

Encore Capital Group, Inc.
Fourth Quarter 2024 Conference Call Prepared Remarks
26-Feb-2025



Slide #	Commentary
	Bruce Thomas
1	<p>Thank you, Operator. Good afternoon and welcome to Encore Capital Group's fourth quarter 2024 earnings call. Joining me on the call today are Ashish Masih, our President and Chief Executive Officer, Jonathan Clark, Executive Vice President and Chief Financial Officer, Ryan Bell, President of Midland Credit Management and Tomas Hernanz, Chief Financial Officer of Cabot Credit Management. As you may recall, Tomas will succeed Jonathan as Encore's CFO when Jon retires at the end of March 2025. Ashish and Jon will make prepared remarks today, and then we will be happy to take your questions.</p>
2 Safe Harbor	<p>Unless otherwise noted, comparisons on this conference call will be made between the fourth quarter of 2024 and the fourth quarter of 2023 or between the full year of 2024 and the full year of 2023. In addition, today's discussion will include forward-looking statements that are based on current expectations and assumptions and are subject to risks and uncertainties. Actual results could differ materially from our expectations. Please refer to our SEC filings for a detailed discussion of potential risks and uncertainties. We undertake no obligation to update any forward-looking statement.</p> <p>During this call, we will use rounding and abbreviations for the sake of brevity. We will also be discussing non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures are included in our investor presentation, which is available on the Investors section of our website.</p> <p>As a reminder, following the conclusion of this call a replay of this conference call, along with our prepared remarks, will also be available on the Investors section of our website.</p> <p>With that, let me turn the call over to Ashish Masih, our President and Chief Executive Officer.</p>

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	Ashish Masih
3 Today's Call	<p>Thanks, Bruce, and good afternoon, everyone. Thank you for joining us.</p> <p>On today's call, I will start with a high-level recap of 2024.</p> <p>Then I'll review our strategy and market position as well as a few key measures that are important indicators of the state of our business.</p> <p>Then Jon will review our financial results, after which I'll touch on our financial objectives and priorities and provide guidance on several key metrics for 2025.</p> <p>At the conclusion of today's call, we will also post to our website our annual report, which includes our 10-K and my letter to shareholders.</p> <p>We will begin with a look-back over the past year...</p>

<p>4</p> <p>2024 Highlights</p>	<p>2024 was a year of significant growth for Encore. Our global portfolio purchases grew to an all-time high, driven by a second consecutive record year of purchasing in the U.S. This higher portfolio purchasing in recent years has been the primary driver of collections growth of 16% and cash generation growth of 20% for the year.</p> <p>Encore's momentum in 2024 was driven by our MCM business in the U.S., which continues to deliver strong results. Encouraged by the ongoing favorable supply environment, MCM has capitalized on the opportunity to purchase record volumes of portfolios at attractive returns. Our purchasing growth is also enabled by our flexible funding structure, which allows us to allocate capital to geographies with the highest returns.</p> <p>For Cabot, 2024 was a year of progress, but also significant restructuring to resolve certain persistent issues and enable future success. Cabot's deployments increased significantly in 2024. This was driven by an unusually large quarterly deployment in Q4 of \$200 million dollars which included opportunistic spot market purchases. Cabot's collections increased by 8% compared to 2023. Despite these successes, Cabot's business environment continued to be both highly competitive and impacted by challenging macroeconomic factors including subdued lending growth and low charge-offs. Against this backdrop, we took a number of actions later in the year that included a reduction in Cabot's ERC and the exit from two underperforming markets. Although these actions negatively impacted Encore's earnings for the fourth quarter and full year 2024, Cabot is now positioned on a more solid footing for a positive and more predictable trajectory going forward.</p> <p>Our leverage ratio declined from 2.9 times at the end of 2023 to 2.6 times at the end of 2024. Importantly, this reduction occurred even while purchasing a record level of portfolio during the year and is a testament to our high performing collections operation. With leverage nearing the midpoint of our target leverage range, we expect to resume share repurchases in 2025.</p>
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<p>5</p> <p>Our Strategy and Market Presence</p>	<p>At this time, I believe it's helpful to remind investors of the critical role we play in the consumer credit ecosystem by assisting in the resolution of unpaid debts. These unpaid debts are an expected and necessary outcome of the lending business model. Our Mission is to create pathways to economic freedom for the consumers we serve, by helping them resolve their past-due debts. We achieve this by engaging consumers in honest, empathetic and respectful conversations.</p> <p>Our business is to purchase portfolios of non-performing loans at attractive returns while minimizing funding costs. For each portfolio that we own, we strive to exceed our collection expectations, while both maintaining an efficient cost structure and ensuring the highest level of compliance and consumer focus.</p> <p>We achieve these objectives through our three-pillar strategy. This strategy enables us to deliver outstanding performance and positions us well to capitalize on future opportunities. We believe this is instrumental for building long-term shareholder value.</p> <p>The first pillar of our strategy, Market Focus, concentrates our efforts on the markets where we can achieve the highest risk-adjusted returns. To that end, we pursue business in countries where the credit markets are large and have consistent flows of purchasing opportunities. We believe the best markets have a strong regulatory framework, have sophisticated sellers who make data available and where we can achieve stable, long-term returns. The markets we've chosen share these characteristics.</p> <p>As a reminder, our largest business, Midland Credit Management or MCM, is in the United States, where it has been operating for over 25 years and is the leader in the world's most valuable market. Cabot Credit Management has been operating for over 20 years and is one of the largest players in the United Kingdom and continues to build a stronger presence in our European markets of France and Spain.</p>
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<p>6</p> <p>Portfolio Purchasing</p>	<p>I would now like to highlight Encore’s performance in 2024 in terms of several key metrics, starting with portfolio purchasing:</p> <p>Encore’s global portfolio purchases for the year were a record \$1.35 billion dollars, an increase of 26% compared to 2023. This increased level of purchasing will help drive Encore’s continued collections growth in 2025 and beyond.</p> <p>Our concentration of portfolio purchases in the U.S., where we allocated 74% of our deployed capital in 2024, is a reminder that the flexibility of our global funding structure allows us to direct our capital toward geographies with the highest returns.</p>
<p>7</p> <p>Collections</p>	<p>Global collections in 2024 were \$2.16 billion dollars, up 16% compared to 2023. After several years of lower deployments, the past few years of higher portfolio purchases at strong returns, particularly in the U.S., have led to meaningful growth in collections, which we expect to continue in 2025.</p> <p>Our collections performance in 2024 for portfolios owned at the end of 2023 compared to our ERC at the end of 2023 was 103%.</p>
<p>8</p> <p>Cash Generation</p>	<p>We believe that our ability to generate significant cash provides us with an important competitive advantage, which is also a key component of our three-pillar strategy.</p> <p>Similar to the dynamic I mentioned earlier, higher portfolio purchases at strong returns over the past few years have also led to meaningful growth in cash generation. Our cash generation in 2024 was up 20% compared to 2023.</p>

<p>9</p> <p>U.S. Outstandings and Charge Off Rate</p>	<p>Let's now take a look at our two largest markets, beginning with the U.S...</p> <p>The U.S. Federal Reserve has been reporting that revolving credit in the U.S. has been rising since early 2021.</p> <p>At the same time, since bottoming out in late 2021, the credit card charge-off rate in the U.S. has also been rising and is now at its highest level in more than 10 years.</p> <p>The combination of higher lending and growth in the charge off rate is driving record portfolio supply in the U.S.</p>
<p>10</p> <p>U.S. Bankcard Delinquency Rates</p>	<p>Similarly, U.S. consumer credit card delinquencies, which are a leading indicator of future charge offs, also remain at multi-year highs. With both lending and the charge off rate at elevated levels, purchasing conditions in the U.S. market remain highly favorable. We are observing continued strong U.S. market supply and attractive pricing as well. Delinquency data at year-end supports our expectation that 2025 will be another year of very strong portfolio sales by U.S. banks and credit card issuers.</p>
<p>11</p> <p>MCM Portfolio Purchases</p>	<p>With portfolio supply in the U.S. market surging to its highest level ever in 2024, we purchased significantly more volume than we ever have in the U.S. MCM leaned into this opportunity by finishing the year with its highest quarter of portfolio purchasing ever, deploying \$295 million dollars in Q4 at strong returns. For the year, MCM's portfolio purchases were a record \$1 billion dollars, up 23% compared to the previous record high in 2023. That's an increase of \$184 million dollars on a year over year basis.</p> <p>Given current and expected market conditions, as well as our forward flow commitments already in hand, we anticipate 2025 to be another year of portfolio purchasing growth for our MCM business in the U.S.</p>

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<p>12</p> <p>MCM (U.S.) Business</p>	<p>In addition to our record investment in portfolios in 2024, our MCM business excelled operationally.</p> <p>MCM collections in 2024 increased by 20% compared to the prior year. With consumer payment behavior remaining stable throughout 2024 and into the new year, MCM collections are expected to grow again in 2025.</p> <p>We continue to develop our “omni-channel” collections approach, which makes the integration of our various consumer-facing collection resources seamless to the consumer. Our progress has increased our collections efficiency.</p> <p>In fact, MCM’s overall headcount remains essentially flat despite our rapid growth in purchasing and collections in 2024. We expect to continue to drive improvements in operating leverage as collections growth continues into 2025.</p> <p>MCM reached another business milestone at the end of 2024 as our U.S. ERC now exceeds \$5 billion dollars for the first time.</p>
<p>13</p> <p>U.K. Outstandings and Charge Off Rate</p>	<p>In contrast to the U.S., supply in the U.K. has been growing much more slowly. Although credit card outstandings continue to modestly increase, banks in the U.K., unlike those in the U.S., have not been meaningfully increasing consumer lending. In addition, U.K. charge offs remain at low levels.</p>

<p>14</p> <p>Cabot Issues Are Behind Us</p>	<p>The slow-growing U.K. and European markets combined with their ongoing high level of competitive intensity have been a challenge for all market participants, including Cabot. Having said that, 2024 was a year of progress for Cabot, but also a year of significant restructuring to resolve persistent issues and enable future success. Let me further elaborate on our restructuring actions.</p> <p>In the fourth quarter, as part of our assessment of the collections forecast, we made significant reductions to our expectations that reduced Cabot's estimated remaining collections.</p> <p>We also exited the Italian market for non-performing loans in the fourth quarter after having exited the Spanish Secured NPL market in the third quarter. Our Q4 exit-related activity led to the elimination of the associated ERC as well as \$6 million dollars of restructuring charges.</p> <p>In total, as a result of the changes to our collections forecast and market exits, reductions to Cabot's ERC led to negative changes in expected future recoveries of \$129 million dollars in the fourth quarter. Of this \$129 million dollars, approximately two-thirds was related to our business in the U.K., while the remainder was fairly evenly split between our ongoing European business and market exits. Our Cabot restructuring in the fourth quarter also included a \$19-million-dollar IT-related asset impairment.</p> <p>After considering the impacts of the rebased ERC, we incurred a \$101 million dollar goodwill impairment in the fourth quarter.</p> <p>We have provided a table in today's investor presentation and our earnings press release detailing the impacts of our restructuring actions on our fourth quarter results for those who may want to better understand our underlying earnings for the quarter.</p> <p>As a result of the actions we've taken, we believe Cabot issues are now behind us.</p>
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<p>15</p> <p>Cabot U.K. and European Business</p>	<p>Turning to Cabot's performance, collections in 2024 were \$588 million dollars, up 8% compared to 2023.</p> <p>Although we continue to be selective with Cabot's deployments, portfolio purchases in 2024 were up 36% to \$353 million dollars. Cabot's annual growth was primarily driven by an exceptional \$200-million-dollar fourth quarter that included opportunistic spot-market purchases at attractive returns.</p> <p>The U.K. market remains impacted by the subdued consumer lending and low delinquencies I mentioned earlier, in addition to continued robust competition. As a result, we do not expect Cabot's 2024 level of purchasing to continue in 2025.</p> <p>Nonetheless, as a result of the actions we've taken to position Cabot on a more solid footing, we expect future performance to align closely with Cabot's rebased ERC.</p> <p>I would also like to underscore the long-term strategic value of the U.K. and European markets to Encore. These markets possess attractive characteristics we desire within our market focus strategy, including large banks who offer a consistent flow of purchasing opportunities with stable, long-term returns. We also look for a high degree of sophistication and data availability, as well as a strong regulatory framework that creates advantages for firms like Encore with sufficient financial and operational capabilities.</p> <p>I'd now like to hand over the call to Jon for a more detailed look at our financial results...</p>
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	Jonathan Clark
16 Detailed Financial Discussion	Thank you, Ashish.
17 Key Financial Measures	<p>Both the fourth quarter and the full year of 2024 for Encore were characterized by record purchasing and strong collections growth. Revenues for the quarter and the year were negatively impacted by changes in recoveries. Despite the ERC reductions at Cabot which Ashish mentioned earlier, Encore’s global ERC at the end of 2024 grew 4% compared to the end of 2023. Operating expenses were impacted by the non-cash goodwill charge as well as other charges related to the Cabot restructuring activities.</p> <p>Overall, our reported financial results in the fourth quarter and the full year of 2024 were not indicative of the underlying strength of our business due to the non-cash charges mentioned earlier in the presentation.</p>

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<p>18</p> <p>Balance Sheet Strength: Leverage</p>	<p>As the third pillar of our strategy, balance sheet strength is a constant priority.</p> <p>Our unified global funding structure provides us with financial flexibility, diversified sources of financing and extended maturities. It also underpins one of the best balance sheets in our industry with comparatively attractive leverage.</p> <p>Importantly, even as we set new records for annual portfolio purchases in the U.S. and globally in 2024, our leverage ratio declined during the year from 2.9 times at the end of 2023 to 2.6 times at the end of 2024, near the midpoint of our target leverage range.</p>
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<p>19</p> <p>Balance Sheet Strength: Proactively Managing Borrowings</p>	<p>We believe our balance sheet provides us very competitive funding costs when compared to our peers. Our funding structure also provides us financial flexibility and diversified funding sources to compete effectively in this growing supply environment.</p> <p>In the fourth quarter, we again made good use of our diversified funding structure to proactively manage our debt maturities.</p> <p>We redeemed our 2025 euro notes at par in October and our 2026 sterling notes at par in November.</p> <p>In addition, we amended and extended our revolving credit facility in October. We increased its capacity by \$92 million dollars to almost \$1.3 billion dollars, reduced the interest margin by 25 basis points and extended its maturity by one year, to September 2028.</p> <p>In December, we entered into a new Cabot securitization facility which matures in January 2030, replacing the prior facility which was due to mature in September 2028.</p> <p>As a result of all of these efforts, we now effectively have no material maturities until 2028.</p> <p>With that, I'd like to turn it back over to Ashish.</p>
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	Ashish Masih
<p>20</p> <p>Our Financial Objectives and Priorities</p>	<p>Thanks, Jon.</p> <p>Now I would like to remind everyone of our key financial objectives and priorities.</p> <p>Maintaining a strong and flexible balance sheet, including a strong BB debt rating, as well as operating within our target leverage range of two to three times, remain critical objectives.</p> <p>With regard to our capital allocation priorities, buying portfolios, particularly in the today’s attractive U.S. market, offers the best opportunity to create long-term shareholder value by deploying capital at attractive returns. This is precisely what we are doing as highlighted by our recent purchasing history.</p> <p>A quarter ago, I indicated that we had raised the priority of share repurchases above strategic M&A. This is important, because as we work our way through the current cycle, we anticipate that our leverage will continue to decline. Now that our leverage is nearing the midpoint of our target range, we expect to resume stock repurchases.</p>

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<p>21</p> <p>Guidance</p>	<p>To emphasize the fundamental predictability of our business and our positive outlook for 2025, we have chosen again to provide guidance on certain key metrics for the new year.</p> <p>We anticipate global portfolio purchasing in 2025 to exceed the \$1.35 billion dollars of purchases we made in 2024.</p> <p>We expect global collections to grow by 11% to \$2.4 billion dollars.</p> <p>Additionally, we expect to resume share repurchases in 2025.</p> <p>We also expect interest expense to increase to approximately \$285 million dollars and we expect our effective tax rate to be in the mid-20's on a percentage basis.</p> <p>Now we'd be happy to answer any questions that you may have. Operator, please open up the lines for questions.</p>
<p>Q&A Session</p>	
<p>21</p> <p>Closing</p>	<p>Thanks for taking the time to join us today and we look forward to providing our first quarter results in May.</p>