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M&A in the ARM Industry

Corporate Advisory Solutions

Michael Lamm

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Agenda

ARM M&A Trends

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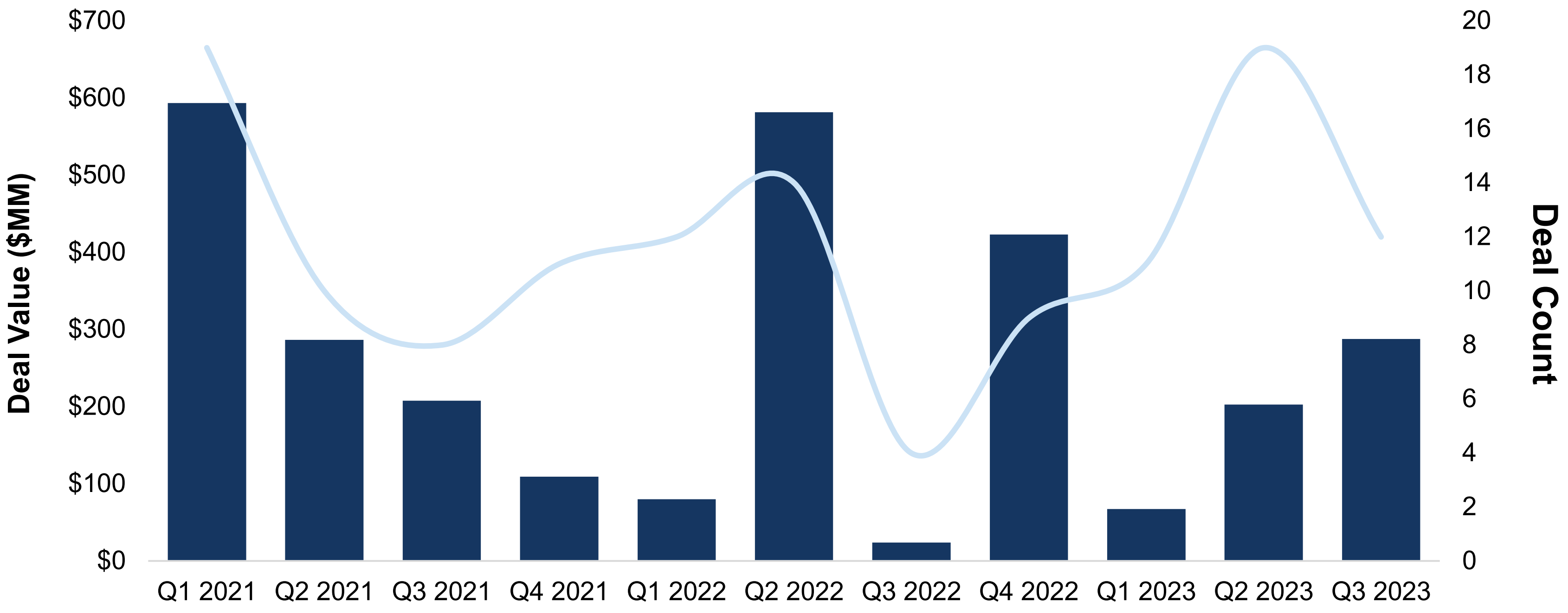
Historical Deal Flow

In 2023, the ARM industry has continued to see consolidation as smaller agencies are facing acquisition pressure due to rising compliance demands and a lack of advanced technology, making it tough to compete with larger, well-equipped players.

Additionally, midsize companies are realizing the benefits of forming strategic partnerships due to current market conditions, which is driving an increasing interest in exploring strategic opportunities.

Historical ARM M&A Deal Value & Count



ARM M&A Trends

M&A Drivers

In recent years, the ARM industry has transformed with omnichannel strategies, self-service tools, and AI-driven collections management. Smaller agencies are increasingly acquired due to challenges in adapting to the rapid digitization of the collections sector.

Below are some of the prominent M&A catalysts we are currently witnessing in the industry:

M&A Drivers	
Regulatory Changes	**Market Expansion**
Compliance Costs	**Market Fragmentation**
Technology Advancements	**Diversified Revenue Streams**
Efficiency Gains & Talent Acquisitions	**Competitive Advantage**

ARM M&A Trends

Liquidation Drivers

Economic conditions, regulatory dynamics, technological innovations, communication preferences, debtor psychology, legal proceedings, credit scoring methodologies, and the integration of automation are pivotal factors influencing liquidations. Understanding these trends is essential for evaluating the potential risks and rewards in the realm of M&A.

Liquidation Drivers	
Economic Conditions	**Debtor Psychology**
Regulatory Environment	**Litigation & Legal Action**
Technology & Data Analytics	**Credit Scoring Models**
Communication Channels	**Chatbots & Virtual Agents**

Optimal Timing for a Sale or Acquisition

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Optimal Timing for a Sale or Acquisition

When to Sell?

Identifying the optimal moment to sell your agency necessitates a comprehensive assessment of several crucial factors. The combination of these factors below can provide you with a clearer understanding of when the opportune time has arrived to explore a sale.

Key Indicators	
Financial Challenges	Buyer Interest
Regulatory Pressures	Strategic Fit
Technology Gaps	Absence of Succession Plan
Personal Goals	Economic Conditions

Optimal Timing for a Sale or Acquisition

When to Acquire?

The following indicators collectively can suggest that your agency may be reaching an inflection point and that an acquisition could be a strategic move to overcome various challenges and unlock new opportunities for expansion.

Key Indicators	
Stagnant Growth	Technology Gaps
Market Saturation	Resource Constraints
Client Attrition	Diversification Goals
Regulatory Challenges	Competitive Pressures
Talent Acquisitions	Efficiency Challenges
Financial Heath	Strategic Alignments

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Optimal Timing for a Sale or Acquisition

When to Walk Away From a Potential Acquisition?

Walking away from a potential acquisition is a critical decision that should be based on careful evaluation. Here are some points indicating when it is a good time to consider walking away:

Key Indicators		
Financial Misalignment	Integration Challenges	Competitive Bidding
Legal or Regulatory Issues	Excessive Debt or Liabilities	Loss of Competitive Advantage
Cultural Incompatibility	Inflated Valuation	Insufficient Synergies
Inadequate Due Diligence	Lack of Strategic Fit	Unresolved Disagreements
Client or Employee Concerns	Market Changes	Doubt About Strategic Value

Preparing for an Acquisition

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Preparing for an Acquisition

Resources Needed

Evaluating a potential acquisition involves dedicating various resources to conduct thorough due diligence and make an informed decision. Below are the key resources needed to assess a potential acquisition:

Key Resources	
Financial Resources	Market Research & Strategy
Acquisition Team	Risk Management
Time & Information	Cultural & Communication
Legal & Compliance	Regulatory Expertise
Financial Analysis	Integration Planning
Operational Assessment	Confidentiality

Preparing for an Acquisition

Evaluating Potential Acquisition Targets

Once your company is prepared to pursue an acquisition, there are several factors to assess for a target company. These factors depend on your company's unique characteristics and the potential synergies a target can offer. Below is a summary of essential elements to consider when evaluating another company for an acquisition, encompassing both value-enhancing and value-detracting aspects.

	Value Drivers	Value Detractors
Revenues	Larger firms, with over $10 million in revenue and sustainable yearly revenue growth.	Flat or declining revenue growth.
Vertical Markets	Commercial, Healthcare, Student Loans & Government, Specialty Finance, and Auto.	Highly competitive and regulated markets.
Lines of Business	Increased interest in first-party and early-stage work.	Strictly later-stage and third-party work has become less favorable.

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Preparing for an Acquisition

Evaluating Potential Acquisition Targets (Cont.)

	Value Drivers	Value Detractors
Management Team	Seasoned management team.	Management team or key employees looking to exit.
Prospect Pipeline	Strong prospect pipeline.	Limited or non-existent prospect pipeline.
Capital Expenditures	Capital expenditures consistently addressed.	High, foreseeable capital expenditures necessary to grow.
Client Concentration	Low concentration (below 20%) alleviates business' risk.	Over 20% client concentration elevate the business risk.
Financial Controls	Need to ensure that finances are as expected with the proposed the M&A deal.	Sporadic control can delay and undermine transaction confidence.

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Preparing for an Acquisition

Valuation Guidance

Agencies with the following characteristics are trading for 3x-5x adjusted EBITDA	Agencies with the following characteristics are trading for 5x-7x adjusted EBITDA	Agencies with the following characteristics are trading for 7x-9x adjusted EBITDA
Under $10 million in revenues	Over $10 million in revenues	Over $50 million in revenues
Below 10% adjusted EBITDA margins	10%+ adjusted EBITDA margins	10%+ adjusted EBITDA margins
Flat or declining revenue and/or profit growth	Consistent top and bottom-line growth	Consistent top and bottom-line growth
20%+ client concentration	Minimal client concentration	Minimal client concentration
Significant legal or regulatory concerns	Regulatory CMS in place and minimal legal or regulatory concerns	Strong regulatory CMS in place with no significant legal or regulatory concerns
Large capital expenditure requirements	Specialization in growing niche market	Specialization in growing niche market
		Seasoned management team

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Preparing for an Acquisition

Good vs. Bad Acquisitions

A good acquisition complements the acquiring agency, is financially stable, and benefits from clear synergies, backed by thorough due diligence. In contrast, a bad acquisition lacks alignment, may have financial or operational problems, offers no synergies, and poses integration challenges and risks.

Good Acquisition	Bad Acquisition
Strategic Alignment	Strategic Misfit
Financial Health	Financial Instability
Synergies	Lack of Synergies
Complementary Services	Overpayment
Client Retention	Client Attrition
Talent & Expertise	Cultural Clash
Market Access	Regulatory Risk
Integration Plan	Integration Challenges
Thorough Due Diligence	Incomplete Due Diligence

Preparing for a Sale

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Preparing for a Sale

Exit Preparation & Resources Needed

When contemplating a sale of your business, proactively preparing for the sell-side process and conducting due diligence in advance can alleviate stress and streamline the sale. The following key resources should be carefully considered in readiness for the sale.

Exit Preparation to Maximize Value		
Build a Team	Legal & Liability Issues	Customer Base
Get an Accurate Business Valuation	Intellectual Property	Organizational Chart
Financial & Tax Documents	Operations	Human Resources

Conclusion

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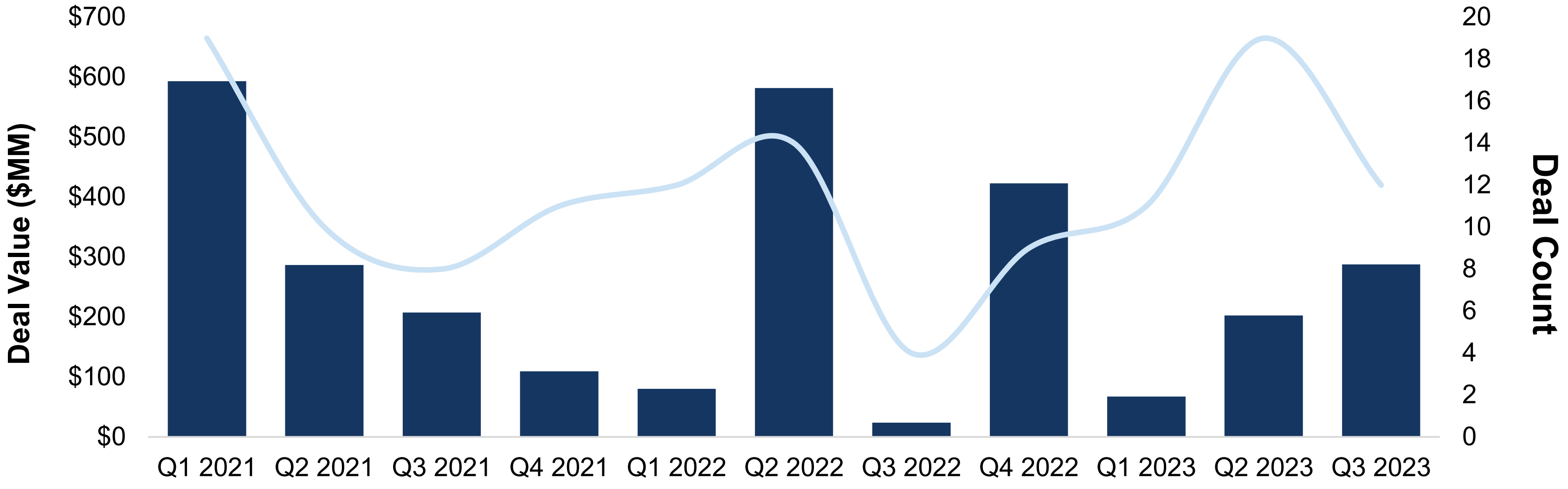
Conclusion

In the current M&A landscape, smaller agencies are grappling with increasing compliance demands, labor shortages, and limited access to expensive technology. This hampers their competitiveness against larger players, prompting them to consider selling or investing for growth.

Meanwhile, midsize enterprises recognize the value of strategic partnerships amid market challenges, leading to a surge in interest in such opportunities.

It is essential to assess your agency's position in light of these factors and carefully weigh the key indicators and resource requirements discussed when contemplating a sale or acquisition.

Historical ARM M&A Deal Value & Count



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Q&A