ARM Intel

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Keys to Selling your ARM Firm for Maximum Value (Part 2 of 2)

In part 1 of this topic, released in March 2011, we elaborated on several critical items to help owners of ARM firms achieve maximum value in a sale. In this part 2 of the topic, we will describe a few more key elements. These, along with many other items, should be carefully considered even if the sale is years away.

A Differentiated Platform. Every buyer wants something different, and most of them want companies that offer something special that stands out from the pack. They will need to explain their interest in your firm to someone, whether to their board or investment committee, to the public, or even to their significant other. If a few unique "bullet points" can describe why your firm is investment-worthy, they'll be able to make their case simply and convincingly. Examples of differentiators that can pique buyers' interest include: Being the only firm to offer a specific service or approach; A stellar record of compliance; Being the largest firm in a given specialty (e.g. commercial collections, 3rd party collections for credit card/financial paper, etc.) and geographic region; Offering a specialized "branded" process or product. Is your firm differentiated?

An Appealing Specialization. To further the point about differentiation, a unique or sought-after specialty can drive increased interest from buyers seeking entry or expansion into that niche. Inherently, those who specialize are better at what they do than generalists, and more equipped to handle changes that clients or the market may throw at them. A recent example of this comes from 1Q11, in which 4 of the 5 ARM M&A transactions completed involved sellers focusing in the healthcare / revenue cycle management (RCM) segment of ARM. It's a hot sector with many buyers seeking investments, and those firms that specialize in this sector (and other sought-after sectors) stand to benefit.

Diverse Revenue Streams. A varied mix of revenue sources is nearly always correlated to higher valuations and better deal structures for sellers. Ideally for sellers, there will be minimal client concentration, with the largest client representing 20% of total revenue or less. This is key because: 1) the buyer will have less risk if the seller loses that client, and 2) strategic acquirers may have significant placements from the same client, in which case they will probably discount the seller's revenue from that client because the client may reduce post-transaction placement volume to the combined entity to alleviate its own concentration risk. Diversification can also be achieved in other ways, such as generating revenue from a number of different client segments (e.g. financial, education, etc.) and/or placement stages (e.g. primes, seconds, tertiary, quads, etc.).

Sticky Client Relationships. If buyers turn away a deal, it is frequently because the client relationships are not predictable and/or "sticky" enough. "Sticky" refers to a company-client dynamic in which it is difficult for clients to pull their business from the company. In the ARM sector, we know that very few contracts provide for this, so buyers need to find comfort elsewhere. For example, stickiness can

(Continued on Page 2)

Keys to Selling your ARM Firm for Maximum Value (Part 2 of 2)

come from the IT and connectivity used to perform work for clients (i.e. working on the client's system). It can also come from sole-source or exclusive relationships, among other places. It is important to recognize that good relationships with key personnel at client companies are important, but those alone may not be sufficient to make buyers comfortable when it comes to a long-term view of the business. In the end, performance is king, and long-term, growing relationships are generally a good barometer of happy clients and a bright future.

Know the Market Value and Market Structure for Your Company. If you are approached by a potential buyer, it's surely flattering. You might find out what they are willing to pay to acquire your firm, but without consulting an expert, you'll never know if that is your firm's maximum value or, often even more important, the best possible deal structure. Could you obtain richer offers or offers that include more cash at closing? Could you structure a deal with less risk? Will this offer maximize your net after-tax proceeds? How fair are the hurdles for you to receive any future consideration, and are there alternatives that reduce your risk? Ask an independent, objective expert for valuation and deal counsel. Doing so might help you sleep better knowing that you didn't leave money on the table.

A Clear Growth Strategy. Buyers of ARM firms will want to see good historical performance, but that, on its own, is not usually enough to achieve premium pricing. It's critical to be able to show buyers that there is a realistic growth strategy in place, with opportunities identified, a plan of action to capitalize on them, and progress already underway. For example, a sales pipeline showing new clients that you are likely to board, and the progress towards adding them would be helpful, as would financial projections that incorporate these opportunities. After all, financial buyers want growing firms so they can exit their investment down the road at a much higher valuation than where they bought in. Strategic buyers often want growing firms as well, to contribute to their revenue, service offerings, and profitability. Acquiring a firm with a clearly identified growth strategy in place makes this goal easier for both of them to attain.

Naturally, it is wise to begin implementing changes *years* before you plan to sell your firm. The factors listed in parts 1 and 2 of this piece are admittedly just the "tip of the iceberg", but will hopefully get you started in asking the right questions about how to maximize the value of your ARM firm.

To receive direct, objective, and detailed advice regarding how your firm stacks up in these and many other areas, and to better understand what you can and should do to enhance the value of your firm, Greenberg Advisors offers a customized in-depth service, the ***Strategic Valuation Analysis*** *(see the next page for more detail)*.

(Continued on Page 3)

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*The **Strategic Valuation Analysis** can help you make informed, fact-based decisions regarding the sale of your firm. As the most active M&A advisory firm in ARM, we know what matters in M&A transactions. You'll get the benefit of our objective feedback as we review your firm exactly as a buyer would, and provide you with a detailed breakdown that describes the market for your firm, to include:*

1. *Specific to your firm, our experienced opinion of what we expect if you were to sell today*
    - *Deal valuation and structure(s) most likely*
    - *Deal structure elements that can improve your firm's value*
    - *Analysis of value drivers and detractors, including ways to increase your firm's valuation*
    - *Buyer types and examples that are most likely to be interested*
    - *Recommendation for the best approach to maximize value and terms*
    - *Identification of any challenges anticipated*
    - *Review of strategic growth and/or exit alternatives, based on*
        - *Your goals*
        - *Your firm's current position and offerings*
        - *The current M&A and ARM markets, and future expectations*
    - *Recommendation for the best possible timing for a sale of your firm, given your goals in conjunction with the components examined above*
2. *Data-driven analysis of the recent M&A market for firms comparable to yours (similar size, services, and/or focus)*
    - *Valuations paid*
    - *Deal structures utilized*
    - *Buyers active in the market*

If you're currently in discussions with a buyer, or merger partner, and would like us to assess the offer relative to today's market for value, terms and structure, we can include that as part of the Strategic Valuation Analysis.

To discuss the Strategic Valuation Analysis or our other services, please call or email us.

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Greenberg Advisors, LLC provides value-added strategic advice to clients in the Accounts Receivable Management and related Specialty Finance sectors worldwide. With 15 years of experience dedicated to this niche, and the completion of more than 70 Merger & Acquisition (M&A) and strategic advisory transactions, the firm's success is a result of its distinct client-first approach, deep sector expertise, and roll-up-the-sleeves hard work. Greenberg Advisors offers market-leading advisory services focused on M&A, Capital Raising, and Valuation, as well as a variety of analytical and planning services to assist clients in understanding and enhancing the value of their business.