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# SECTOR SNAPSHOT



## UK DEBT COLLECTION M&A ACTIVITY AND VALUATIONS FOR 2017 & H1 2018

### Underlying Credit card debt continues to rise as fears begin to subside

Despite falling by c.£1.3bn in the first quarter of 2018, credit card debt has remained above the £70bn mark over the last 12 months. Underlying growth in credit card debt has been driven by sustained record low interest rates encouraging consumer spending which has contributed to a 28% growth in credit card debt since 2008.

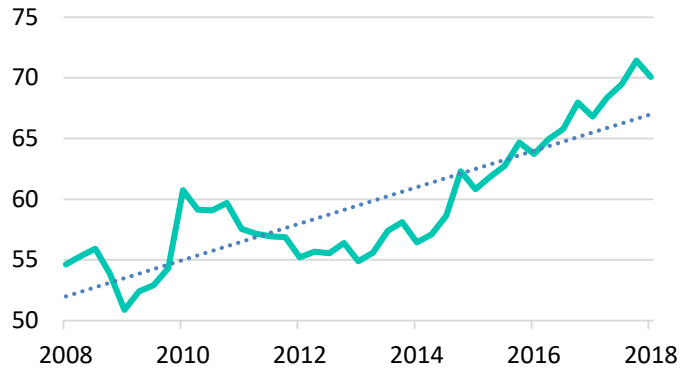
Continued market growth and increased debt poverty has attracted more oversight and encouraged the FCA to perform a market review and consider actions against high cost credit to protect the c.3m consumers in the UK. Potential actions include increasing the transparency of overdrafts, to prevent people unintentionally dipping into overdraft, and considering a cap on rent-to-own prices to prevent the exploitation of vulnerable consumers.

### Slowdown in volume as big deals materialise

Since the consolidation of the market in 2015, where the largest debt players completed mergers and a number of SMEs were purchased by large European agencies, the smaller and more frequent deals which once defined the sector's M&A activity have been replaced with larger less frequent deals.

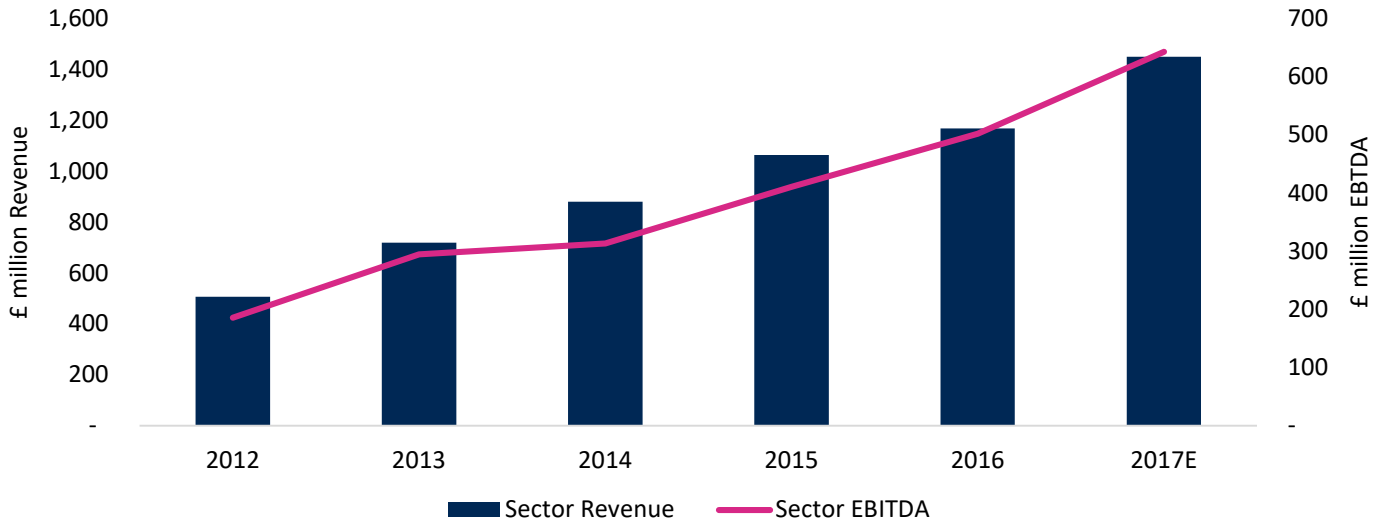
Significant recent transactions involving Marston Holdings, Cabot Credit, Westcot Credit and NSL suggest the market is entering into a new consolidation phase. Big players are looking to acquire large regional agencies to increase geographical influence, improve collection rates and drive economies of scale.

### Outstanding UK Credit Card Debt (£bn)



## Financial Performance Of The UK's Largest Debt Collection Companies

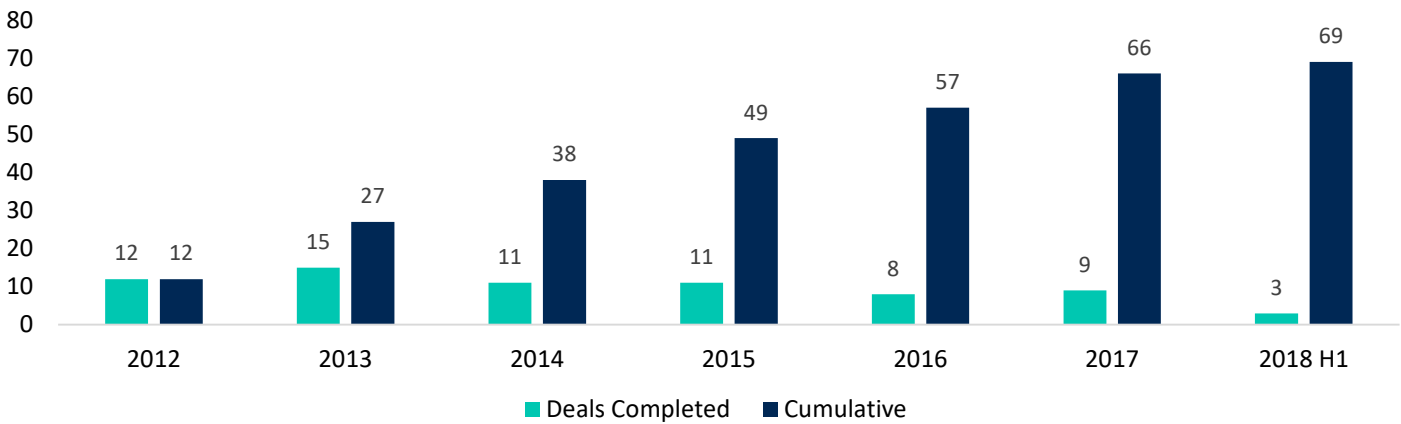
### Sector Revenue and EBITDA



Revenue and EBITDA have grown substantially for the UK's largest debt collection and debt purchase businesses over the past five years, with market revenue and EBITDA increasing by 186% and 247%, respectively. In particular PRA UK, Arrow, Cabot, Marston, Intrum UK and Lowell have seen substantial growth underpinned by financial backing from foreign parents and increased economies of scale. Following the acquisition of Activ Capital, PRA UK achieved a revenue CAGR of 64% over that period.

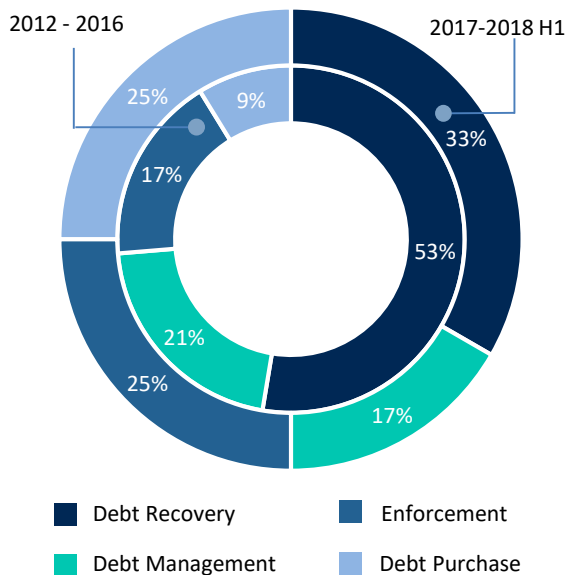
## Debt Collection Deal Volumes

### Cumulative Deals Completed



Over the last few years M&A activity has gradually slowed with just 3 deals completed in the first half of 2018. Factors causing this decline include the heightened consolidation in the market through 2012-2015, which saw record high levels of M&A activity, and the uncertain political environment caused by Brexit. The more recent deals however are indicative of a stronger more mature market with large deals between strong market players replacing the small more frequent deals in previous years.

## Deals By Sub-Sector



### M&A stabilises across sectors

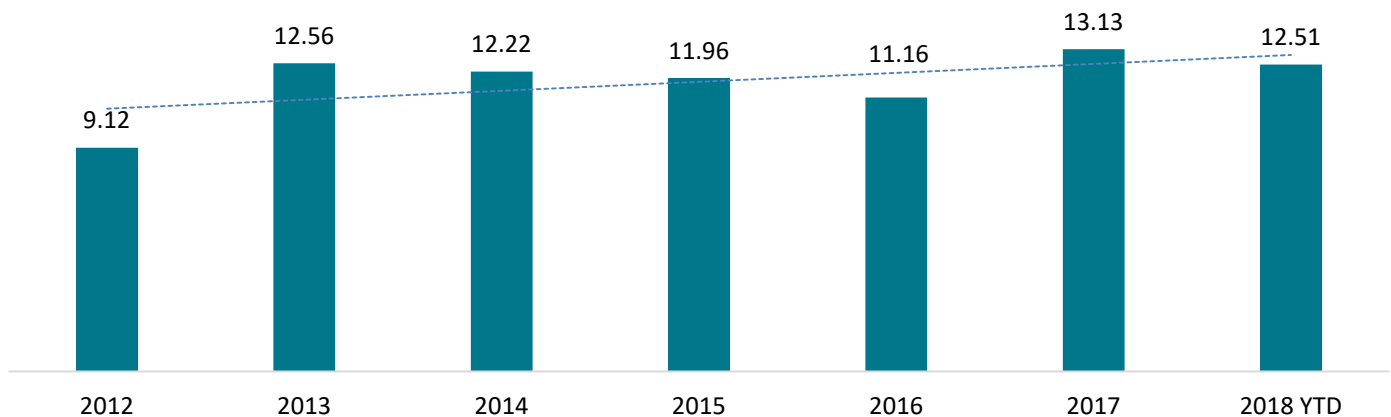
The M&A market within the debt sector has become more balanced during 2017/18, with reduced activity in the debt recovery sector offset by a rise in the debt purchase sector. Debt purchase companies traditionally perform both debt recovery and debt management operations. The fees associated with these activities coupled with interest and debt repayment revenue from the debt purchase business is driving strong interest from buyers.

Debt recovery companies still lead overall M&A volumes and market share which can be expected as these companies comprise most of the debt collection sector. Such companies offer excellent profit generation opportunities as increasing defaults in unsecured debt drive debt recovery market growth.

Over 2017/18 YTD the enforcement sector has seen an increase in M&A activity. The highly trained staff required by the enforcement sector underpins increased interest from both trade and financial buyers.

## Current Trading Multiples

### Quoted Company Trading Multiples



## Debt Collection M&A Activity - Transaction in Focus



Have acquired remaining stake of



For £175.5m & 5m Shares

In May 2018, Encore Capital, a Nasdaq listed US debt purchaser and debt collection agency, acquired the remaining stake of Cabot Credit Management having originally purchased a 43% stake in 2013 from JC Flowers. The purchase of the remaining 57% of shares for c.£175m, took the total price paid in acquiring the company to over £290m.

JC Flowers initially purchased Cabot in 2013 for £800m including debt and immediately sold half of its stake to Encore for c.£115m. This remains the largest debt collection deal in the last 6 years.

The acquisition of Cabot, one of the largest debt collection, debt management and debt purchasers in the UK, boosts Encore's long-term plan to strengthen and develop its international business in addition to driving further earnings growth in 2018 and beyond.

## 2017 - 2018 Selected Debt Collection Transactions

**Brookfield Asset Management** acquired a 25% stake in the **Link Financial Group**, with the option to acquire a further 24.9%. Link is a leading alternative investment manager with a focus on credit, and a specialist in commercial loans. Brookfield is hoping the acquisition will provide a platform for growth into new markets and help boost its credit purchase and investment business.

In January 2017 **Marston**, one of the largest debt collection and enforcement agencies in the UK, completed the acquisition of **NSL**, a provider of outsourced services to local government, central government and business. The enlarged Group has c.6,000 staff and self-employed contractors, including c.4,000 field agents operating across a range of disciplines. Marston had previously been sold by Inflexion Private Equity to ICG in July 2016.

As a result of the European Commission's divesting condition for the 2017 merger of **Intrum** and **Lindorff**, the **Lowell Group** has been able to acquire Intrum's Norwegian business in addition to the carve out of Intrum's "Lindorff" business in Denmark, Estonia, Finland and Sweden. The deal makes Lowell Europe's second largest credit manager and will allow the Group to significantly strengthen its service proposition across the credit management value chain.

Elsewhere, **Endless Fund IV** acquired **PRAC Financial**, a niche debt purchaser, specialising in acquiring regulated and non-regulated, consumer and commercial debt portfolios. In March 2017 **Investcorp** completed the acquisition of the debt management business of 3i from **3i Group PLC**, having announced the deal in 2016.

Have acquired

For undisclosed value

Carve Out of

For undisclosed value

Have acquired the debt management business of

For undisclosed value

Have acquired

For undisclosed value

Have acquired

For undisclosed value

Have acquired

For undisclosed value

## Orbis Advise On The Sale Of CCS Collect

### Management

Have acquired



For undisclosed value



CCS is a leading Debt Collection Agency. Established in 1975, CCS specialises in consumer and commercial debt collection, and is trusted to act on behalf of a wide range of public and private sector clients including Central & Local Government, Banking & Finance, Utilities, Mail Order and Telecoms.

CCS was sold to the management team in a vendor led MBO.

## About Orbis

Orbis is a mid-market corporate finance boutique advising on a wide range of M&A transactions covering the business services sector in addition to technology, media and telecoms; industrials; food and consumer; and healthcare. Orbis also has an active investment portfolio held through its investment vehicle Intrinsic Equity.

If you are considering your strategic options for enhancing the value of your business or your client's business, please contact either Gary or Nick.

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Orbis is an independent corporate finance advisory firm, working with business owners, management teams and investors to advise them through every aspect of corporate finance.

The partners have over 100 years of deal-making experience and combine their broad network of global relationships with deep sector knowledge and investor skills to deliver a specialist M&A experience.

Orbis is the UK partner for Clairfield International, a global investment bank, offering clients access to over 400 corporate finance professionals situated in over 20 countries across the globe.

## Orbis Partners : Services

A complete range of M&A services providing a wealth of experience to our clients

- Company Sales**
- Extensive mid market M&A expertise and experience across the team.
  - International reach – over 20 countries and growing.
  - Over 90% of all sale mandates involve an overseas party.

- Acquisition Support**
- Listed and private clients.
  - Research and origination - internal research team and tools.
  - Strategic and financial assessment.
  - Deal management.

- Due Diligence**
- Experienced and informed advice.
  - Extensive experience within the UK and of international transactions.
  - Tailored reports.
  - Partner led.

- Management Buy Out**
- Deal leadership and fund raising.
  - Align interests with management team.
  - Co-investors on 15 deals.

- Capital Raising**
- Supporting existing business to fund development.
  - Supportive investor bringing focus on value creation.
  - Co-investors on 3 deals.

- Business Improvement**
- Independent advice and planning strategy led by sector insights.
  - Turnaround and profit improvement credentials.
  - Leading the team through uncertainty whilst developing a game plan.
  - Co-investors and principal.

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Food & Consumer

Industrial

Healthcare

Technology, Media  
and Telecoms



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