (exact reading of this statute at the end of this article.) So, with this requirement in place under the FDCPA which a strict-liability statute is (meaning anything short of perfection is a violation) those in the third-party collection space. There are several methods in attacking the letter strategy and stay in compliance. One is to send letters out upon placement of account within the office, which is for those of course with the perception of letters being well minded. Second, instead of sending letters out upon placement on every account, the accounts can be scored and segmented and letters can be sent on those accounts. Some even do the opposite and send letters and the lower scored and segmented accounts while minimizing human action on those accounts. One other way to handle sending letters and stay in compliance is to set a systemic procedure in place that evaluates accounts each day and automatically sends the notice of intent to deposit letters only on accounts that have had a right party contact.

For those who perceive letters in a positive light, has set clear expectations on objectives and goals, and following the necessary requirements under the FDCPA then sending additional letters would be in the cards. Industry best practices for sending letters ranges from one to three letters for accounts that an agency may maintain for six months on average. It is

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smart to alternate how the letters are sent; maybe the first one is sent like a traditional letter, while the second is written on pink paper, and third could be a perforated letter with the hopes of getting the consumer to open the letter and achieve the ultimate goal, for them to take action and repay the debt being collected upon.

Below is the context of the letters directly from the FDCPA:

Under the Fair Debt Collection Practices Act, which is a strict liability statute (which means perfection and 100% compliance) is the expectation it states that within five days after the initial communication with a consumer in connection with the collection of any debt, a debt collector shall, unless the following information is contained in the initial communication or the consumer has paid the debt, send the consumer a written notice containing:

(1) the amount of the debt;

(2) the name of the creditor to whom the debt is owed;

(3) a statement that unless the consumer, within thirty days after receipt of the notice, disputes the validity of the debt, or any portion thereof, the debt will be assumed to be valid by the debt collector;

(4) a statement that if the consumer notifies the debt collector in writing within the thirty-day period that the debt, or any portion thereof, is disputed, the debt collector will obtain verification of the debt or a copy of a judgment against the consumer and a copy of such verification or judgment will be mailed to the consumer by the debt collector; and

(5) a statement that, upon the consumer's written request within the thirty-day period, the debt collector will provide the consumer with the name and address of the original creditor, if different from the current creditor.

Nick Jarman has two decades of experience encompassing all facets of the accounts receivables industry including performance, compliance, business development, training, IT, analytics, and client experience. He served the last three years on the Board of Directors for ACA International and is the past President of the MCA. He is adamant about leading by example and ensuring that every process is done the "right way."

To get in touch call 636-233-9779

Seven Mistakes that Prevent Companies from Hiring the Best Available Talent

John F. Fiumano, CEO, Executive Alliance

We hope this article will help you to avoid some of the mistakes that inhibit you from hiring the best talent in the industry.

1. **Failing to prepare candidates**

Do not treat the initial interview as a blind date!

Candidates interested in preparing themselves for an interview are more likely to utilize the tools available to them on the job. In fact, a lack of interest on the candidate's behalf can be seen as a red flag for hiring. Below are items we encourage our candidates to research prior to interviewing for a potential opening:

- The company's products, industries and services
- Problems or challenges that the team might be facing
- Industry issues that the company might be facing
- Articles, web pages and other media sources
- Historical information on the company's growth
- Financial and profitability data (if available)

2. **Treat the interview as an open book test**

If candidates do not take advantage of the resources available, you've learned something. If they do take the time and initiative to research a potential employer, then you can expect to have more insight into what they will have to offer as a part of your team.

3. **Failure to leverage the interview into other useful contacts**

Sure, Human Resources asks each candidate to recommend and refer his or her professional associates for other opportunities. We find it much more productive to have the hiring manager do this! Potential candidates are more compelled to tell their potential boss whom they know in the industry. Once you have some referrals, start to develop a network and invite these potential employees to a company outing or other networking forum. This is a great way to identify potential new hires before critical needs arise.

4. **Too much "Question – Answer"**

Every interview should have a component that takes the candidate out of the "ask – respond" interview.

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Many poor hiring choices are made because the candidate interviews well but, once hired, does not mesh well with team members or the company culture. Take the candidate to the company cafeteria or on the center floor and observe their interaction with the other employees and potential peers. This will often help you to avoid hiring candidates that are a bad fit. Additionally, peers often provide valuable insight into a potential hire's skill set.

5. Inadequate reference checks

Too many companies do an inadequate job of checking references, often delegating the task to Human Resources. We suggest that the hiring manager make these phone calls! Again this is an excellent opportunity to network. Peers tend to be blunter and more open with one another. There are legal issues here and they should be addressed with the hiring manager before the phone calls take place. One question we love is "If you had the opportunity to hire this person back to your team, would you?" While the answer matters, it's the hesitation or enthusiasm in answering the question that is critical.

6. Unreasonably long decision process

Companies should set a specific time frame for the decision process. Candidates are less likely to accept an offer when made to wait an excessive period of time. Companies can develop a poor reputation by treating the hiring process indecisively and candidates disrespectfully.

7. Unusually long offer process

If your company does not have a standard streamlined offer process, create it!

Candidates see a long offer process as a red flag when looking to join a company. They may begin to doubt that the offer will happen and begin to reconsider other offers. Candidates being hired into management positions also see this as hindering to their own ability to perform. "What will happen when I have to bring somebody on board that I need desperately?" And again your company's reputation is at risk here.

If your company is making any of these mistakes, eliminate one blunder at a time and enjoy the pay off as you move on to improve the quality of your team.

John F. Fiumano is CEO of Executive Alliance, one of the premier executive search firms in the country focused on the financial services, credit and collections industries.

To get in touch call 813-973-2200 (ext. 300) or e-mail John at john@execsallied.com

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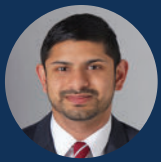
Michael Lamm, *Managing Partner,*
ACA Affiliate Member Committee Chair
215-717-8719
mlamm@corpadvisorysolutions.com

Mark Russell*, *Managing Partner*
240-235-6009
mrussell@corpadvisorysolutions.com

Elaine Rowley, *Business Manager*
240-235-6008
erowley@corpadvisorysolutions.com

Nick Ciabattone, *Senior Associate*
215-278-9900
nciabattone@corpadvisorysolutions.com



Mickey Kaiser, *Senior Analyst*
215-437-0218
mkaiser@corpadvisorysolutions.com

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CORPORATE ADVISORY SOLUTIONS

2001 Market Street
Suite 2500
Philadelphia, PA 19103
215-717-8719

2 Wisconsin Circle
Suite 700
Chevy Chase, MD 20815
240-235-6009

www.corpadvisorysolutions.com

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