FREE REPORT
Healthcare Receivables Management: Strategic Data on a Growing Market

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Healthcare Sector Analysis Series
This *Executive Brief* provides figures that are important to the field of healthcare receivables management, from the perspective of both healthcare providers and the accounts receivable management companies that work on their behalf. Developed together with both groups of companies, this complimentary executive brief is provided to benefit anyone who has an interest in improving healthcare receivables.

This Executive Brief is drawn from *Healthcare ARM Report, 2006*, a paid research publication released in October 2006 by Kaulkin Ginsberg. This 52-page publication describes the figures contained within this executive brief in detail, as well as other strategic issues approached by healthcare providers and receivables management companies. For more information about this publication, please see the last pages of this document.

**About Kaulkin Ginsberg Company**

Kaulkin Ginsberg is the leading strategic advisor to accounts receivable management and related business services companies, helping owners and executives succeed in their efforts to analyze, grow, or exit their businesses. Services include merger, acquisition, and valuation advice; market research; debt purchase and sales advice; operational consulting; and executive search. Kaulkin Ginsberg’s media division publishes the most popular sources of timely industry information such as insideARM.com™ and *The ARM Insider™*. Kaulkin Information Systems provides secure, affordable document management and workflow systems. Read more about Kaulkin Ginsberg at [www.kaulkin.com](http://www.kaulkin.com).
In business for more than 30 years, Kadent Corporation — formerly The Landau Group — provides revenue cycle management solutions from its three principal businesses. These businesses specialize in a distinct area of information management, and focus on the common goals of service, quality, and innovation. The businesses are:

- **Kadent Healthcare**: provides mission-critical business office outsourcing and collection services to hospitals and health systems;
- **Accounts Recovery Bureau**: specializes in traditional collection agency services to healthcare, government and utility industries; and
- **Kadent Technology**: furnishes data analysis/management and processing services. It also maintains and supplies the Receivables Portfolio Manager (RPM)—a powerful, new, and affordable leading-edge tool that revolutionizes how customers analyze and process accounts receivables.

Kadent is privately owned by three private equity firms (CCP Equity Partners, Quilvest, and SightLine Partners) and management.

Kadent maintains a high level of customer satisfaction. In fact, a recent study conducted by The Martec Group, a best-in-class provider of strategic market-based research and consulting services, underscores this fact. The study showed that 100% of respondents said they would recommend Kadent as a vendor. Receiving particular praise in the study were Kadent’s trustworthiness, responsiveness, communications, expertise, and personal attention. As one long-term customer expressed: “The quality of their work is outstanding...they have been a Rock of Gibraltar.”

Kadent employs more than 60 people at its Wyomissing, Pa., corporate headquarters, and more than 70 at its collections and call center facility in Reading, Pa. The company’s senior management team members are veterans of healthcare revenue cycle management. Their collective expertise encompasses a wide range of areas, including hospital business office management, operations, finance, and process engineering. Together, they set the tone for the company with a commitment to successful outcome and business integrity.

**More than 700 customers and counting...now that’s results!**
receivables management is all about numbers, particularly in the healthcare industry. Healthcare providers measure delinquency rates, days sales outstanding, allowances for doubtful accounts, bad debt expenses, recovery rates, contingency fees, net back, and many other figures. Collection agencies measure placements, right party contacts, recovery rates, contingency fees, net back, revenues, and of course profitability. Debt buyers quantify and follow the number of portfolios available for purchase, the prices of debt portfolios, liquidation rates, expense items, and returns on purchased portfolios.

So, although receivables management is a fundamentally human endeavor, success in healthcare receivables management is quantitative. Simply put, paying attention to the numbers and improving measurable performance lead to better growth and profitability.

**$2 Trillion in Healthcare Spending**

Healthcare spending amounted to an estimated $2 trillion in 2005, or one in every six dollars spent in the U.S. As a result, healthcare is one of the single largest industries of the U.S. economy. By comparison, the healthcare industry is approximately 125 times larger than the accounts receivable management (ARM) industry, which generated $15 billion of revenues in 2004. The size of the healthcare industry has increased its need for the services provided by ARM companies.

**46.6 million Americans Lack Health Insurance**

46.6 million citizens, or 16 percent of the U.S. population, had no health insurance in 2005, an all-time high. Increases in the number of uninsured patients have substantially increased the challenge of managing receivables for healthcare providers, also leading more healthcare providers to include service providers in their pursuit of bad debt.
5,759 Hospitals, 193,000 Doctors, and 118,000 Dentists
There are 5,759 hospitals in the United States, including 2,967 non-profit hospitals, 1,356 government hospitals, and 835 for-profit hospitals. A greater percentage of the 193,000 doctors’ offices and 118,000 dentists’ offices in the U.S. are for-profit businesses. Whatever a healthcare provider’s ownership structure, the highly fragmented nature of the healthcare industry matches characteristics of the ARM industry, which also tends to be locally based.

$129 Billion Set Aside by Healthcare Providers to Cover Bad Debt
According to Kaulkin Ginsberg’s Healthcare ARM Report, 2006, healthcare providers set aside $129 billion annually to cover bad debt, which amounts to roughly 7 percent of industry revenues. This suggests that receivables management is a fundamental challenge for many healthcare providers. This challenge weighs on short-term financial performance and provides significant incentive for these companies to liquidate bad debts as efficiently as possible.

$2.4 Billion in Revenues for Healthcare ARM Companies
Kaulkin Ginsberg models the healthcare sector of the ARM industry at $2.4 billion, amounting to 16 percent of the ARM industry’s $15 billion in annual revenues. These revenues are generated in a variety of ways, including first-party collection services, contingency collections, debt buying, and other business models that help healthcare providers liquidate bad debt.

5,000 Healthcare ARM Companies
Roughly 5,000 U.S. companies, or more than three quarters of the firms that compete in the ARM industry, are involved in the collection of healthcare debt. While large and mid-sized companies compete in this market, small contingency agencies make up most of this competition. Only a handful of companies specialize in the purchase of healthcare receivables. This competitive landscape gives healthcare providers of all sizes a variety of potential partners.

23 Percent Average Contingency Fee Rates
Like other competitors in the accounts receivable management industry, healthcare ARM companies have recently experienced downward movement in contingency fee rates. Our Healthcare ARM Report, 2006 suggests that contingency fees for healthcare collections range between 17 percent and 30 percent, with an average of 23 percent.
6 Largest Healthcare Contingency Agencies

The six largest healthcare contingency agencies:

- GC Services
- HBCS
- I.C. System
- MedAssist
- NCO Group
- Outsourcing Solutions

These companies benefit in various ways from economies of scale relative to their smallest competitors. Kaulkin Ginsberg’s Healthcare ARM Report, 2006 lists other prominent providers of contingency collection services.

$3 to $4 Billion in Face Value of Purchased Debt Portfolios

In relative terms, the size of the healthcare debt-purchase market is quite small today. While an estimated $110 billion in face value of delinquent debt purchases took place in the United States during 2005, an estimated $3 billion to $4 billion in face value of healthcare debt was purchased during that year. As healthcare providers, particularly larger hospital chains, increase their willingness to sell portfolios and debt buyers compete for these portfolios, the healthcare debt buying marketplace will continue to grow.

1.5 Percent to 3 Percent of Face Value are Average Prices for Debt Portfolios

Although price is generally not the most important criterion for healthcare providers when selling accounts, the prices of healthcare portfolios have increased in recent years, giving some healthcare providers added incentive to sell debt portfolios. Our research suggests that the average price of a healthcare debt portfolio ranges from .25 percent to 5 percent, with an average between 1.5 percent and 3 percent. These figures are expressed as a percent of face value.

7 Largest Medical Debt Buyers

The seven largest medical debt buyers:

- Asset Acceptance/PARC
- CollectAmerica
- Encore Capital
- Hilco Receivables
- NCO Group/Medclr
- Senex Services
- West Asset Management

Kaulkin Ginsberg’s Healthcare ARM Report, 2006 also describes other buyers of medical debt. Press releases regularly announce new entrants to this market, and the competitive landscape for healthcare debt buyers is expected to grow more crowded in coming years.
16 Private Equity Firms Currently Invested in Healthcare ARM Companies

Private equity firms have become increasingly attracted to the healthcare ARM market in recent years:

- Austin Ventures
- CCP Equity Partners
- Charterhouse Group
- Clearlight Partners
- Cravey Green and Wahlen
- Galen Associates
- Guggenheim Partners
- Harvest Partners
- InvestRx
- KRG Capital Partners
- Madison Dearborn Partners
- RoundTable Healthcare Partners
- Seneca Partners
- SightLine Partners
- Tailwind Capital
- Trident Capital

All have made equity investments in the healthcare sector of the ARM industry.

3 Basic Threats to Healthcare Receivables Management

Increasing regulation, including new regulatory initiatives in states across the country, have heightened the complexity of operating in this highly legal arena. Better internal collection systems within healthcare providers have lowered recovery rates for ARM companies, and poorer quality paper has been placed or sold. Increased competition has also led to lower fees and a variety of other challenges. These threats require executives to manage their companies strategically in order to improve short-term financial performance and long-term value.

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These figures collectively suggest that the healthcare ARM market is large and full of opportunity. At the same time, significant competition, legal requirements, and other complexities require the most successful companies in this market to develop and exercise real sources of competitive advantage in order to maximize value for shareholders.
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Healthcare ARM Report, 2006
Strategic analysis of a large and competitive market
October 2006  60 Pages  List price: $997 USD

The healthcare industry is one of the largest in the United States, representing $1.9 trillion in total revenues, or roughly one out of every six dollars spent annually. The steady rise of uninsured individuals has led to an increased burden on healthcare providers, who must recover these self-pay receivables. This has increased demand for the services of accounts receivable management (ARM) companies.

Kaulkin Ginsberg has conducted original research on the healthcare sector of the ARM industry – taking the perspective of the companies whose growth and profitability depend on collecting healthcare receivables. This report is based on background and original research from receivables management professionals within healthcare companies, collection agency executives, and medical debt buying professionals. It has been conducted thanks to the generous sponsorship of HBCS and LexisNexis®.

Who Should Buy This Report

- Owners and executives of accounts receivable management companies who seek a better understanding of the healthcare market and its competition.
- Receivables management professionals at healthcare companies seeking better market intelligence.
- Investors and analysts seeking inside knowledge of the healthcare ARM market.
- Vendors seeking strategic insight into market forces impacting healthcare ARM.

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