

## **Encore Capital Group Announces First Quarter 2014 Financial Results; Diversification and Expansion Progress Drives Record Quarter**

May 8, 2014 3:40 PM ET

*-- Collections increase 47%, to record \$397 million -- Estimated Remaining Collections increase to record \$4.76 billion -- GAAP EPS increases 3% to \$0.82 -- Non-GAAP Economic EPS increases 26% to record \$1.08 -- Propel acquires nationwide tax lien portfolio and servicing platform -- Board of Directors approves \$50 million share repurchase*

### **Company Release - 05/08/2014 16:01**

SAN DIEGO, May 8, 2014 /PRNewswire/ -- Encore Capital Group, Inc. (NASDAQ: ECPG), an international specialty finance company providing debt recovery solutions for consumers and property owners across a broad range of assets, today reported consolidated financial results for the first quarter ended March 31, 2014.



"Encore delivered strong first quarter financial performance," said Ken Vecchione, President and Chief Executive Officer. "This quarter, we grew collections by nearly 50 percent, posted record Economic EPS, and grew our Estimated Remaining Collections to nearly \$4.8 billion.

"At the same time, we have strengthened our global footprint and diversified our portfolio," Vecchione continued. "Following our recent acquisitions in the United Kingdom, we have become the largest unsecured debt buyer in the U.K., and we now provide a full range of offerings to issuers. In Latin America, we continue to work with Refinancia to strengthen our foothold. And through our Propel subsidiary, our tax lien operation now encompasses 22 states.

"Taken together, these results show that we are continuing to deliver on our commitment to drive earnings growth and increase shareholder value, as well as to solidify our status as a leading international specialty finance company," Vecchione said.

On April 1, 2014, Encore successfully closed the acquisition of a controlling interest in Grove Holdings, the parent company of Grove Capital Management. Grove will provide Encore with a leadership position in the purchasing and servicing of individual voluntary arrangements, or IVAs, in the U.K.

On May 6, 2014, Encore's Propel Financial Services subsidiary completed the first securitization of its tax lien portfolio in Texas, confirming Encore's industry leadership in this market while providing a competitive funding advantage and a platform for future growth.

Also in May, Propel acquired a nationwide tax lien portfolio and servicing platform from a national acquirer of tax liens in an asset transaction valued at \$43 million. The acquisition strengthens Propel's established servicing platform and expands Propel's reach to 22 states across the country.

### **Financial Highlights for the First Quarter of 2014:**

- Gross collections from the portfolio purchasing and recovery business grew 47% to \$396.7 million, compared to \$270.2 million in the same period of the prior year.
- Investment in receivable portfolios in the portfolio purchasing and recovery business was \$467.6 million, to purchase \$4.3 billion in face value of debt, compared to \$58.8 million, to purchase \$1.6 billion in face value of debt in the same period of the prior year.

- Available capacity under Encore's revolving credit facility, subject to borrowing base and applicable debt covenants, was \$470 million as of March 31, 2014, not including the \$250 million additional capacity provided by the facility's accordion feature. Total debt was \$2.6 billion as of March 31, 2014, compared to \$1.9 billion as of December 31, 2013.
- Total revenues increased 75% to \$253.7 million, compared to \$144.6 million in the same period of the prior year.
- Total operating expenses increased 75% to \$185.5 million, compared to \$105.9 million in the same period of the prior year. Adjusted Operating Expenses (defined as operating expenses excluding stock-based compensation expense, expenses related to non-portfolio purchasing and recovery business, one-time charges, and acquisition related legal and advisory expenses) per dollar collected for the portfolio purchasing and recovery business increased to 38.4%, compared to 35.7% in the same period of the prior year.
- Adjusted EBITDA (defined as net income before interest, taxes, depreciation and amortization, stock-based compensation expenses, portfolio amortization, one-time charges, and acquisition and integration related expenses), increased 43% to \$249.7 million, compared to \$174.5 million in the same period of the prior year.
- Total interest expense increased to \$38.0 million, as compared to \$6.9 million in the same period of the prior year, reflecting the financing of Encore's recent acquisitions.
- Net income attributable to Encore was \$23.2 million, or \$0.82 per fully diluted share, compared to net income attributable to Encore of \$19.4 million, or \$0.80 per fully diluted share, in the same period of the prior year.
- Adjusted Income Attributable to Encore (defined as net income attributable to Encore excluding the noncontrolling interest, non-cash interest and issuance cost amortization, one-time charges, and acquisition and integration related expenses, all net of tax) increased to \$28.8 million, compared to Adjusted Income Attributable to Encore of \$20.9 million in the same period of the prior year.
- Adjusted Income Attributable to Encore per Share (also referred to as Economic EPS) grew 26% to \$1.08, compared to \$0.86 in the same period of the prior year. In the first quarter, Economic EPS adjusts for approximately 1.5 million shares associated with convertible notes that will not be issued but are reflected in the fully diluted share count for accounting purposes.

### **Conference Call and Webcast**

The Company will hold a conference call today at 2:00 p.m. Pacific time / 5:00 p.m. Eastern time to discuss first quarter financial results.

Members of the public are invited to listen to the event via a listen-only telephone conference call line or the Internet. To access the live telephone conference call, please dial (877) 670-9781 or (631) 456-4378. The Conference ID is 35733408. To access the live webcast via the Internet, log on to the Investors page of the Company's website at [www.encorecapital.com](http://www.encorecapital.com).

### **Non-GAAP Financial Measures**

This news release includes certain financial measures that exclude the impact of certain items and therefore have not been calculated in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company has included Adjusted Income Attributable to Encore and Adjusted Income Attributable to Encore per Share (also referred to as Economic EPS when adjusted for certain shares associated with our convertible notes that will not be issued but are reflected in the fully diluted share count for accounting purposes) because management uses this measure to assess operating performance, in order to highlight trends in the Company's business that may not otherwise be apparent when relying on financial measures calculated in accordance with GAAP. The Company has included information concerning Adjusted EBITDA because management utilizes this information, which is materially similar to a financial measure contained in covenants used in the Company's revolving credit facility, in the evaluation of its operations and believes that this measure is a useful indicator of the Company's ability to generate cash collections in excess of operating expenses through the liquidation of its receivable portfolios. The Company has included information concerning Adjusted Operating Expenses in order to facilitate a comparison of approximate cash costs to cash collections for the portfolio purchasing and recovery business in the periods presented. Adjusted Income Attributable to Encore, Adjusted Income Attributable to

Encore per Share/Economic EPS, Adjusted EBITDA, and Adjusted Operating Expenses have not been prepared in accordance with GAAP. These non-GAAP financial measures should not be considered as alternatives to, or more meaningful than, net income and total operating expenses as indicators of the Company's operating performance. Further, these non-GAAP financial measures, as presented by the Company, may not be comparable to similarly titled measures reported by other companies. The Company has attached to this news release a reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

### **About Encore Capital Group, Inc.**

Encore Capital Group, an international specialty finance company with operations spanning seven countries, provides debt recovery solutions for consumers and property owners across a broad range of assets. Through its subsidiaries, the Company purchases portfolios of consumer receivables from major banks, credit unions, and utility providers, and partners with individuals as they repay their obligations and work toward financial recovery. Through its Propel Financial Services subsidiary, the Company assists property owners who are delinquent on their property taxes by structuring affordable monthly payment plans and purchases delinquent tax liens directly from selected taxing authorities. Through its subsidiaries in the United Kingdom, Cabot Credit Management and Marlin Financial Services, the Company is a market-leading acquirer and manager of consumer debt in the United Kingdom and Ireland. Through its Grove Capital Management subsidiary, the Company acquires and manages consumer non-performing loans, including insolvencies in the United Kingdom (in particular, individual voluntary arrangements, or IVAs) and non-bank receivables in Spain. Through its Refinancia subsidiary, the Company services distressed consumer debt in Colombia and Peru. Encore's success and future growth are driven by its sophisticated and widespread use of analytics, its broad investments in data and behavioral science, the significant cost advantages provided by its highly efficient operating model and proven investment strategy, and the Company's demonstrated commitment to conducting business ethically and in ways that support its consumers' financial recovery.

Headquartered in San Diego, Encore is a publicly traded NASDAQ Global Select company (ticker symbol: ECPG) and a component stock of the Russell 2000, the S&P SmallCap 600, and the Wilshire 4500. More information about the Company can be found at [www.encorecapital.com](http://www.encorecapital.com). More information about the Company's Cabot Credit Management subsidiary can be found at [www.cabotcm.com](http://www.cabotcm.com).

Encore Capital Group's website and Cabot Credit Management's website, and the information contained therein, are not incorporated into and are not a part of this press release.

### **Forward Looking Statements**

*The statements in this press release that are not historical facts, including, most importantly, those statements preceded by, or that include, the words "will," "may," "believe," "projects," "expects," "anticipates" or the negation thereof, or similar expressions, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). These statements may include, but are not limited to, statements regarding our future operating results, performance, business plans or prospects. For all "forward-looking statements," the Company claims the protection of the safe harbor for forward-looking statements contained in the Reform Act. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company and its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors are discussed in the reports filed by the Company with the Securities and Exchange Commission, including the most recent reports on Forms 10-K and 10-Q, as they may be amended from time to time. The Company disclaims any intent or obligation to update these forward-looking statements.*

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## FINANCIAL TABLES FOLLOW

**ENCORE CAPITAL GROUP, INC.**  
**Condensed Consolidated Statements of Financial Condition**  
(In Thousands, Except Par Value Amounts)  
(Unaudited)

|  | <u>March 31,<br/>2014</u> | <u>December 31,<br/>2013</u> |
|--|---------------------------|------------------------------|
| <b>Assets</b>  |                           |                              |
| Cash and cash equivalents  | \$ 196,389                | \$ 126,213                   |
| Investment in receivable portfolios, net   | 1,904,030                 | 1,590,249                    |
| Deferred court costs, net  | 42,679                    | 41,219                       |
| Receivables secured by property tax liens, net   | 209,455                   | 212,814                      |
| Property and equipment, net  | 55,879                    | 55,783                       |
| Other assets   | 181,697                   | 154,783                      |
| Goodwill   | 844,567                   | 504,213                      |
| Total assets   | <u>\$ 3,434,696</u>       | <u>\$ 2,685,274</u>          |
| <b>Liabilities and stockholders' equity</b>  |                           |                              |
| Liabilities:   |                           |                              |
| Accounts payable and accrued liabilities   | \$ 124,803                | \$ 137,272                   |
| Debt   | 2,612,133                 | 1,850,431                    |
| Other liabilities  | 99,469                    | 95,100                       |
| Total liabilities  | <u>2,836,405</u>          | <u>2,082,803</u>             |
| Commitments and contingencies  |                           |                              |
| Redeemable noncontrolling interest   | 26,434                    | 26,564                       |
| Redeemable equity component of convertible senior notes  | 11,176                    | —                            |
| Stockholders' equity:  |                           |                              |
| Convertible preferred stock, \$.01 par value, 5,000 shares authorized, no shares issued and outstanding  | —                         | —                            |
| Common stock, \$.01 par value, 50,000 shares authorized, 25,681 shares and 25,457 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively | 257                       | 255                          |
| Additional paid-in capital   | 132,290                   | 171,819                      |
| Accumulated earnings   | 417,808                   | 394,628                      |
| Accumulated other comprehensive gain   | 6,932                     | 5,195                        |
| Total Encore Capital Group, Inc. stockholders' equity  | <u>557,287</u>            | <u>571,897</u>               |
| Noncontrolling interest  | 3,394                     | 4,010                        |
| Total stockholders' equity   | <u>560,681</u>            | <u>575,907</u>               |
| Total liabilities, redeemable noncontrolling interest and stockholders' equity   | <u>\$ 3,434,696</u>       | <u>\$ 2,685,274</u>          |

**ENCORE CAPITAL GROUP, INC.**  
**Condensed Consolidated Statements of Income**  
(In Thousands, Except Per Share Amounts)  
(Unaudited)

|   | <u>Three Months Ended<br/>March 31,</u> |             |
|---|---|-------------|
|   | <u>2014</u>                             | <u>2013</u> |
| Revenues                                |   |             |
| Revenue from receivable portfolios, net | \$ 237,568                              | \$ 140,683  |

|  |                  |                  |
|--|------------------|------------------|
| Other revenues   | 11,349           | 301              |
| Net interest income  | <u>4,824</u>     | <u>3,602</u>     |
| Total revenues   | <u>253,741</u>   | <u>144,586</u>   |
| Operating expenses   |                  |                  |
| Salaries and employee benefits                                     | 58,137           | 28,832           |
| Cost of legal collections  | 49,825           | 42,258           |
| Other operating expenses   | 26,423           | 13,265           |
| Collection agency commissions                                      | 8,276            | 3,329            |
| General and administrative expenses                                | 36,694           | 16,342           |
| Depreciation and amortization                                      | <u>6,117</u>     | <u>1,846</u>     |
| Total operating expenses   | <u>185,472</u>   | <u>105,872</u>   |
| Income from operations   | <u>68,269</u>    | <u>38,714</u>    |
| Other (expense) income   |                  |                  |
| Interest expense   | (37,962)         | (6,854)          |
| Other income   | <u>265</u>       | <u>159</u>       |
| Total other expense  | <u>(37,697)</u>  | <u>(6,695)</u>   |
| Income before income taxes   | 30,572           | 32,019           |
| Provision for income taxes   | <u>(11,742)</u>  | <u>(12,571)</u>  |
| Net income   | <u>18,830</u>    | <u>19,448</u>    |
| Net loss attributable to noncontrolling interest                   | <u>4,350</u>     | <u>—</u>         |
| Net income attributable to Encore Capital Group, Inc. stockholders | <u>\$ 23,180</u> | <u>\$ 19,448</u> |

**Earnings per share attributable to Encore Capital Group, Inc.:**

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Basic                                | <u>\$ 0.90</u> | <u>\$ 0.83</u> |
| Diluted                              | <u>\$ 0.82</u> | <u>\$ 0.80</u> |
| Weighted average shares outstanding: |                |                |
| Basic                                | <u>25,749</u>  | <u>23,446</u>  |
| Diluted                              | <u>28,196</u>  | <u>24,414</u>  |

**ENCORE CAPITAL GROUP, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited, In Thousands)

|   | Three Months Ended |           |
|---|--------------------|-----------|
|   | March 31,          |           |
|   | 2014               | 2013      |
| <b>Operating activities:</b>  |                    |           |
| Net income  | \$ 18,830          | \$ 19,448 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                    |           |
| Depreciation and amortization   | 6,117              | 1,846     |
| Other non-cash interest expense   | 5,254              | 1,517     |
| Stock-based compensation expense  | 4,836              | 3,001     |
| Deferred income taxes   | 4,767              | 207       |
| Excess tax benefit from stock-based payment arrangements                                    | (2,629)            | (983)     |
| Reversal of allowances on receivable portfolios, net  | (3,230)            | (1,006)   |
| Changes in operating assets and liabilities   |                    |           |
| Deferred court costs and other assets   | (15,213)           | (1,671)   |
| Prepaid income tax and income taxes payable   | 3,123              | 4,314     |

|   |                   |                  |
|---|-------------------|------------------|
| Accounts payable, accrued liabilities and other liabilities           | (24,446)          | (2,980)          |
| Net cash (used in) provided by operating activities                   | <u>(2,591)</u>    | <u>23,693</u>    |
| <b>Investing activities:</b>  |                   |                  |
| Cash paid for acquisition, net of cash acquired                       | (257,726)         | —                |
| Purchases of receivable portfolios, net of put-backs                  | (257,175)         | (57,893)         |
| Collections applied to investment in receivable portfolios, net       | 161,927           | 130,493          |
| Originations and purchases of receivables secured by tax liens        | (19,123)          | (27,446)         |
| Collections applied to receivables secured by tax liens               | 22,085            | 11,812           |
| Purchases of property and equipment                                   | <u>(2,978)</u>    | <u>(2,315)</u>   |
| Net cash (used in) provided by investing activities                   | <u>(352,990)</u>  | <u>54,651</u>    |
| <b>Financing activities:</b>  |                   |                  |
| Payment of loan costs   | (14,222)          | (2,340)          |
| Proceeds from credit facilities                                       | 457,266           | 33,741           |
| Repayment of credit facilities  | (447,045)         | (91,800)         |
| Proceeds from senior secured notes                                    | 288,645           | —                |
| Repayment of senior secured notes                                     | (3,750)           | (2,500)          |
| Proceeds from issuance of convertible senior notes                    | 161,000           | —                |
| Proceeds from issuance of preferred equity certificates               | 18,864            | —                |
| Repayment of preferred equity certificates                            | (4,537)           | —                |
| Purchases of convertible hedge instruments                            | (33,576)          | —                |
| Proceeds from exercise of stock options                               | 1,214             | 846              |
| Taxes paid related to net share settlement of equity awards           | (5,244)           | (2,872)          |
| Excess tax benefit from stock-based payment arrangements              | 2,629             | 983              |
| Other, net  | <u>(391)</u>      | <u>(2,008)</u>   |
| Net cash provided by (used in) financing activities                   | <u>420,853</u>    | <u>(65,950)</u>  |
| Net increase in cash and cash equivalents                             | 65,272            | 12,394           |
| Effect of exchange rate changes on cash                               | 4,904             | —                |
| Cash and cash equivalents, beginning of period                        | <u>126,213</u>    | <u>17,510</u>    |
| Cash and cash equivalents, end of period                              | <u>\$ 196,389</u> | <u>\$ 29,904</u> |
| Supplemental disclosures of cash flow information:                    |                   |                  |
| Cash paid for interest  | \$ 41,130         | \$ 5,485         |
| Cash paid for income taxes  | 6,103             | 7,520            |
| Supplemental schedule of non-cash investing and financing activities: |                   |                  |
| Fixed assets acquired through capital lease                           | \$ 1,169          | \$ 674           |

**ENCORE CAPITAL GROUP, INC.**  
Supplemental Financial Information

Reconciliation of Adjusted Income Attributable to Encore to GAAP Net Income Attributable to Encore, Adjusted EBITDA to GAAP Net Income, and Adjusted Operating Expenses to GAAP Total Operating Expenses  
(In Thousands, Except Per Share amounts) (Unaudited)

|  | <u>Three Months Ended March 31,</u> |  |  |             |  |  |
|--|-------------------------------------|--|--|-------------|--|--|
|  | <u>2014</u>                         |  |  | <u>2013</u> |  |  |
|  | <u>\$</u>                           | <u>Per Diluted Share—<br/>Accounting</u> | <u>Per Diluted Share—<br/>Economic</u> | <u>\$</u>   | <u>Per Diluted Share—<br/>Accounting</u> | <u>Per Diluted Share—<br/>Economic</u> |
| GAAP net income attributable to Encore, as reported                            | \$ 23,180                           | \$ 0.82                                  | \$ 0.87                                | \$ 19,448   | \$ 0.80                                  | \$ 0.80                                |
| Adjustments:   |                                     |  |  |             |  |  |
| Convertible notes non-cash interest and issuance cost amortization, net of tax | 1,291                               | 0.05                                     | 0.05                                   | 673         | 0.03                                     | 0.03                                   |
| Acquisition and integration related expenses, net of tax                       | 4,358                               | 0.15                                     | 0.16                                   | 775         | 0.03                                     | 0.03                                   |

|  |                  |                |                |                  |                |                |
|--|------------------|----------------|----------------|------------------|----------------|----------------|
| Adjusted income attributable to Encore | <u>\$ 28,829</u> | <u>\$ 1.02</u> | <u>\$ 1.08</u> | <u>\$ 20,896</u> | <u>\$ 0.86</u> | <u>\$ 0.86</u> |
|--|------------------|----------------|----------------|------------------|----------------|----------------|

|  | <u>Three Months Ended March 31,</u> |                   |
|--|-------------------------------------|-------------------|
|  | <u>2014</u>                         | <u>2013</u>       |
| GAAP net income, as reported                         | \$ 18,830                           | \$ 19,448         |
| Adjustments:   |                                     |                   |
| Interest expense                                     | 37,962                              | 6,854             |
| Provision for income taxes                           | 11,742                              | 12,571            |
| Depreciation and amortization                        | 6,117                               | 1,846             |
| Amount applied to principal on receivable portfolios | 159,106                             | 129,487           |
| Stock-based compensation expense                     | 4,836                               | 3,001             |
| Acquisition related legal and advisory fees          | 11,081                              | 1,276             |
| Adjusted EBITDA                                      | <u>\$ 249,674</u>                   | <u>\$ 174,483</u> |

|  | <u>Three Months Ended March 31,</u> |                  |
|--|-------------------------------------|------------------|
|  | <u>2014</u>                         | <u>2013</u>      |
| GAAP total operating expenses, as reported                                   | \$ 185,472                          | \$ 105,872       |
| Adjustments:   |                                     |                  |
| Stock-based compensation expense   | (4,836)                             | (3,001)          |
| Operating expenses related to non-portfolio purchasing and recovery business | (17,154)                            | (5,274)          |
| Acquisition related legal and advisory fees                                  | (11,081)                            | (1,276)          |
| Adjusted operating expenses  | <u>\$ 152,401</u>                   | <u>\$ 96,321</u> |

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