



KAULKIN  
GINSBERG

**The KG Index**  
**Q1 2018**

**Disclaimer:** This information is not intended as legal, financial, or advice of any kind and may not be used as such. Every effort has been made to assure this information is accurate and current as of the date of this publication. Kaulkin Ginsberg Company, its shareholders, staff, and affiliates, assume no liability for any of the information contained in the presentation or for any changes that occur in the future affecting anything discussed therein.

Copyright © 2017 Kaulkin Ginsberg Company. All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means electronic, mechanical, photocopying, recording, or otherwise without the prior written consent of Kaulkin Ginsberg Company.

Kaulkin Ginsberg Company  
20251 Century Blvd., Suite 160  
Germantown, MD 20874  
Phone: (301) 907-0840 | Fax: (240) 499-3801  
Email: [hq@kaulkin.com](mailto:hq@kaulkin.com) | Website: [www.kaulkin.com](http://www.kaulkin.com)

---

## About Kaulkin Ginsberg Company

Since 1991, Kaulkin Ginsberg has provided critical strategic advice to the outsourced business services industry. Our client-centric approach covers almost every stage of a company's life cycle and enables us to maintain longstanding relationships as trusted advisors.

### Our Services

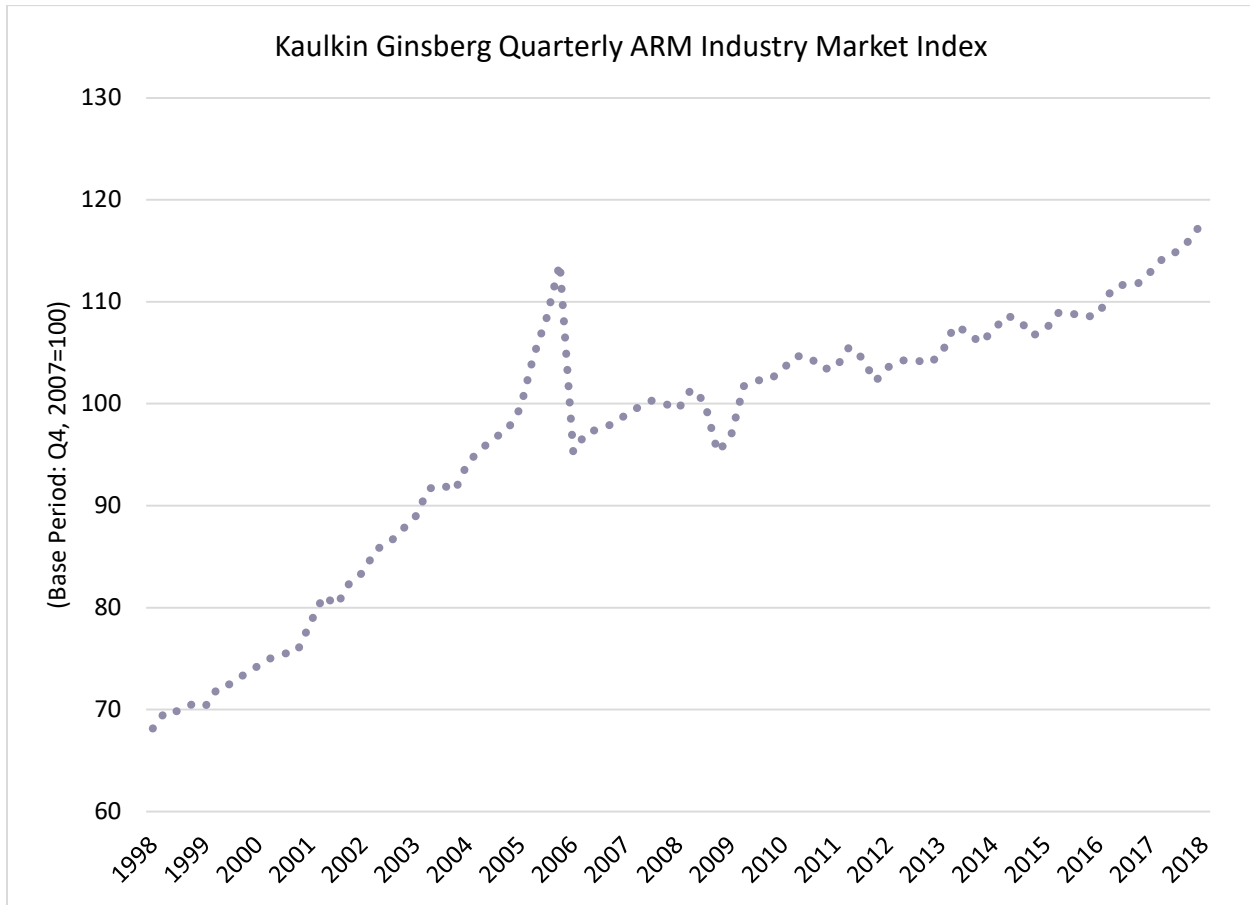
- **Mergers & Acquisition Advisory** – Develop an effective growth or exit strategy for your company. Our dedicated team will confidentially address your firm's financial performance and current market conditions, expertly guiding you through your M&A process.
- **Strategic Consulting** – Find solutions to challenges facing your business. Our experienced staff and external advisory network will work with you to create your long-term growth and eventual exit strategy.
- **Valuation & Financial Solutions** – Determine the fair market value of your business. Our sister company Topline Valuation Group provides technical, financial, operational, and benchmarking services to help you develop effective business strategies.
- **Market Intelligence & Analysis** – Shape and support your business decisions. Through our proprietary information service KG Prime, we arm you with the most relevant and timely data, enabling you to make informed decisions about the direction of your business.
- **Litigation Support & Expert Witness** – Build your case using the appropriate experts. Our findings have never been invalidated in any court or formal proceedings.

To confidentially discuss your interests, please contact us at [hq@kaulkin.com](mailto:hq@kaulkin.com) or (301) 907-0840. For more information about Kaulkin Ginsberg, please visit [www.kaulkin.com](http://www.kaulkin.com).

Connect with us by subscribing to the [Kaulkin Digest](#) or by following us online:



## The Economy's Effect on the ARM Industry: The KG Index



Q1 2018 data releases are complete, and that means it's now time to start analyzing first quarter market conditions for the U.S. accounts receivable management (ARM) industry and discussing what you should look for in Q2 2018. Following a few revisions on 2017 performance data to prior quarters, we saw a slight drop in Q4 2017 results and fluctuations in 2016 performance. Overall, the ARM industry is trending upward based on these market conditions, which means that most agencies likely saw the positive effect on revenue between the end of 2017 and first few months of 2018.

More importantly, Q1 2018 came in at an index value of 118.06. This indicates that the ARM index grew by 1.7% on a quarter-over-quarter basis with an annualized growth rate of 6.8%, which is up significantly from the Q1 2017 annual growth rate. While a correction didn't occur in Q1 2018, revisions to second half 2016 and first half 2017 led to lower index results than originally reported. Previously, we suggested that the rapid growth rate could lead to a correction in the market in the near future. The revision to historical index results should serve as a reminder that markets can be volatile and periods of sustained, high rates of growth will eventually be followed by a downturn or correction to the market. Considering the maturity of the ARM industry that suggests lower, steadier growth rates, this may indicate a correction during the second half of 2018. However, the net effect of the Tax Cuts and Jobs Act of 2017 (TCJA) aren't yet clear, so this could delay a possible correction until 2020 when many economists see the U.S. economy as a whole, entering a cyclical recession period. Clearly, the TCJA is an unforeseen

development for many economists that could have profound effects on the U.S. economy and the ARM industry over the next few years.

Overall, the four key indicators contributing to our index – consumer bankruptcy filings, retail sales, official civilian unemployment rate (U3), and home price index – are trending positively. Here are a few of our notes on the current trends within each variable:

### *Consumer Bankruptcy Filings*

In any given year, the first and second quarters tend to be the highest points, while the third and fourth quarters trend downward through the year. Q1 2018 was a strong showing for the ARM industry as the number of filings was 4.1% lower than Q1 2017. This suggests that consumer bankruptcy filings will likely maintain their downward trend since peaking in 2010 at approximately 1.54 million filings. On the one hand, a decline in bankruptcy filings means that the ARM industry should be able to collect a greater degree of consumer debt. On the other hand, bankruptcy filings correlate with an increase in delinquent debt placements (and revenue) for the ARM industry since they are inherently related. As such, some volatility and growth in bankruptcy filings is good for the ARM industry, even if it seems counter intuitive.

### *Retail Sales*

While retail sales tend to maintain a long-term steady growth rate, the greatest period of growth is, unsurprisingly, concentrated in the third and fourth quarters of the year, while the first and second quarters are more flat. In Q1 2018, the total quarterly value of retail sales increased by nearly \$21 billion compared to the same period in 2017, and is the strongest period of retail sales growth since 2011. This suggests a positive market for the ARM industry since the majority of consumers tend to leverage these purchases through revolving credit lines and increases the potential for delinquent account filings, and indicates that consumers are more confident taking on debt than in recent years.

### *Official Unemployment Rate (U3)*

The unemployment rate appears to defy most economic projections and is still hovering around 4.1% - a level not seen since the late 1990s and early 2000s. However, the quality of employment, as well as the labor force participation rate, dampens the significance of these measures slightly. As it relates to the ARM industry, a prolonged period of low unemployment rate tends to lead to negative market conditions unless it is offset by a relatively greater increase in consumer spending activity, which appears to be the case. The actual passage of the TCJA hasn't had any real effect on the unemployment and labor force participation rates, which appear to be stuck in place at roughly 4.1% of unemployment and an imaginary ceiling of 63% for the labor force. Overall, unemployment trends suggest positive market conditions for the ARM industry in 2018 with long-term unemployment expected to trend upward as more individuals rejoin the labor force.

### *Home Price Index*

The home price index is positively correlated with the ARM industry and continues to trend upwards, which facilitates consumer confidence – especially in their ability to leverage debt – since homes account for the majority of most individual's wealth. Given current housing trends, it appears highly likely that the value will continue to rise over the next few years – especially since GOP tax reform allowed for homeowners to continue deducting some portion of the interest on their homes. However,

the rate of growth will likely diminish following Q2 and Q3 2018 with the Federal Reserve consistently increasing interest rates into the foreseeable future.

***What to Look for Throughout 2018***

2017 ended on a high note for the ARM industry with strong market conditions that should carry over into 2018. Unemployment relative to wages and labor force participation should be monitored since these are indications of the success (or failure) of the TCJA. If it spurs increased economic growth, then consumers will likely increase their financial leverage with the corresponding increase in consumer confidence. Additionally, as the Federal Reserve continues to increase interest rates, the market should continue to grow, or it will be an indication that too much tightening of monetary policy has taken place, and the economy can't support the increased rates.

Contact us at [hq@kaulkin.com](mailto:hq@kaulkin.com) if you have any questions.