

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2023 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

COMMISSION FILE NUMBER: 000-26489

ENCORE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware **48-1090909**
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

350 Camino De La Reina, Suite 100
San Diego, California 92108
(Address of principal executive offices, including zip code)

(877) 445 - 4581
(Registrant's telephone number, including area code)

(Not Applicable)
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 Par Value Per Share	ECPG	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 25, 2023
Common Stock, \$0.01 par value	23,528,597 shares

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PART I – FINANCIAL INFORMATION
Item 1—Condensed Consolidated Financial Statements (Unaudited)
ENCORE CAPITAL GROUP, INC.
Condensed Consolidated Statements of Financial Condition
(In Thousands, Except Par Value Amounts)
(Unaudited)

	September 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents	\$ 144,711	\$ 143,912
Investment in receivable portfolios, net	3,320,544	3,088,261
Property and equipment, net	102,208	113,900
Other assets	366,815	341,073
Goodwill	826,010	821,214
Total assets	<u>\$ 4,760,288</u>	<u>\$ 4,508,360</u>
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 190,646	\$ 198,217
Borrowings	3,114,175	2,898,821
Other liabilities	256,684	231,695
Total liabilities	<u>3,561,505</u>	<u>3,328,733</u>
Commitments and Contingencies (Note 11)		
Equity:		
Convertible preferred stock, \$0.01 par value, 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 75,000 shares authorized, 23,529 and 23,323 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	235	233
Additional paid-in capital	8,106	—
Accumulated earnings	1,319,933	1,278,210
Accumulated other comprehensive loss	(129,491)	(98,816)
Total stockholders' equity	<u>1,198,783</u>	<u>1,179,627</u>
Total liabilities and stockholders' equity	<u>\$ 4,760,288</u>	<u>\$ 4,508,360</u>

The following table presents certain assets and liabilities of consolidated variable interest entities (“VIEs”) included in the condensed consolidated statements of financial condition above. Most assets in the table below include those assets that can only be used to settle obligations of consolidated VIEs. The liabilities exclude amounts where creditors or beneficial interest holders have recourse to the general credit of the Company. See “Note 8: Variable Interest Entities” for additional information on the Company’s VIEs.

	September 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents	\$ 1,470	\$ 1,344
Investment in receivable portfolios, net	445,653	431,350
Other assets	1,107	3,627
Liabilities		
Accounts payable and accrued liabilities	116	150
Borrowings	408,680	423,522
Other liabilities	18	105

See accompanying notes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues				
Revenue from receivable portfolios	\$ 302,687	\$ 297,219	\$ 899,545	\$ 907,606
Changes in recoveries	(17,067)	(13,080)	(30,054)	179,293
Total debt purchasing revenue	285,620	284,139	869,491	1,086,899
Servicing revenue	19,893	21,992	63,486	71,926
Other revenues	4,106	1,621	12,316	5,526
Total revenues	309,619	307,752	945,293	1,164,351
Operating expenses				
Salaries and employee benefits	95,067	89,241	294,772	285,077
Cost of legal collections	56,274	52,891	167,525	163,756
General and administrative expenses	35,559	37,274	108,053	105,775
Other operating expenses	27,959	28,286	81,864	82,718
Collection agency commissions	8,046	7,884	26,583	27,412
Depreciation and amortization	11,196	11,659	32,768	35,134
Total operating expenses	234,101	227,235	711,565	699,872
Income from operations	75,518	80,517	233,728	464,479
Other expense				
Interest expense	(50,558)	(39,308)	(147,376)	(110,995)
Other income, net	5,103	1,205	5,080	3,392
Total other expense	(45,455)	(38,103)	(142,296)	(107,603)
Income before income taxes	30,063	42,414	91,432	356,876
Provision for income taxes	(10,724)	(10,920)	(27,162)	(89,194)
Net income	\$ 19,339	\$ 31,494	\$ 64,270	\$ 267,682
Earnings per share:				
Basic	\$ 0.82	\$ 1.31	\$ 2.72	\$ 11.00
Diluted	\$ 0.79	\$ 1.22	\$ 2.62	\$ 10.06
Weighted average shares outstanding:				
Basic	23,712	23,958	23,644	24,344
Diluted	24,382	25,919	24,535	26,601

See accompanying notes

ENCORE CAPITAL GROUP, INC.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 19,339	\$ 31,494	\$ 64,270	\$ 267,682
Other comprehensive (loss) income, net of tax:				
Change in unrealized (loss) gain on derivative instruments:				
Unrealized (loss) gain on derivative instruments	(6,310)	21,603	(12,401)	44,042
Income tax effect	(1,903)	(5,425)	(774)	(10,834)
Unrealized (loss) gain on derivative instruments, net of tax	(8,213)	16,178	(13,175)	33,208
Change in foreign currency translation:				
Unrealized loss on foreign currency translation	(50,121)	(63,322)	(16,581)	(145,381)
Income tax effect	(257)	—	(919)	—
Unrealized loss on foreign currency translation, net of tax	(50,378)	(63,322)	(17,500)	(145,381)
Other comprehensive loss, net of tax:	(58,591)	(47,144)	(30,675)	(112,173)
Total comprehensive (loss) income	<u>\$ (39,252)</u>	<u>\$ (15,650)</u>	<u>\$ 33,595</u>	<u>\$ 155,509</u>

See accompanying notes

ENCORE CAPITAL GROUP, INC.
Condensed Consolidated Statements of Equity
(Unaudited, In Thousands)

Three Months Ended September 30, 2023

	Common Stock		Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Par				
Balance as of June 30, 2023	23,485	\$ 235	\$ 3,906	\$ 1,300,594	\$ (70,900)	\$ 1,233,835
Net income	—	—	—	19,339	—	19,339
Other comprehensive income, net of tax	—	—	—	—	(58,591)	(58,591)
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	44	—	1,105	—	—	1,105
Stock-based compensation	—	—	3,092	—	—	3,092
Exercise of capped call options	—	—	2,371	—	—	2,371
Settlement of convertible notes	—	—	(2,368)	—	—	(2,368)
Balance as of September 30, 2023	<u>23,529</u>	<u>\$ 235</u>	<u>\$ 8,106</u>	<u>\$ 1,319,933</u>	<u>\$ (129,491)</u>	<u>\$ 1,198,783</u>

Three Months Ended September 30, 2022

	Common Stock		Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Par				
Balance as of June 30, 2022	23,989	\$ 240	\$ —	\$ 1,349,937	\$ (118,577)	\$ 1,231,600
Net income	—	—	—	31,494	—	31,494
Other comprehensive loss, net of tax	—	—	—	—	(47,144)	(47,144)
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	6	—	(294)	—	—	(294)
Repurchase and retirement of common stock	(457)	(5)	(2,897)	(23,016)	—	(25,918)
Stock-based compensation	—	—	3,191	—	—	3,191
Balance as of September 30, 2022	<u>23,538</u>	<u>\$ 235</u>	<u>\$ —</u>	<u>\$ 1,358,415</u>	<u>\$ (165,721)</u>	<u>\$ 1,192,929</u>

Nine Months Ended September 30, 2023

	Common Stock		Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Par				
Balance as of December 31, 2022	23,323	\$ 233	\$ —	\$ 1,278,210	\$ (98,816)	\$ 1,179,627
Net income	—	—	—	64,270	—	64,270
Other comprehensive income, net of tax	—	—	—	—	(30,675)	(30,675)
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	206	2	(5,217)	—	—	(5,215)
Stock-based compensation	—	—	11,017	—	—	11,017
Purchase of capped call options, net of tax effect	—	—	(13,865)	—	—	(13,865)
Unwind and exercise of capped call options	—	—	30,913	—	—	30,913
Settlement of convertible notes	—	—	(14,742)	(22,547)	—	(37,289)
Balance as of September 30, 2023	<u>23,529</u>	<u>\$ 235</u>	<u>\$ 8,106</u>	<u>\$ 1,319,933</u>	<u>\$ (129,491)</u>	<u>\$ 1,198,783</u>

Nine Months Ended September 30, 2022

	Common Stock		Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Par				
Balance as of December 31, 2021	24,541	\$ 245	\$ —	\$ 1,238,564	\$ (53,548)	\$ 1,185,261
Net income	—	—	—	267,682	—	267,682
Other comprehensive loss, net of tax	—	—	—	—	(112,173)	(112,173)
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	278	4	(3,943)	(7,434)	—	(11,373)
Repurchase and retirement of common stock	(1,281)	(14)	(7,494)	(69,245)	—	(76,753)
Stock-based compensation	—	—	12,231	—	—	12,231
Settlement of convertible notes	—	—	—	(71,152)	—	(71,152)
Other	—	—	(794)	—	—	(794)
Balance as of September 30, 2022	23,538	\$ 235	\$ —	\$ 1,358,415	\$ (165,721)	\$ 1,192,929

See accompanying notes

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

	Nine Months Ended September 30,	
	2023	2022
Operating activities:		
Net income	\$ 64,270	\$ 267,682
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,768	35,134
Other non-cash interest expense, net	12,526	11,984
Stock-based compensation expense	11,017	12,231
Deferred income taxes	952	2,127
Changes in recoveries	30,054	(179,293)
Other, net	(1,958)	14,319
Changes in operating assets and liabilities		
Other assets	(21,820)	36,768
Accounts payable, accrued liabilities and other liabilities	(11,598)	(46,076)
Net cash provided by operating activities	<u>116,211</u>	<u>154,876</u>
Investing activities:		
Purchases of receivable portfolios, net of put-backs	(772,101)	(569,032)
Collections applied to investment in receivable portfolios	504,672	567,775
Purchases of asset held for sale	(24,645)	(38,604)
Purchases of property and equipment	(16,765)	(21,068)
Other, net	38,113	20,257
Net cash used in investing activities	<u>(270,726)</u>	<u>(40,672)</u>
Financing activities:		
Payment of loan and debt refinancing costs	(8,224)	(1,659)
Proceeds from credit facilities	630,079	637,342
Repayment of credit facilities	(446,724)	(432,424)
Repayment of senior secured notes	(29,310)	(29,310)
Proceeds from issuance of convertible senior notes	230,000	—
Repayment of convertible and exchangeable senior notes	(212,480)	(221,153)
Proceeds from convertible hedge instruments, net	12,421	—
Repurchase and retirement of common stock	—	(76,753)
Other, net	(16,890)	(16,735)
Net cash provided by (used in) financing activities	<u>158,872</u>	<u>(140,692)</u>
Net increase (decrease) in cash and cash equivalents	4,357	(26,488)
Effect of exchange rate changes on cash and cash equivalents	(3,558)	(16,122)
Cash and cash equivalents, beginning of period	143,912	189,645
Cash and cash equivalents, end of period	<u>\$ 144,711</u>	<u>\$ 147,035</u>
Supplemental disclosure of cash information:		
Cash paid for interest	\$ 120,113	\$ 94,828
Cash paid for taxes, net of refunds	50,605	63,710

See accompanying notes

ENCORE CAPITAL GROUP, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1: Ownership, Description of Business, and Summary of Significant Accounting Policies

Encore Capital Group, Inc. (“Encore”), through its subsidiaries (collectively with Encore, the “Company”), is an international specialty finance company providing debt recovery solutions and other related services for consumers across a broad range of financial assets. The Company purchases portfolios of defaulted consumer receivables at deep discounts to face value and manages them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers’ unpaid financial obligations to credit originators, including banks, credit unions, consumer finance companies and commercial retailers. Defaulted receivables may also include receivables subject to bankruptcy proceedings. The Company also provides debt servicing and other portfolio management services to credit originators for non-performing loans in Europe.

Through Midland Credit Management, Inc. and its domestic affiliates (collectively, “MCM”), the Company is a market leader in portfolio purchasing and recovery in the United States. Through Cabot Credit Management Limited (“CCM”) and its subsidiaries and European affiliates (collectively, “Cabot”), the Company is one of the largest credit management services providers in Europe and the United Kingdom. These are the Company’s primary operations.

The Company also has investments and operations in Latin America and Asia-Pacific, which the Company refers to as “LAAP.”

Financial Statement Preparation and Presentation

The accompanying interim condensed consolidated financial statements have been prepared by the Company, without audit, in accordance with the instructions to the Quarterly Report on Form 10-Q, and Rule 10-01 of Regulation S-X promulgated by the United States Securities and Exchange Commission (the “SEC”) and, therefore, do not include all information and footnotes necessary for a fair presentation of its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”).

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the Company’s condensed consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company’s condensed financial statements and the accompanying notes. Actual results could materially differ from those estimates.

Basis of Consolidation

The condensed consolidated financial statements have been prepared in conformity with GAAP and reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. The Company also consolidates variable interest entities (“VIEs”) for which it is the primary beneficiary. The primary beneficiary has both (a) the power to direct the activities of the VIE that most significantly affect the entity’s economic performance, and (b) either the obligation to absorb losses or the right to receive benefits. Refer to “Note 8: Variable Interest Entities” for further details. All intercompany transactions and balances have been eliminated in consolidation.

Translation of Foreign Currencies

The condensed financial statements of certain of the Company’s foreign subsidiaries are measured using their local currency as the functional currency. Assets and liabilities of foreign operations are translated into U.S. dollars using period-end exchange rates, and revenues and expenses are translated into U.S. dollars using average exchange rates in effect during each period. The resulting translation adjustments are recorded as a component of other comprehensive income or loss. Equity accounts are translated at historical rates, except for the change in retained earnings during the year which is the result of the income statement translation process. Intercompany transaction gains or losses at each period end arising from subsequent measurement of balances for which settlement is not planned or anticipated in the foreseeable future are included as translation adjustments and recorded within other comprehensive income or loss. Translation gains or losses are the material components of accumulated other comprehensive income or loss and are reclassified to earnings upon the substantial sale or liquidation of investments in foreign operations.

Recently Adopted Accounting Guidance

There have been no recent accounting pronouncements or changes in accounting pronouncements during the three and nine months ended September 30, 2023, as compared to the recent accounting pronouncements described in our Annual Report, that have significance, or potential significance, to the Company’s condensed consolidated financial statements.

Note 2: Earnings Per Share

Basic earnings per share is calculated by dividing net earnings attributable to Encore by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period. Dilutive potential common shares include outstanding stock-based awards, and the dilutive effect of the convertible and exchangeable senior notes, if applicable.

On August 12, 2015, the Company’s Board of Directors approved a \$50.0 million share repurchase program. On May 5, 2021, the Company announced that the Board of Directors had approved an increase in the size of the repurchase program from \$50.0 million to \$300.0 million (an increase of \$250.0 million). Repurchases under this program are expected to be made with cash on hand and may be made from time to time, subject to market conditions and other factors, in the open market, through private transactions, block transactions, or other methods as determined by the Company’s management and Board of Directors, and in accordance with market conditions, other corporate considerations, and applicable regulatory requirements. The program does not obligate the Company to acquire any particular amount of common stock, and it may be modified or suspended at any time at the Company’s discretion. During the three and nine months ended September 30, 2023, the Company did not make any repurchases under the share repurchase program. During the three and nine months ended September 30, 2022, the Company repurchased 457,244 and 1,280,857 shares of its common stock for approximately \$25.9 million and \$76.6 million, respectively. The Company’s practice is to retire the shares repurchased.

A reconciliation of shares used in calculating earnings per basic and diluted shares follows (*in thousands, except per share amounts*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 19,339	\$ 31,494	\$ 64,270	\$ 267,682
Total weighted-average basic shares outstanding	23,712	23,958	23,644	24,344
Dilutive effect of stock-based awards	165	301	191	365
Dilutive effect of convertible and exchangeable senior notes	505	1,660	700	1,892
Total weighted-average dilutive shares outstanding	24,382	25,919	24,535	26,601
Basic earnings per share	\$ 0.82	\$ 1.31	\$ 2.72	\$ 11.00
Diluted earnings per share	\$ 0.79	\$ 1.22	\$ 2.62	\$ 10.06

There were no anti-dilutive employee stock options outstanding during the three and nine months ended September 30, 2023 and 2022.

Note 3: Fair Value Measurements

Fair value is defined as the price that would be received upon sale of an asset or the price paid to transfer a liability, in an orderly transaction between market participants at the measurement date (*i.e.*, the “exit price”). The Company uses a fair value hierarchy that prioritizes the inputs used in valuation techniques to measure fair value into three broad levels. The following is a brief description of each level:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs, including inputs that reflect the reporting entity’s own assumptions.

Financial Instruments Required To Be Carried At Fair Value

Financial assets and liabilities measured at fair value on a recurring basis are summarized below (*in thousands*):

	Fair Value Measurements as of September 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rate cap contracts	\$ —	\$ 24,018	\$ —	\$ 24,018
Liabilities				
Cross-currency swap agreements	—	(59,071)	—	(59,071)
	Fair Value Measurements as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Interest rate cap contracts	\$ —	\$ 36,807	\$ —	\$ 36,807
Liabilities				
Cross-currency swap agreements	—	(36,918)	—	(36,918)

Derivative Contracts:

The Company uses derivative instruments to manage its exposure to fluctuations in interest rates and foreign currency exchange rates. Fair values of these derivative instruments are estimated using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves, foreign currency exchange rates, and forward and spot prices for currencies.

Non-Recurring Fair Value Measurement:

Certain assets are measured at fair value on a nonrecurring basis. These assets include real estate-owned assets classified as held for sale at the lower of their carrying value or fair value less cost to sell. The fair value of the assets held for sale and estimated selling expenses were determined at the time of initial recognition and in each reporting period using Level 3 measurements based on appraised values using market comparables. The fair value estimate of the assets held for sale was approximately \$73.1 million and \$68.2 million as of September 30, 2023 and December 31, 2022, respectively.

Financial Instruments Not Required To Be Carried At Fair Value

The table below summarizes fair value estimates for the Company's financial instruments that are not required to be carried at fair value. The total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Company.

The carrying amounts in the following table are included in the condensed consolidated statements of financial condition as of September 30, 2023 and December 31, 2022 (*in thousands*):

	September 30, 2023		December 31, 2022	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Investment in receivable portfolios, net	\$ 3,320,544	\$ 3,451,720	\$ 3,088,261	\$ 3,242,506
Financial Liabilities				
Global senior secured revolving credit facility	863,707	863,707	661,738	661,738
Encore private placement notes	39,080	38,212	68,390	66,947
Senior secured notes ⁽¹⁾	1,476,097	1,385,506	1,480,258	1,334,686
Exchangeable senior notes due September 2023	—	—	172,500	205,227
Convertible senior notes due October 2025	100,000	130,269	100,000	130,556
Convertible senior notes due March 2029	230,000	223,256	—	—
Cabot securitisation senior facility	408,680	408,680	423,522	423,522
Other borrowings	26,830	26,830	23,512	23,512

(1) Carrying amount represents historical cost, adjusted for any related debt discount or debt premium.

Investment in Receivable Portfolios:

The fair value of investment in receivable portfolios is measured using Level 3 inputs by discounting the estimated future cash flows generated by the Company’s proprietary forecasting models. The key inputs include the estimated future gross cash flow, average cost to collect, and discount rate. The determination of such inputs requires significant judgment, including assessing the assumed market participant’s cost structure, its determination of whether to include fixed costs in its valuation, its collection strategies, and determining the appropriate weighted average cost of capital. The Company evaluates the use of these key inputs on an ongoing basis and refines the data as it continues to obtain better information from market participants in the debt recovery and purchasing business.

Borrowings:

The Company’s convertible notes, exchangeable notes, senior secured notes and private placement notes are carried at historical cost, adjusted for the applicable debt discount. The fair value estimate for the convertible and exchangeable notes incorporates quoted market prices using Level 2 inputs. The fair value of the senior secured notes and private placement notes is estimated using widely accepted valuation techniques, including discounted cash flow analyses using available market information on discount and borrowing rates with similar terms, maturities, and credit ratings. Accordingly, the Company used Level 2 inputs for these debt instrument fair value estimates.

The carrying value of the Company’s variable interest rate bearing senior secured revolving credit facility and securitisation senior facility approximates fair value as they are indexed to short-term rates and are repriced frequently.

Note 4: Derivatives and Hedging Instruments

The Company may periodically enter into derivative financial instruments to manage risks related to interest rates and foreign currency. Certain of the Company’s derivative financial instruments qualify for hedge accounting treatment.

The following table summarizes the fair value of derivative instruments as recorded in the Company’s condensed consolidated statements of financial condition (*in thousands*):

	September 30, 2023		December 31, 2022	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate cap contracts	Other assets	\$ 20,491	Other assets	\$ 36,807
Cross-currency swap agreements	Other liabilities	(59,071)	Other liabilities	(36,918)
Derivatives not designated as hedging instruments:				
Interest rate cap contracts	Other assets	3,527		

Derivatives Designated as Hedging Instruments

The Company uses interest rate cap contracts to manage its risk related to the interest rate fluctuations in its variable interest rate bearing debt. As of September 30, 2023, the Company held two interest rate cap contracts with a total notional amount of approximately \$850.3 million. The interest rate cap hedging the fluctuations in three-month EURIBOR floating rate debt (“2019 Cap”) has a notional amount of €400.0 million (approximately \$423.3 million based on an exchange rate of \$1.00 to €0.94, the exchange rate as of September 30, 2023) and matures in June 2024. The interest rate cap hedging the fluctuations in sterling overnight index average (“SONIA”) bearing debt (“2021 Cap”) has a notional amount of £350.0 million (approximately \$427.0 million based on an exchange rate of \$1.00 to £0.82, the exchange rate as of September 30, 2023) and matures in September 2024. The 2019 Cap and 2021 Cap have been designated as cash flow hedging instruments since inception.

In September 2023, as a result of the partial repayment and amendment of the Cabot Securitisation Senior Facility (the underlying hedged item for the 2021 Cap), the Company concluded that it is probable that a certain portion of the originally forecasted hedged transactions would not occur and, as a result, partially dedesignated £100.0 million (approximately \$122.0 million based on an exchange rate of \$1.00 to £0.82, the exchange rate as of September 30, 2023) of the notional amount of the 2021 Cap. As a result of the partial dedesignation, the Company reclassified the existing deferred gain of approximately \$3.7 million from accumulated other comprehensive loss into Other income, net in its condensed consolidated statements of income for the three and nine months ended September 30, 2023. As of September 30, 2023, £250.0 million (approximately \$305.0 million based on an exchange rate of \$1.00 to £0.82, the exchange rate as of September 30, 2023) of the 2021 cap remained designated as a cash flow hedge and the Company expects the hedge relationship to be highly effective.

The Company expects to reclassify approximately \$19.1 million of net derivative gain from accumulated other comprehensive loss into earnings relating to the designated portion of the interest rate cap hedging instruments within the next 12 months.

The Company uses cross-currency swap agreements to manage foreign currency exchange risk by converting fixed-rate Euro-denominated borrowings and fixed-rate GBP-denominated borrowings including periodic interest payments and the payment of principal at maturity to fixed-rate USD debt. The cross-currency swap agreements are accounted for as fair value hedges.

Prior to June 2023, the Company held cross-currency swap agreements (“2020 Euro Swaps”) with a total notional amount of €350.0 million (approximately \$370.4 million based on an exchange rate of \$1.00 to €0.94, the exchange rate as of September 30, 2023). These cross-currency swaps were set to expire in October 2023 and were designated as cash flow hedges. In June 2023, the Company amended the cross-currency swap agreements and extended the expiration date of these agreements to October 2025 without changing the total notional amount. In connection with these transactions, the Company dedesignated the previous cash flow hedge relationships and redesignated the amended cross-currency swap agreements as fair value hedges. The amended cross-currency swap agreements are considered off-market derivatives. The unrealized loss associated with the amended cross-currency swap agreements was approximately \$1.3 million as of September 30, 2023. The principal amount of the hedged liabilities relating to the 2020 Euro Swaps is equal to the notional amount of the 2020 Euro Swaps and is included in Borrowings in the Company’s condensed consolidated statements of financial condition as of September 30, 2023.

In July 2023, the Company entered into cross-currency swap agreements (“2023 GBP Swaps”) with a total notional amount of £300.0 million (approximately \$366.0 million based on an exchange rate of \$1.00 to £0.82, the exchange rate as of September 30, 2023) that are used to manage foreign currency exchange risk. The 2023 GBP Swaps expire in February 2026. The principal amount of the hedged liabilities relating to the 2023 GBP Swaps is equal to the notional amount of the 2023 GBP Swaps and are included in Borrowings in the Company’s condensed consolidated statements of financial condition as of September 30, 2023.

The following tables summarize the effects of derivatives designated as hedging instruments in the Company’s condensed consolidated financial statements (*in thousands*):

Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized in OCI		Location of Gain (Loss) Reclassified from OCI into Income (Loss)	Gain (Loss) Reclassified from OCI into Income (Loss)	
	Three Months Ended September 30,			Three Months Ended September 30,	
	2023	2022		2023	2022
Interest rate cap contracts	\$ (9,578)	\$ 23,422	Interest expense	\$ (424)	\$ (201)
Cross-currency swap agreements	(26,811)	(27,913)	Interest expense	(925)	(2,263)
			Other income (expense)	(32,401)	(23,630)

Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized in OCI		Location of Gain (Loss) Reclassified from OCI into Income (Loss)	Gain (Loss) Reclassified from OCI into Income (Loss)	
	Nine Months Ended September 30,			Nine Months Ended September 30,	
	2023	2022		2023	2022
Interest rate cap contracts	\$(13,079)	\$ 39,772	Interest expense	\$ (1,265)	\$ (554)
Cross-currency swap agreements	(26,641)	(56,752)	Interest expense	(3,828)	(5,986)
			Other income (expense)	(25,897)	(54,482)

Derivatives Not Designated as Hedging Instruments

As discussed above, in September 2023, the Company partially dedesignated the 2021 Cap. As of September 30, 2023, £100.0 million (approximately \$122.0 million based on an exchange rate of \$1.00 to £0.82, the exchange rate as of September 30, 2023) of the notional amount of the 2021 Cap is not designated as hedging instrument for accounting purposes. The gains or losses resulting from changes in fair value on the portion of the 2021 cap that is no longer designated as a hedging instrument are recognized in other income or other expenses. During the three and nine months ended September 30, 2023, the Company recorded a loss of approximately \$0.2 million in connection with the changes in the fair value of the 2021 Cap not designated as a hedging instrument.

Note 5: Investment in Receivable Portfolios, Net

The Company's purchased portfolios of loans are grossed-up to their face value with an offsetting allowance and noncredit discount allocated to the individual receivables as the unit of account is at the individual loan level. Since each loan is deeply delinquent and deemed uncollectible at the individual loan level, the Company applies its charge-off policy and fully writes-off the amortized costs (*i.e.*, face value net of noncredit discount) of the individual receivables immediately after purchasing the portfolio. The Company then records a negative allowance that represents the present value of all expected future recoveries for pools of receivables that share similar risk characteristics using a discounted cash flow approach, which ultimately equals the amount paid for a portfolio purchase and presented as "Investment in receivable portfolios, net" in the Company's condensed consolidated statements of financial condition. The discount rate is an effective interest rate (or "purchase EIR") based on the purchase price of the portfolio and the expected future cash flows at the time of purchase.

Receivable portfolio purchases are aggregated into pools based on similar risk characteristics. Examples of risk characteristics include financial asset type, collateral type, size, interest rate, date of origination, term, and geographic location. The Company's static pools are typically grouped into credit card, purchased consumer bankruptcy, and mortgage portfolios. The Company further groups these static pools by geographic location. Once a pool is established, the portfolios will remain in the designated pool unless the underlying risk characteristics change, which is not expected due to the delinquent nature of the individual loans. The purchase EIR of a pool will not change over the life of the pool even if expected future cash flows change.

Revenue is recognized for each static pool over the economic life of the pool. Debt purchasing revenue includes two components:

- (1) Revenue from receivable portfolios, which is the accretion of the discount on the negative allowance due to the passage of time (generally the portfolio balance multiplied by the EIR) and also includes all revenue from zero basis portfolio ("ZBA") collections, and
- (2) Changes in recoveries, which includes
 - (a) Recoveries above or below forecast, which is the difference between (i) actual cash collected/recovered during the current period and (ii) expected cash recoveries for the current period, which generally represents over or under performance for the period; and
 - (b) Changes in expected future recoveries, which is the present value change of expected future recoveries, where such change generally results from (i) collections "pulled forward from" or "pushed out to" future periods (*i.e.* amounts either collected early or expected to be collected later) and (ii) magnitude and timing changes to estimates of expected future collections (which can be increases or decreases).

The Company measures expected future recoveries based on historical experience, current conditions, reasonable and supportable forecasts, and other quantitative and qualitative factors. Factors that may change the expected future recoveries may include both internal as well as external factors. Internal factors include operational performance, such as capacity and the productivity of the Company's collection staff. External factors include new laws or regulations, new interpretations of existing laws or regulations, and macroeconomic conditions. The Company continues to reassess its expected future recoveries in each reporting period.

Investment in receivable portfolios, net consists of the following as of the dates presented (*in thousands*):

	September 30, 2023	December 31, 2022
Amortized cost	\$ —	\$ —
Negative allowance for expected recoveries	3,320,544	3,088,261
Balance, end of period	<u>\$ 3,320,544</u>	<u>\$ 3,088,261</u>

The following table summarizes the changes in the balance of investment in receivable portfolios, net during the periods presented (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 3,330,986	\$ 3,035,123	\$ 3,088,261	\$ 3,065,553
Negative allowance for expected recoveries - current period purchases ⁽¹⁾	230,559	232,652	781,315	575,164
Collections applied to investment in receivable portfolios, net ⁽²⁾	(162,652)	(161,037)	(504,672)	(567,775)
Changes in recoveries ⁽³⁾	(17,067)	(13,080)	(30,054)	179,293
Put-backs and recalls	(3,179)	(1,552)	(9,214)	(6,132)
Disposals and transfers to real estate owned	(3,314)	(3,035)	(9,558)	(6,867)
Foreign currency translation adjustments	(54,789)	(112,869)	4,466	(263,034)
Balance, end of period	<u>\$ 3,320,544</u>	<u>\$ 2,976,202</u>	<u>\$ 3,320,544</u>	<u>\$ 2,976,202</u>

(1) The table below provides the detail on the establishment of negative allowance for expected recoveries of portfolios purchased during the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Purchase price	\$ 230,559	\$ 232,652	\$ 781,315	\$ 575,164
Allowance for credit losses	666,915	608,708	2,017,060	1,727,826
Amortized cost	897,474	841,360	2,798,375	2,302,990
Noncredit discount	1,171,383	834,468	3,225,837	2,398,775
Face value	2,068,857	1,675,828	6,024,212	4,701,765
Write-off of amortized cost	(897,474)	(841,360)	(2,798,375)	(2,302,990)
Write-off of noncredit discount	(1,171,383)	(834,468)	(3,225,837)	(2,398,775)
Negative allowance	230,559	232,652	781,315	575,164
Negative allowance for expected recoveries - current period purchases	<u>\$ 230,559</u>	<u>\$ 232,652</u>	<u>\$ 781,315</u>	<u>\$ 575,164</u>

(2) Collections applied to investment in receivable portfolios, net, is calculated as follows during the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cash Collections	\$ 465,339	\$ 458,256	\$ 1,404,217	\$ 1,475,381
Less - amounts classified to revenue from receivable portfolios	(302,687)	(297,219)	(899,545)	(907,606)
Collections applied to investment in receivable portfolios, net	\$ 162,652	\$ 161,037	\$ 504,672	\$ 567,775

(3) Changes in recoveries is calculated as follows during the periods presented, where recoveries include cash collections, put-backs and recalls, and other cash-based adjustments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Recoveries (below) above forecast	\$ (4,274)	\$ (4,880)	\$ (20,109)	\$ 51,407
Changes in expected future recoveries	(12,793)	(8,200)	(9,945)	127,886
Changes in recoveries	\$ (17,067)	\$ (13,080)	\$ (30,054)	\$ 179,293

Recoveries above or below forecast represent over and under-performance in the reporting period, respectively. Collections during the three and nine months ended September 30, 2023, under-performed the forecasted collections by approximately \$4.3 million and \$20.1 million, respectively. The under-performance was primarily attributable to shifts in the timing of collections for recent U.S. vintages as consumers transitioned back to more normalized payment behavior.

When reassessing the forecasts of expected lifetime recoveries during the three months ended September 30, 2023, management considered, among other factors, historical and current collection performance, changes in consumer behavior, and the macroeconomic environment and believes that forecasted collections for certain static pools resulted in decreased total expected recoveries. As a result, the Company has updated its forecast, resulting in changes in the timing and amount of total estimated remaining collections which in turn, when discounted to present value, resulted in a net negative change in expected future recoveries of approximately \$12.8 million for the three months ended September 30, 2023. This negative change in expected future recoveries, together with the net positive changes of approximately \$2.9 million recorded in the first half of the year, resulted in a net negative change of expected future recoveries of \$9.9 million for the nine months ended September 30, 2023. During the three and nine months ended September 30, 2022, the Company recorded approximately \$8.2 million in net negative change and \$127.9 million in net positive change in expected future period recoveries, respectively.

Note 6: Other Assets

Other assets consist of the following (*in thousands*):

	September 30, 2023	December 31, 2022
Real estate owned	\$ 73,090	\$ 68,242
Operating lease right-of-use assets	68,340	70,074
Income tax deposits	49,855	18,259
Prepaid expenses	33,953	30,376
Derivative instruments	24,018	36,807
Identifiable intangible assets, net	18,797	22,112
Deferred tax assets, net	16,130	18,069
Service fee receivables	10,239	16,094
Other	72,393	61,040
Total	\$ 366,815	\$ 341,073

Note 7: Borrowings

The Company is in compliance in all material respects with all covenants under its financing arrangements as of September 30, 2023. The components of the Company’s consolidated borrowings were as follows (*in thousands*):

	September 30, 2023	December 31, 2022
Global senior secured revolving credit facility	\$ 863,707	\$ 661,738
Encore private placement notes	39,080	68,390
Senior secured notes	1,480,605	1,485,888
Convertible notes and exchangeable notes	330,000	272,500
Cabot securitisation senior facility	408,680	423,522
Other	26,830	23,512
Finance lease liabilities	3,426	5,675
	<u>3,152,328</u>	<u>2,941,225</u>
Less: debt discount and issuance costs, net of amortization	(38,153)	(42,404)
Total	<u>\$ 3,114,175</u>	<u>\$ 2,898,821</u>

Encore is the parent of the restricted group for the Global Senior Facility, the Senior Secured Notes and the Encore Private Placement Notes, each of which is guaranteed by the same group of material Encore subsidiaries and secured by the same collateral, which represents substantially all of the assets of those subsidiaries.

Global Senior Secured Revolving Credit Facility

In September 2020, the Company entered into a multi-currency senior secured revolving credit facility agreement (as amended and restated, the “Global Senior Facility”). In May 2023, the Company amended the Global Senior Facility to extend the termination date of the facility from September 2026 to September 2027. In addition, the size of the facility was increased by \$40.0 million to \$1,180.0 million. As of September 30, 2023, the Global Senior Facility includes the following key provisions:

- Interest at Term SOFR (or EURIBOR for any loan drawn in Euro or a rate based on SONIA for any loan drawn in British Pound), with a Term SOFR (or EURIBOR or SONIA) floor of 0.00%, plus a margin of 2.50%, plus in the case of Term SOFR borrowings, a credit adjustment spread of 0.10%;
- An unused commitment fee of 0.40% per annum, payable quarterly in arrears;
- A restrictive covenant that limits the LTV Ratio (defined in the Global Senior Facility) to 0.75 in the event that the Global Senior Facility is more than 20% utilized;
- A restrictive covenant that limits the SSRCF LTV Ratio (defined in the Global Senior Facility) to 0.275;
- A restrictive covenant that requires the Company to maintain a Fixed Charge Coverage Ratio (as defined in the Global Senior Facility) of at least 2.0;
- Additional restrictions and covenants which limit, among other things, the payment of dividends and the incurrence of additional indebtedness and liens; and
- Standard events of default which, upon occurrence, may permit the lenders to terminate the Global Senior Facility and declare all amounts outstanding to be immediately due and payable.

The Global Senior Facility is secured by substantially all of the assets of the Company and the guarantors. Pursuant to the terms of an intercreditor agreement entered into with respect to the relative positions of (1) the Global Senior Facility, any super priority hedging liabilities and the Encore Private Placement Notes (collectively, “Super Senior Liabilities”) and (2) the Senior Secured Notes, Super Senior Liabilities that are secured by assets that also secure the Senior Secured Notes will receive priority with respect to any proceeds received upon any enforcement action over any such assets.

As of September 30, 2023, the outstanding borrowings under the Global Senior Facility were \$863.7 million. The weighted average interest rate of the Global Senior Facility was 7.84% and 4.71% for the three months ended September 30, 2023 and 2022, respectively. The weighted average interest rate of the Global Senior Facility was 7.48% and 3.69% for the nine months ended September 30, 2023 and 2022, respectively. Available capacity under the Global Senior Facility, after taking into account applicable debt covenants, was approximately \$307.2 million as of September 30, 2023.

Encore Private Placement Notes

In August 2017, Encore entered into \$325.0 million in senior secured notes with a group of insurance companies (the “Encore Private Placement Notes”). As of September 30, 2023, \$39.1 million of the Encore Private Placement Notes remained outstanding. The Encore Private Placement Notes bear an annual interest rate of 5.625%, mature in August 2024 and require quarterly principal payments of \$9.8 million. The covenants and material terms for the Encore Private Placement Notes are substantially similar to those for the Global Senior Facility.

Senior Secured Notes

The following table provides a summary of the Company’s senior secured notes (the “Senior Secured Notes”) (*\$ in thousands*):

	September 30, 2023	December 31, 2022	Issue Currency	Maturity Date	Interest Payment Dates	Interest Rate
Encore 2025 Notes	\$ 370,423	\$ 375,325	EUR	Oct 15, 2025	Apr 15, Oct 15	4.875 %
Encore 2026 Notes	365,982	363,019	GBP	Feb 15, 2026	Feb 15, Aug 15	5.375 %
Encore 2028 Notes	304,985	302,516	GBP	Jun 1, 2028	Jun 1, Dec 1	4.250 %
Encore 2028 Floating Rate Notes	439,215	445,028	EUR	Jan 15, 2028	Jan 15, Apr 15, Jul 15, Oct 15	EURIBOR +4.250% ⁽¹⁾
	<u>\$ 1,480,605</u>	<u>\$ 1,485,888</u>				

(1) Interest rate is based on three-month EURIBOR (subject to a 0% floor) plus 4.250% per annum, resets quarterly.

The Senior Secured Notes are secured by the same collateral as the Global Senior Facility and the Encore Private Placement Notes. The guarantees provided in respect of the Senior Secured Notes are pari passu with each such guarantee given in respect of the Global Senior Facility and Encore Private Placement Notes. Subject to the intercreditor agreement described above under the section “Global Senior Secured Revolving Credit Facility,” Super Senior Liabilities that are secured by assets that also secure the Senior Secured Notes will receive priority with respect to any proceeds received upon any enforcement action over any such assets.

Convertible Notes and Exchangeable Notes

The following table provides a summary of the principal balance, maturity date and interest rate for the Company’s convertible and exchangeable senior notes (the “Convertible Notes” or “Exchangeable Notes,” as applicable) (*\$ in thousands*):

	September 30, 2023	December 31, 2022	Maturity Date	Interest Payment Dates	Interest Rate
2023 Exchangeable Notes	\$ —	\$ 172,500	Sep 1, 2023	Mar 1, Sep 1	4.500 %
2025 Convertible Notes	100,000	100,000	Oct 1, 2025	Apr 1, Oct 1	3.250 %
2029 Convertible Notes	230,000	—	Mar 15, 2029	Mar 15, Sep 15	4.000 %
	<u>\$ 330,000</u>	<u>\$ 272,500</u>			

In March 2023, Encore issued \$230.0 million aggregate principal amount of 4.00% convertible senior notes that mature on March 15, 2029 in a private placement transaction (the “2029 Convertible Notes”). Interest on the 2029 Convertible Notes is payable semi-annually.

The Company used a portion of the net proceeds from the issuance of the 2029 Convertible Notes to repurchase, in separate privately negotiated transactions, approximately \$154.8 million aggregate principal amount of its 2023 Exchangeable Notes for approximately \$192.5 million. The repurchase met the criteria for an induced conversion and accordingly, the Company recognized expense of \$2.7 million, representing the fair value of the consideration paid to certain holders of the 2023 Exchangeable Notes in excess of the fair value which they were otherwise entitled to receive pursuant to the existing conversion terms on the respective settlement dates. The amount is included in Other income, net, in the Company’s condensed consolidated statements of income during the nine months ended September 30, 2023. The remaining excess above the principal amount of the repurchased 2023 Exchangeable Notes was recognized in the Company’s stockholder’s equity.

Additionally, in March 2023, the Company received proceeds of approximately \$28.5 million from the unwind of the capped call options associated with the repurchased portion of the 2023 Exchangeable Notes. Since the capped call options were determined to be equity instruments, the partial unwind of the capped call options was recorded as an increase in stockholder's equity in the condensed consolidated statements of financial condition as of September 30, 2023. In addition, the Company recognized approximately \$0.7 million of interest expense in the condensed consolidated statements of income during the nine months ended September 30, 2023 to record the write-off of unamortized debt issuance costs associated with the 2023 Exchangeable Notes repurchased.

On September 1, 2023, the remaining \$17.7 million principal amount of the 2023 Exchangeable Notes matured. The Company settled in cash for approximately \$20.1 million both the outstanding 2023 Exchangeable Notes and the \$2.4 million excess above the principal amount. Concurrent with the settlement, the Company received \$2.4 million from its capped call options associated with the conversion of the remaining 2023 Exchangeable Notes. The excess above the principal amount represents the conversion spread and was recognized as a reduction in stockholder's equity and the proceeds from the exercise of the capped call options were recorded as an increase in stockholder's equity in the Company's condensed consolidated statements of financial conditions as of September 30, 2023. No gain or loss was recognized as a result of the settlement of the 2023 Exchangeable Notes in the Company's consolidated statements of income for the three months and nine months ended September 30, 2023.

In order to reduce the risk related to the potential dilution and/or the potential cash payments the Company may be required to make in the event that the market price of the Company's common stock becomes greater than the conversion prices of the Convertible Notes, the Company may enter into hedge programs that increase the effective conversion price for the Convertible Notes. In connection with the issuance of the 2029 Convertible Notes, the Company entered into privately negotiated capped call transactions that effectively raised the conversion price of the 2029 Convertible Notes from \$65.89 to \$82.69. The cost of the capped call transactions was approximately \$18.5 million. These hedging instruments have been determined to be indexed to the Company's own stock and meet the criteria for equity classification and therefore the cost was included as a reduction to stockholder's equity in the condensed consolidated statements of financial condition as of September 30, 2023. Subsequent changes in fair value of these financial instruments are not recognized in the Company's consolidated financial statements. The Company did not hedge the 2025 Convertible Notes.

Certain key terms related to the convertible features as of September 30, 2023 are listed below (*\$ in thousands, except conversion price*):

	2025 Convertible Notes	2029 Convertible Notes
Initial conversion price	\$ 40.00	\$ 65.89
Closing stock price at date of issuance	\$ 32.00	\$ 51.68
Closing stock price date	Sep 4, 2019	Feb 28, 2023
Initial conversion rate (shares per \$1,000 principal amount)	25.0000	15.1763
Adjusted conversion rate (shares per \$1,000 principal amount) ⁽¹⁾	25.1310	15.1763
Adjusted conversion price ⁽¹⁾	\$ 39.79	\$ 65.89
Adjusted effective conversion price ⁽²⁾	\$ 39.79	\$ 82.69
Excess of if-converted value compared to principal ⁽³⁾	\$ 20,026	\$ —
Conversion date	Jul 1, 2025	Dec 15, 2028

(1) Pursuant to the indenture for the Company's 2025 Convertible Notes, the conversion rate for the 2025 Convertible Notes was adjusted upon the completion of the Company's tender offer in December 2021.

(2) As discussed above, the Company maintains a hedge program that increases the effective conversion price for the 2029 Convertible Notes to \$82.69.

(3) Represents the premium the Company would have to pay assuming the Convertible Notes were converted on September 30, 2023 using a hypothetical share price based on the closing stock price on September 29, 2023.

In the event of conversion, the Convertible Notes are convertible into cash up to the aggregate principal amount of the notes and the excess conversion premium, if any, may be settled in cash or shares of the Company's common stock at the Company's election and subject to certain restrictions contained in each of the indentures governing the Convertible Notes.

Interest expense related to the Convertible Notes and Exchangeable Notes was \$3.2 million and \$2.8 million during the three months ended September 30, 2023 and 2022, respectively. Interest expense related to the Convertible Notes and Exchangeable Notes was \$9.5 million and \$9.2 million during the nine months ended September 30, 2023 and 2022, respectively.

Cabot Securitisation Senior Facility

Cabot Securitisation UK Ltd (“Cabot Securitisation”), an indirect subsidiary of Encore, has a senior facility for a committed amount of £350.0 million (as amended, the “Cabot Securitisation Senior Facility”). The Cabot Securitisation Senior Facility matures in September 2026. Funds drawn under the Cabot Securitisation Senior Facility bear interest at a rate per annum equal to SONIA plus a margin of 3.00% plus, for periods after September 18, 2024, a step-up margin ranging from zero to 1.00%.

On September 18, 2023, the Company paid down its Cabot Securitisation Senior Facility by £15.0 million. As of September 30, 2023, the outstanding borrowings under the Cabot Securitisation Senior Facility were £335.0 million (approximately \$408.7 million based on an exchange rate of \$1.00 to £0.82, the exchange rate as of September 30, 2023). The obligations of Cabot Securitisation under the Cabot Securitisation Senior Facility are secured by first ranking security interests over all of Cabot Securitisation’s property, assets and rights. As of September 30, 2023, this included receivables purchased from Cabot Financial UK from time to time, the book value of which was approximately £358.2 million (approximately \$437.0 million based on an exchange rate of \$1.00 to £0.82, the exchange rate as of September 30, 2023). As discussed in Note 4, “Derivatives and Hedging Instruments,” the Company uses interest rate cap contracts to manage its risk related to the interest rate fluctuations in its variable interest rate bearing debt. The weighted average interest rate of the Cabot Securitisation Senior Facility including the effect of the hedging instruments was 5.35% and 4.67% for the three months ended September 30, 2023 and 2022, respectively, and 5.28% and 4.02% for the nine months ended September 30, 2023 and 2022, respectively.

Cabot Securitisation is a securitized financing vehicle and is a VIE for consolidation purposes. Refer to “Note 8: Variable Interest Entities” for further details.

Note 8: Variable Interest Entities

A VIE is defined as a legal entity whose equity owners do not have sufficient equity at risk, or, as a group, the holders of the equity investment at risk lack any of the following three characteristics: decision-making rights, the obligation to absorb expected losses, or the right to receive expected residual returns of the entity. The primary beneficiary is identified as the variable interest holder that has both the power to direct the activities of the VIE that most significantly affect the entity’s economic performance and the obligation to absorb expected losses or the right to receive residual returns from the entity that could potentially be significant to the VIE. The Company consolidates VIEs when it is the primary beneficiary.

As of September 30, 2023, the Company’s VIEs include certain securitized financing vehicles and other immaterial special purpose entities that were created to purchase receivable portfolios in certain geographies. The Company is the primary beneficiary of these VIEs. The Company has the power to direct the activities of the VIEs including the ability to exercise discretion in the servicing of the financial assets and has the right to receive residual returns that could potentially be significant to the VIEs. The Company’s exposure to loss is limited to the total of the carrying value of the VIEs. The Company evaluates its relationships with its VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary.

Most assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against the Company’s general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company’s general assets; rather, they represent claims against the specific assets of the VIE.

Note 9: Accumulated Other Comprehensive Loss

A summary of the Company's changes in accumulated other comprehensive loss by component is presented below (*in thousands*):

	Three Months Ended September 30, 2023		
	Derivatives	Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance at beginning of period	\$ 31,532	\$ (102,432)	\$ (70,900)
Other comprehensive loss before reclassification	(36,389)	(50,121)	(86,510)
Reclassification	30,079	—	30,079
Tax effect	(1,903)	(257)	(2,160)
Balance at end of period	<u>\$ 23,319</u>	<u>\$ (152,810)</u>	<u>\$ (129,491)</u>

	Three Months Ended September 30, 2022		
	Derivatives	Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance at beginning of period	\$ 17,546	\$ (136,123)	\$ (118,577)
Other comprehensive loss before reclassification	(4,491)	(63,322)	(67,813)
Reclassification	26,094	—	26,094
Tax effect	(5,425)	—	(5,425)
Balance at end of period	<u>\$ 33,724</u>	<u>\$ (199,445)</u>	<u>\$ (165,721)</u>

	Nine Months Ended September 30, 2023		
	Derivatives	Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance at beginning of period	\$ 36,494	\$ (135,310)	\$ (98,816)
Other comprehensive loss before reclassification	(39,720)	(16,581)	(56,301)
Reclassification	27,319	—	27,319
Tax effect	(774)	(919)	(1,693)
Balance at end of period	<u>\$ 23,319</u>	<u>\$ (152,810)</u>	<u>\$ (129,491)</u>

	Nine Months Ended September 30, 2022		
	Derivatives	Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance at beginning of period	\$ 516	\$ (54,064)	\$ (53,548)
Other comprehensive loss before reclassification	(16,980)	(145,381)	(162,361)
Reclassification	61,022	—	61,022
Tax effect	(10,834)	—	(10,834)
Balance at end of period	<u>\$ 33,724</u>	<u>\$ (199,445)</u>	<u>\$ (165,721)</u>

Note 10: Income Taxes

The Company's effective tax rate for the three and nine months ended September 30, 2023 was 35.7% and 29.7%, respectively. For the three and nine months ended September 30, 2022, the Company's effective tax rate was 25.7% and 25.0%, respectively. For the three months ended September 30, 2023, the difference between the effective tax rate and the federal statutory rate was primarily due to the recording of valuation allowances in certain foreign jurisdictions. For the nine months ended September 30, 2023, the difference between the effective tax rate and the federal statutory rate was primarily due to state income taxes, an accrual related to state tax filing positions and other foreign adjustments. For the three and nine months ended September 30, 2022, the difference between the effective tax rate and the federal statutory rate was primarily due to state and foreign income taxes.

Each interim period is considered an integral part of the annual period and tax expense or benefit is measured using an estimated annual effective income tax rate. The estimated annual effective tax rate for the full year is applied to the respective interim period, taking into account year-to-date amounts and projected amounts for the year. Since the Company operates in foreign countries with varying tax rates, the Company's quarterly effective tax rate is dependent on the level of income or loss from international operations in the reporting period.

The Company's subsidiary in Costa Rica is operating under a 100% tax holiday through December 31, 2026. The impact of the tax holiday in Costa Rica for the three and nine months ended September 30, 2023 and 2022, was immaterial.

The Company is subject to income taxes in the U.S. and foreign jurisdictions. Significant judgement is required in evaluating uncertain tax positions and determining the provision for income taxes. During the nine months ended September 30, 2023, the Company accrued \$2.5 million related to state tax filing positions which is included in Other liabilities in its condensed consolidated statements of financial condition as of September 30, 2023.

Note 11: Commitments and Contingencies

Litigation and Regulatory

The Company is involved in disputes, legal actions, regulatory investigations, inquiries, and other actions from time to time in the ordinary course of business. The Company, along with others in its industry, is routinely subject to legal actions asserting various claims, including those based on the Fair Debt Collection Practices Act ("FDCPA"), the Fair Credit Reporting Act ("FCRA"), the Telephone Consumer Protection Act ("TCPA"), comparable state statutes, state and federal unfair competition statutes, and common law causes of action. The violations of law investigated or alleged in these actions often include claims that the Company lacks specified licenses to conduct its business, attempts to collect debts on which the statute of limitations has run, has made inaccurate or unsupported assertions of fact in support of its collection actions and/or has acted improperly in connection with its efforts to contact consumers. Such litigation and regulatory actions could involve potential compensatory or punitive damage claims, fines, sanctions, injunctive relief, or changes in business practices. Many continue on for some length of time and involve substantial investigation, litigation, negotiation, and other expense and effort before a result is achieved, and during the process the Company often cannot determine the substance or timing of any eventual outcome.

As of September 30, 2023, there were no material developments in any of the legal proceedings disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 or any new material legal proceedings during the three and nine months ended September 30, 2023.

In certain legal proceedings, the Company may have recourse to insurance or third-party contractual indemnities to cover all or portions of its litigation expenses, judgments, or settlements. The Company records loss contingencies in its financial statements only for matters in which losses are probable and can be reasonably estimated. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum estimated liability. The Company continuously assesses the potential liability related to its pending litigation and regulatory matters and revises its estimates when additional information becomes available. The Company's legal costs are recorded to expense as incurred. As of September 30, 2023, the Company has no material reserves for legal matters.

Purchase Commitments

In the normal course of business, the Company enters into forward flow purchase agreements. A forward flow purchase agreement is a commitment to purchase receivables over a duration that is typically three to twelve months, but can be longer, generally with a specifically defined volume range, frequency, and pricing. Typically, these forward flow contracts have provisions that allow for early termination or price re-negotiation should the underlying quality of the portfolio deteriorate over time or if any particular month's delivery is materially different than the original portfolio used to price the forward flow contract. Certain of these forward flow purchase agreements may also have termination clauses, whereby the agreements can be canceled by either party upon providing a certain specified amount of notice.

As of September 30, 2023, the Company had entered into forward flow purchase agreements for the purchase of nonperforming loans with an estimated minimum aggregate purchase price of approximately \$319.4 million. The Company expects actual purchases under these forward flow purchase agreements to be significantly greater than the estimated minimum aggregate purchase price.

Note 12: Segment and Geographic Information

The Company conducts business through several operating segments. The Company’s Chief Operating Decision Maker relies on internal management reporting processes that provide segment revenue, segment operating income, and segment asset information in order to make financial decisions and allocate resources. The Company determined its operating segments meet the aggregation criteria, and therefore, it has one reportable segment, portfolio purchasing and recovery, based on similarities among the operating units including economic characteristics, the nature of the services, the nature of the production process, customer types for their services, the methods used to provide their services and the nature of the regulatory environment.

The following table presents information about geographic areas in which the Company operates (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Total revenues:				
United States	\$ 201,550	\$ 210,908	\$ 608,533	\$ 825,826
Europe				
United Kingdom	73,153	59,873	226,361	236,244
Other European countries ⁽¹⁾	34,916	36,971	110,210	102,103
Total Europe	108,069	96,844	336,571	338,347
Other geographies ⁽¹⁾	—	—	189	178
Total	\$ 309,619	\$ 307,752	\$ 945,293	\$ 1,164,351

(1) None of these countries comprise greater than 10% of the Company's consolidated revenues.

Note 13: Goodwill and Identifiable Intangible Assets

The Company’s goodwill is tested for impairment at the reporting unit level annually and in interim periods if certain events occur that indicate that the fair value of a reporting unit may be below its carrying value. Determining the number of reporting units and the fair value of a reporting unit requires the Company to make judgments and involves the use of significant estimates and assumptions.

The annual goodwill testing date for the reporting units that are included in the portfolio purchasing and recovery reportable segment is October 1st. There have been no events or circumstances during the three and nine months ended September 30, 2023, that have required the Company to perform an interim assessment of goodwill carried at these reporting units. Management continues to evaluate and monitor all key factors impacting the carrying value of the Company’s recorded goodwill and intangible assets. Adverse changes in the Company’s actual or expected operating results, market capitalization, business climate, economic factors or other negative events that may be outside the control of management could result in a material non-cash impairment charge in the future.

The Company’s goodwill is attributable to reporting units included in its portfolio purchasing and recovery segment. The following table summarizes the activity in the Company’s goodwill balance (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance as of beginning of period:	\$ 852,196	\$ 824,210	\$ 821,214	\$ 897,795
Effect of foreign currency translation	(26,186)	(54,662)	4,796	(128,247)
Balance as of end of period:	\$ 826,010	\$ 769,548	\$ 826,010	\$ 769,548

The Company's acquired intangible assets are summarized as follows (*in thousands*):

	As of September 30, 2023			As of December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 45,870	\$ (27,139)	\$ 18,731	\$ 45,498	\$ (23,507)	\$ 21,991
Trade name and other	907	(841)	66	909	(788)	121
Total intangible assets	\$ 46,777	\$ (27,980)	\$ 18,797	\$ 46,407	\$ (24,295)	\$ 22,112

Note 14: Subsequent Events

As of September 30, 2023, the Company had €415.0 million (approximately \$439.2 million based on an exchange rate of \$1.00 to €0.94, the exchange rate as of September 30, 2023) in aggregate principal amount of senior secured floating rate notes due 2028 (the "Encore 2028 Floating Rate Notes") outstanding. On October 16, 2023, the Company issued an additional €100.0 million (approximately \$105.8 million based on an exchange rate of \$1.00 to €0.94, the exchange rate as of September 30, 2023) aggregate principal amount of Encore 2028 Floating Rate Notes at an issue price of 99.01%. The Encore 2028 Floating Rate Notes bear interest at a rate equal to the sum of (i) three-month EURIBOR (subject to a 0% floor) plus (ii) 4.250% per annum, reset quarterly. The Company used the proceeds from this offering to repay drawings under its Global Senior Facility and to pay certain transaction fees and expenses incurred in connection with the offering of the notes.

On October 27, 2023, an indirect subsidiary of Encore ("US Financing Subsidiary"), entered into a facility for a committed amount of \$175.0 million (the "U.S. Facility") and borrowed the full committed amount. The U.S. Facility matures in October 2026. Funds drawn under the U.S. Facility bear interest at a rate per annum equal to Term SOFR plus a margin of 3.50%. The obligations under the U.S. Facility are secured by first ranking security interests over all of US Financing Subsidiary's assets and rights, which includes receivable portfolios with a book value of approximately \$286.2 million.

On October 27, 2023, the Company amended its Cabot Securitisation Senior Facility, effective November 20, 2023, to extend the maturity date from September 2026 to September 2028 and reduce the committed amount from £350.0 million to £255.0 million. Funds drawn under the Cabot Securitisation Senior Facility will bear interest at a rate per annum equal to SONIA plus a margin of 3.20% plus, for periods after September 18, 2026, a step up margin ranging from zero to 1.00%.

On October 30, 2023, the Company entered into an agreement to increase the size of the Company's Global Senior Facility by \$23.0 million from \$1,180.0 million to \$1,203.0 million. The additional commitments are subject to the existing terms of the Company's Global Senior Facility.

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains “forward-looking statements” relating to Encore Capital Group, Inc. (“Encore”) and its subsidiaries (which we may collectively refer to as the “Company,” “we,” “our” or “us”) within the meaning of the securities laws. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “intend,” “plan,” “will,” “may,” and similar expressions often characterize forward-looking statements. These statements may include, but are not limited to, projections of collections, revenues, income or loss, estimates of capital expenditures, plans for future operations, products or services, and financing needs or plans, as well as assumptions relating to these matters. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we caution that these expectations or predictions may not prove to be correct or we may not achieve the financial results, savings, or other benefits anticipated in the forward-looking statements. These forward-looking statements are necessarily estimates reflecting the best judgment of our senior management and involve a number of risks and uncertainties, some of which may be beyond our control or cannot be predicted or quantified, that could cause actual results to differ materially from those suggested by the forward-looking statements. Many factors including, but not limited to, those set forth in our Annual Report on Form 10-K under “Part I, Item 1A—Risk Factors” could cause our actual results, performance, achievements, or industry results to be very different from the results, performance, achievements or industry results expressed or implied by these forward-looking statements. Our business, financial condition, or results of operations could also be materially and adversely affected by other factors besides those listed. Forward-looking statements speak only as of the date the statements were made. We do not undertake any obligation to update or revise any forward-looking statements to reflect new information or future events, or for any other reason, even if experience or future events make it clear that any expected results expressed or implied by these forward-looking statements will not be realized. In addition, it is generally our policy not to make any specific projections as to future earnings, and we do not endorse projections regarding future performance that may be made by third parties.

Our Business

We are an international specialty finance company providing debt recovery solutions and other related services for consumers across a broad range of financial assets. We purchase portfolios of defaulted consumer receivables at deep discounts to face value and manage them by working with individuals as they repay their obligations and work toward financial recovery. Defaulted receivables are consumers’ unpaid financial commitments to credit originators, including banks, credit unions, consumer finance companies and commercial retailers. Defaulted receivables may also include receivables subject to bankruptcy proceedings. We also provide debt servicing and other portfolio management services to credit originators for non-performing loans in Europe.

Encore Capital Group, Inc. (“Encore”) has three business units: MCM, which consists of Midland Credit Management, Inc. and its subsidiaries and domestic affiliates; Cabot, which consists of Cabot Credit Management Limited (“CCM”) and its subsidiaries and European affiliates, and LAAP, which is comprised of our investments and operations in Latin America and Asia-Pacific.

MCM (United States)

Through MCM, we are a market leader in portfolio purchasing and recovery in the United States.

Cabot (Europe)

Through Cabot, we are one of the largest credit management services providers in Europe and the United Kingdom. Cabot, in addition to its primary business of portfolio purchasing and recovery, also provides a range of debt servicing offerings such as early stage collections, business process outsourcing (“BPO”), and contingent collections, including through Wescot Credit Services Limited (“Wescot”), a leading UK contingency debt collection and BPO services company.

LAAP (Latin America and Asia-Pacific)

We have purchased non-performing loans in Mexico. Additionally, we have invested in Encore Asset Reconstruction Company (“EARC”) in India.

To date, operating results from LAAP have not been significant to our total consolidated operating results. Our long-term growth strategy is focused on continuing to invest in our core portfolio purchasing and recovery business in the United States and United Kingdom and strengthening and developing our business in the rest of Europe.

Government Regulation

MCM (United States)

As discussed in more detail under “Part I - Item 1 - Business - Government Regulation” contained in our Annual Report on Form 10-K, our operations in the United States are subject to federal, state and municipal statutes, rules, regulations and ordinances that establish specific guidelines and procedures that debt purchasers and collectors must follow when collecting consumer accounts, including among others, specific guidelines and procedures for communicating with consumers and prohibitions on unfair, deceptive or abusive debt collection practices.

Cabot (Europe)

As discussed in more detail under “Part I - Item 1 - Business - Government Regulation” contained in our Annual Report on Form 10-K, our operations in Europe are affected by foreign statutes, rules and regulations regarding debt collection and debt purchase activities. These statutes, rules, regulations, ordinances, guidelines and procedures are modified from time to time by the relevant authorities charged with their administration, which could affect the way we conduct our business.

Portfolio Purchasing and Recovery

MCM (United States)

In the United States, the defaulted consumer receivable portfolios we purchase are primarily charged-off credit card debt portfolios. A small percentage of our capital deployment in the United States is comprised of receivable portfolios subject to Chapter 13 and Chapter 7 bankruptcy proceedings.

We purchase receivables based on robust, account-level valuation methods and employ proprietary statistical and behavioral models across our U.S. operations. These methods and models allow us to value portfolios accurately (limiting the risk of overpaying), avoid buying portfolios that are incompatible with our methods or strategies and align the accounts we purchase with our business channels to maximize future collections. As a result, we have been able to realize significant returns from the receivables we acquire. We maintain strong relationships with many of the largest financial service providers in the United States.

Cabot (Europe)

In Europe, our purchased defaulted debt portfolios primarily consist of paying and non-paying consumer loan accounts. We also purchase: (1) portfolios that are in insolvency status, in particular, individual voluntary arrangements; and (2) non-performing secured mortgage portfolios and real estate assets previously securing mortgage portfolios. When we take possession of the underlying real estate assets or purchase real estate assets, we refer to those as real estate-owned assets, or REO assets.

We purchase paying and non-paying receivable portfolios using a proprietary pricing model that utilizes account-level statistical and behavioral data. This model allows us to value portfolios accurately and quantify portfolio performance in order to maximize future collections. As a result, we have been able to realize significant returns from the assets we have acquired. We maintain strong relationships with many of the largest financial services providers in the United Kingdom and Europe.

Purchases and Collections

Portfolio Pricing, Supply and Demand

MCM (United States)

With lending surpassing pre-pandemic levels and with rising delinquency rates, we have seen an increase in supply. Issuers have continued to sell predominantly fresh portfolios. Fresh portfolios are portfolios that are generally sold within six months of the consumer’s account being charged-off by the financial institution. Pricing in the third quarter continued to improve as a result of increased supply. Issuers continue to sell their volume in mostly forward flow arrangements that are often committed early in the calendar year. We believe continued growth in lending and/or rising delinquency rates or charge-off rates will drive continued growth in supply.

We believe that smaller competitors continue to face difficulties in the portfolio purchasing market because of the high cost to operate due to regulatory pressure and increasing cost of capital. We believe this favors larger participants, like MCM, because the larger market participants are better able to adapt to these pressures and commit to larger forward flow agreements and fluctuating volumes.

Cabot (Europe)

The UK market for charged-off portfolios prior to the COVID-19 pandemic generally provided a relatively consistent pipeline of opportunities, despite a historically low level of charge-off rates, as creditors have embedded debt sales as an integral part of their business models and consumer indebtedness has continued to grow since the financial crisis. An increasing amount of volume is sold in multi-year forward flow arrangements.

The Spanish debt market continues to be one of the largest in Europe with significant debt sales activity, and an expectation of a significant amount of debt to be sold and serviced in the future. Additionally, financial institutions continue to experience both market and regulatory pressure to dispose of non-performing loans, which should continue to provide debt purchasing opportunities in Spain.

Banks decreased portfolio sales at the beginning of the COVID-19 pandemic in order to focus on customers' needs. While we have seen a resumption of sales activity across many of our European markets, underlying default rates are generally low by historic levels, and sales levels are expected to fluctuate from quarter to quarter. In general, supply remains below pre-pandemic levels while portfolio pricing remains competitive across our European footprint.

Purchases by Geographic Location

The following table summarizes purchases of receivable portfolios by geographic location during the periods presented (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
MCM (United States)	\$ 179,250	\$ 176,559	\$ 606,076	\$ 387,091
Cabot (Europe)	51,309	56,093	175,239	188,073
Total purchases of receivable portfolios	\$ 230,559	\$ 232,652	\$ 781,315	\$ 575,164

In the United States, capital deployment increased during the three and nine months ended September 30, 2023, as compared to the corresponding periods in the prior year. The majority of our deployments in the U.S. come from forward flow agreements, and the timing, contract duration, and volumes for each contract can fluctuate leading to variation when comparing to prior periods. Portfolio purchases in the U.S. were robust as supply increased and pricing improved.

In Europe, capital deployment decreased during the three and nine months ended September 30, 2023, as compared to the corresponding periods in the prior year. Pricing continues to remain competitive in Europe and as a result purchases were limited as compared to pre-pandemic levels. The decrease during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022 was partially offset by the favorable impact from foreign currency translation driven by the weakening of the U.S. dollar against the British Pound.

We did not purchase any REO assets during the three months ended September 30, 2023. We invested \$3.4 million in REO assets during the three months ended September 2022. During the nine months ended September 30, 2023 and 2022, we invested \$24.6 million and \$38.6 million in REO assets, respectively.

Collections from Purchased Receivables by Channel and Geographic Location

We utilize three channels for the collection of our purchased receivables: call center and digital collections; legal collections; and collection agencies. The call center and digital collections channel consists of collections that result from our call centers, direct mail program and online collections. The legal collections channel consists of collections that result from our internal legal channel or from our network of retained law firms. The collection agencies channel consists of collections from third-party collections agencies to whom we pay a fee or commission. We utilize this channel to supplement capacity in our internal call centers, to service accounts in regions where we do not have collections operations or for accounts purchased where we maintain the collection agency servicing relationship. The following table summarizes the total collections by collection channel and geographic area during the periods presented (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
MCM (United States):				
Call center and digital collections	\$ 198,558	\$ 185,568	\$ 584,677	\$ 600,787
Legal collections	129,771	139,545	407,754	449,383
Collection agencies	1,657	200	2,041	995
Subtotal	329,986	325,313	994,472	1,051,165
Cabot (Europe):				
Call center and digital collections	53,069	49,654	164,222	154,171
Legal collections	46,749	44,065	139,670	147,837
Collection agencies	34,688	38,386	102,740	119,769
Subtotal	134,506	132,105	406,632	421,777
Other geographies:	847	838	3,113	2,439
Total collections from purchased receivables	\$ 465,339	\$ 458,256	\$ 1,404,217	\$ 1,475,381

Gross collections from purchased receivables increased by \$7.1 million, or 1.5%, to \$465.3 million during the three months ended September 30, 2023, as compared to \$458.3 million during the three months ended September 30, 2022. Gross collections from purchased receivables decreased by \$71.2 million, or 4.8%, to \$1,404.2 million during the nine months ended September 30, 2023, as compared to \$1,475.4 million during the nine months ended September 30, 2022.

Collections from purchased receivables in the United States and in Europe during the three months ended September 30, 2023 were relatively consistent compared to the same period in the prior year. Collections in Europe were favorably impacted by foreign currency translation, primarily as a result of the weakening of the U.S. dollar against the British Pound for the three months ended September 30, 2023 compared to the three months ended September 30, 2022.

The decreases in collections from purchased receivables in the United States and in Europe during the nine months ended September 30, 2023 relative to the nine months ended September 30, 2022 were primarily a result of lower purchasing volumes in recent periods due to the COVID-19 pandemic. The decrease in the United States was also a result of a high level of collections in the prior periods resulted from changes in consumer behavior during the COVID-19 pandemic, which we believe have now normalized.

Results of Operations

Results of operations, in dollars and as a percentage of total revenues, were as follows for the periods presented (*in thousands, except percentages*):

	Three Months Ended September 30,			
	2023		2022	
Revenues				
Revenue from receivable portfolios	\$ 302,687	97.8 %	\$ 297,219	96.6 %
Changes in recoveries	(17,067)	(5.5)%	(13,080)	(4.3)%
Total debt purchasing revenue	285,620	92.3 %	284,139	92.3 %
Servicing revenue	19,893	6.4 %	21,992	7.2 %
Other revenues	4,106	1.3 %	1,621	0.5 %
Total revenues	309,619	100.0 %	307,752	100.0 %
Operating expenses				
Salaries and employee benefits	95,067	30.7 %	89,241	29.0 %
Cost of legal collections	56,274	18.2 %	52,891	17.2 %
General and administrative expenses	35,559	11.5 %	37,274	12.0 %
Other operating expenses	27,959	9.0 %	28,286	9.2 %
Collection agency commissions	8,046	2.6 %	7,884	2.6 %
Depreciation and amortization	11,196	3.6 %	11,659	3.8 %
Total operating expenses	234,101	75.6 %	227,235	73.8 %
Income from operations	75,518	24.4 %	80,517	26.2 %
Other expense				
Interest expense	(50,558)	(16.3)%	(39,308)	(12.8)%
Other income, net	5,103	1.6 %	1,205	0.4 %
Total other expense	(45,455)	(14.7)%	(38,103)	(12.4)%
Income before income taxes	30,063	9.7 %	42,414	13.8 %
Provision for income taxes	(10,724)	(3.5)%	(10,920)	(3.6)%
Net income	\$ 19,339	6.2 %	\$ 31,494	10.2 %

	Nine Months Ended September 30,			
	2023		2022	
Revenues				
Revenue from receivable portfolios	\$ 899,545	95.2 %	\$ 907,606	77.9 %
Changes in recoveries	(30,054)	(3.2)%	179,293	15.4 %
Total debt purchasing revenue	869,491	92.0 %	1,086,899	93.3 %
Servicing revenue	63,486	6.7 %	71,926	6.2 %
Other revenues	12,316	1.3 %	5,526	0.5 %
Total revenues	945,293	100.0 %	1,164,351	100.0 %
Operating expenses				
Salaries and employee benefits	294,772	31.2 %	285,077	24.5 %
Cost of legal collections	167,525	17.7 %	163,756	14.1 %
General and administrative expenses	108,053	11.4 %	105,775	9.1 %
Other operating expenses	81,864	8.7 %	82,718	7.1 %
Collection agency commissions	26,583	2.8 %	27,412	2.3 %
Depreciation and amortization	32,768	3.5 %	35,134	3.0 %
Total operating expenses	711,565	75.3 %	699,872	60.1 %
Income from operations	233,728	24.7 %	464,479	39.9 %
Other expense				
Interest expense	(147,376)	(15.6)%	(110,995)	(9.5)%
Other income, net	5,080	0.5 %	3,392	0.3 %
Total other expense	(142,296)	(15.1)%	(107,603)	(9.2)%
Income before income taxes	91,432	9.6 %	356,876	30.7 %
Provision for income taxes	(27,162)	(2.8)%	(89,194)	(7.7)%
Net income	\$ 64,270	6.8 %	\$ 267,682	23.0 %

Comparison of Results of Operations

Revenues

Our revenues primarily include debt purchasing revenue, which is revenue recognized from engaging in debt purchasing and recovery activities. We apply our charge-off policy and fully write-off the amortized costs (i.e., face value net of noncredit discount) of the individual receivables we acquire immediately after purchasing the portfolio. We then record a negative allowance that represents the present value of all expected future recoveries for pools of receivables that share similar risk characteristics using a discounted cash flow approach, which is presented as “Investment in receivable portfolios, net” in our condensed consolidated statements of financial condition. The discount rate is an effective interest rate (or “purchase EIR”) established based on the purchase price of the portfolio and the expected future cash flows at the time of purchase.

Debt purchasing revenue includes two components:

- (1) Revenue from receivable portfolios, which is the accretion of the discount on the negative allowance due to the passage of time (generally the portfolio balance multiplied by the EIR) and also includes all revenue from zero basis portfolio (“ZBA”) collections, and
- (2) Changes in recoveries, which includes
 - (a) Recoveries above or below forecast, which is the difference between (i) actual cash collected/recovered during the current period and (ii) expected cash recoveries for the current period, which generally represents over or under performance for the period; and

- (b) Changes in expected future recoveries, which is the present value change of expected future recoveries, where such change generally results from (i) collections “pulled forward from” or “pushed out to” future periods (i.e. amounts either collected early or expected to be collected later) and (ii) magnitude and timing changes to estimates of expected future collections (which can be increases or decreases).

Certain pools already fully recovered their cost basis and became zero basis portfolios (“ZBA”) prior to our adoption of the accounting standard for Financial Instruments - Credit Losses (“CECL”) in January 2020. We did not establish a negative allowance for these pools as we elected the Transition Resource Group for Credit Losses’ practical expedient to retain the integrity of these legacy pools. Similar to how we treated ZBA collections prior to the adoption of CECL, all subsequent collections to the ZBA pools are recognized as ZBA revenue, which is included in revenue from receivable portfolios in our condensed consolidated statements of income.

Servicing revenue consists primarily of fee-based income earned on accounts collected on behalf of others, primarily credit originators. We earn fee-based income by providing debt servicing (such as early stage collections, BPO, contingent collections, trace services and litigation activities) to credit originators for non-performing loans in Europe.

Other revenues primarily include revenues recognized from the sale of real estate assets that are acquired as a result of our investments in non-performing secured residential mortgage portfolios and real estate assets in Europe and LAAP.

The following table summarizes revenues for the periods presented (*in thousands, except percentages*):

	Three Months Ended September 30,			
	2023	2022	\$ Change	% Increase (decrease)
Revenue recognized from portfolio basis	\$ 296,015	\$ 289,028	\$ 6,987	2.4 %
ZBA revenue	6,672	8,191	(1,519)	(18.5)%
Revenue from receivable portfolios	302,687	297,219	5,468	1.8 %
Recoveries below forecast	(4,274)	(4,880)	606	(12.4)%
Changes in expected future recoveries	(12,793)	(8,200)	(4,593)	56.0 %
Changes in recoveries	(17,067)	(13,080)	(3,987)	30.5 %
Debt purchasing revenue	285,620	284,139	1,481	0.5 %
Servicing revenue	19,893	21,992	(2,099)	(9.5)%
Other revenues	4,106	1,621	2,485	153.3 %
Total revenues	\$ 309,619	\$ 307,752	\$ 1,867	0.6 %
	Nine Months Ended September 30,			
	2023	2022	\$ Change	% Increase (decrease)
Revenue recognized from portfolio basis	\$ 877,914	\$ 881,701	\$ (3,787)	(0.4)%
ZBA revenue	21,631	25,905	(4,274)	(16.5)%
Revenue from receivable portfolios	899,545	907,606	(8,061)	(0.9)%
Recoveries (below) above forecast	(20,109)	51,407	(71,516)	(139.1)%
Changes in expected future recoveries	(9,945)	127,886	(137,831)	(107.8)%
Changes in recoveries	(30,054)	179,293	(209,347)	(116.8)%
Debt purchasing revenue	869,491	1,086,899	(217,408)	(20.0)%
Servicing revenue	63,486	71,926	(8,440)	(11.7)%
Other revenues	12,316	5,526	6,790	122.9 %
Total revenues	\$ 945,293	\$ 1,164,351	\$ (219,058)	(18.8)%

Our operating results are impacted by foreign currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The strengthening of the U.S. dollar relative to other foreign currencies has an unfavorable impact on our international revenues, and the weakening of the U.S. dollar relative to other foreign currencies has a favorable impact on our international revenues. Our revenues were favorably impacted by foreign currency translation, primarily as a result of the weakening of the U.S. dollar against the British Pound by approximately 7.1% for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. The foreign currency translation effect was immaterial to our operating results during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

Revenue recognized from portfolio basis during the three and nine months ended September 30, 2023, as compared to the three and nine months ended September 30, 2022, was negatively impacted by lower EIR for recent portfolio purchases in Europe. Revenue recognized from portfolio basis increased during the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, was primarily the result of the favorable impact from foreign currency translation as discussed above.

As discussed above, ZBA revenue represents collections from our legacy ZBA pools. We expect our ZBA revenue to continue to decline as we collect on these legacy pools. We do not expect to have new ZBA pools in the future.

Recoveries above or below forecast represent over and under-performance in the reporting period, respectively. Collections during the three and nine months ended September 30, 2023, under-performed the forecasted collections by approximately \$4.3 million and \$20.1 million, respectively. The under-performance was primarily attributable to shifts in the timing of collections for recent U.S. vintages as consumers transitioned back to more normalized payment behavior.

When reassessing the forecasts of expected lifetime recoveries during the three months ended September 30, 2023, management considered, among other factors, historical and current collection performance, changes in consumer behavior, and the macroeconomic environment and believes that forecasted collections for certain static pools resulted in decreased total expected recoveries. As a result, we have updated our forecast, resulting in changes in timing and amount of total estimated remaining collections which in turn, when discounted to present value, resulted in a net negative change in expected future recoveries of approximately \$12.8 million during the three months ended September 30, 2023. This negative change in expected future recoveries, together with the net positive changes of approximately \$2.9 million recorded in the first half of the year, resulted in a net negative change of expected future recoveries of \$9.9 million during the nine months ended September 30, 2023. During the three and nine months ended September 30, 2022, we recorded approximately \$8.2 million in net negative change and \$127.9 million in net positive change in expected future period recoveries, respectively.

The following tables summarize collections from purchased receivables, revenue from receivable portfolios, end of period receivable balance and other related supplemental data, by year of purchase (*in thousands, except percentages*):

	Three Months Ended September 30, 2023			As of September 30, 2023	
	Collections	Revenue from Receivable Portfolios	Changes in Recoveries	Investment in Receivable Portfolios	Monthly EIR
United States:					
ZBA	\$ 6,671	\$ 6,671	\$ —	\$ —	— %
2011	3,362	3,025	397	1,209	88.6 %
2012	4,031	3,468	580	2,839	42.0 %
2013	8,671	7,875	517	6,347	40.5 %
2014	5,206	3,360	712	16,086	6.7 %
2015	4,650	2,533	511	20,581	3.9 %
2016	8,236	4,688	599	35,986	4.1 %
2017	13,575	8,310	677	46,989	5.5 %
2018	20,980	12,041	(970)	93,742	4.0 %
2019	38,084	21,762	(4,069)	176,282	3.8 %
2020	45,294	24,793	(2,777)	207,618	3.7 %
2021	45,490	25,825	(7,422)	199,488	3.9 %
2022	66,028	43,223	(4,367)	450,261	3.1 %
2023	59,708	42,693	6,894	593,886	3.1 %
Subtotal	329,986	210,267	(8,718)	1,851,314	3.7 %
Europe:					
ZBA	1	1	—	—	— %
2013	13,916	13,071	(4,720)	125,830	3.2 %
2014	13,657	11,195	(2,415)	116,705	3.0 %
2015	9,442	6,850	(1,249)	87,125	2.5 %
2016 ⁽¹⁾	7,937	6,109	40	69,477	2.8 %
2017	11,350	7,340	(880)	122,295	1.9 %
2018	12,015	7,915	(1,701)	159,945	1.6 %
2019	13,757	7,910	743	133,199	1.9 %
2020	9,160	5,969	661	85,211	2.2 %
2021	13,860	10,250	(1,252)	173,952	1.9 %
2022	17,410	9,990	(14)	201,110	1.6 %
2023	12,001	5,820	2,409	164,707	1.4 %
Subtotal	134,506	92,420	(8,378)	1,439,556	2.0 %
Other geographies:⁽²⁾					
All vintages	847	—	29	29,674	— %
Subtotal	847	—	29	29,674	— %
Total	\$ 465,339	\$ 302,687	\$ (17,067)	\$ 3,320,544	3.0 %

(1) Portfolio balance includes non-accrual pool groups. The EIR presented is only for pool groups that accrete portfolio revenue.

(2) All portfolios are on non-accrual basis. Annual pool groups for other geographies have been aggregated for disclosure purposes.

	Three Months Ended September 30, 2022			As of September 30, 2022	
	Collections	Revenue from Receivable Portfolios	Changes in Recoveries	Investment in Receivable Portfolios	Monthly EIR
United States:					
ZBA	\$ 8,184	\$ 8,184	\$ —	\$ —	— %
2011	3,961	4,393	(582)	1,539	88.6 %
2012	4,779	4,574	18	3,536	42.0 %
2013	9,434	10,963	(2,332)	8,496	40.5 %
2014	5,839	3,972	669	19,095	6.7 %
2015	6,269	3,191	1,889	26,798	3.9 %
2016	11,908	6,645	1,398	51,362	4.1 %
2017	19,621	12,582	135	71,864	5.5 %
2018	32,975	18,279	(2,306)	144,877	3.9 %
2019	59,400	32,635	(1,513)	266,853	3.8 %
2020	73,574	36,666	7,536	313,031	3.7 %
2021	58,391	38,760	(1,446)	315,128	3.9 %
2022	30,978	24,250	2,348	380,805	2.9 %
Subtotal	325,313	205,094	5,814	1,603,384	4.1 %
Europe:					
ZBA	7	7	—	—	— %
2013	16,231	14,098	(4,549)	133,011	3.2 %
2014	14,981	11,770	(3,352)	119,425	3.0 %
2015	10,154	7,222	(1,098)	91,243	2.4 %
2016 ⁽¹⁾	8,965	7,168	(1,084)	81,564	2.8 %
2017	14,670	8,903	(2,478)	144,706	1.9 %
2018	15,100	9,252	(2,597)	183,490	1.6 %
2019	14,656	8,998	(1,131)	149,704	1.9 %
2020	10,366	6,674	(1,300)	90,513	2.2 %
2021	15,783	10,784	(3,225)	179,361	1.9 %
2022	11,192	7,249	1,920	165,613	1.6 %
Subtotal	132,105	92,125	(18,894)	1,338,630	2.2 %
Other geographies:⁽²⁾					
All vintages	838	—	—	34,188	— %
Subtotal	838	—	—	34,188	— %
Total	\$ 458,256	\$ 297,219	\$ (13,080)	\$ 2,976,202	3.2 %

(1) Portfolio balance includes non-accrual pool groups. The EIR presented is only for pool groups that accrete portfolio revenue.

(2) Annual pool groups for other geographies have been aggregated for disclosure purposes.

	Nine Months Ended September 30, 2023			As of September 30, 2023	
	Collections	Revenue from Receivable Portfolios	Changes in Recoveries	Investment in Receivable Portfolios	Monthly EIR
United States:					
ZBA	\$ 21,614	\$ 21,614	\$ —	\$ —	— %
2011	10,569	9,392	1,060	1,209	88.6 %
2012	12,700	10,730	1,720	2,839	42.0 %
2013	27,380	25,257	1,068	6,347	40.5 %
2014	16,257	10,755	2,243	16,086	6.7 %
2015	15,364	8,326	1,263	20,581	3.9 %
2016	27,926	15,457	1,922	35,986	4.1 %
2017	46,684	27,579	3,724	46,989	5.5 %
2018	72,025	40,120	(3,028)	93,742	4.0 %
2019	131,426	71,881	(709)	176,282	3.8 %
2020	156,099	82,302	368	207,618	3.7 %
2021	149,638	86,576	(17,139)	199,488	3.9 %
2022	204,751	138,525	(23,655)	450,261	3.1 %
2023	102,039	74,515	16,667	593,886	3.1 %
Subtotal	994,472	623,029	(14,496)	1,851,314	3.7 %
Europe:					
ZBA	17	17	—	—	— %
2013	44,291	39,642	(8,091)	125,830	3.2 %
2014	41,970	34,087	(4,107)	116,705	3.0 %
2015	27,507	20,849	(2,306)	87,125	2.5 %
2016 ⁽¹⁾	27,315	19,146	86	69,477	2.8 %
2017	37,562	22,710	(1,589)	122,295	1.9 %
2018	36,684	24,452	(6,556)	159,945	1.6 %
2019	41,831	24,271	1,233	133,199	1.9 %
2020	29,104	18,258	3,530	85,211	2.2 %
2021	44,789	31,147	(26)	173,952	1.9 %
2022	52,840	31,090	(3,562)	201,110	1.6 %
2023	22,722	10,847	5,801	164,707	1.4 %
Subtotal	406,632	276,516	(15,587)	1,439,556	2.0 %
Other geographies:⁽²⁾					
All vintages	3,113	—	29	29,674	— %
Subtotal	3,113	—	29	29,674	— %
Total	\$ 1,404,217	\$ 899,545	\$ (30,054)	\$ 3,320,544	3.0 %

(1) Portfolio balance includes non-accrual pool groups. The EIR presented is only for pool groups that accrete portfolio revenue.

(2) Annual pool groups for other geographies have been aggregated for disclosure purposes.

	Nine Months Ended September 30, 2022			As of September 30, 2022	
	Collections	Revenue from Receivable Portfolios	Changes in Recoveries	Investment in Receivable Portfolios	Monthly EIR
United States:					
ZBA	\$ 25,880	\$ 25,880	\$ —	\$ —	— %
2011	14,541	12,536	2,026	1,539	88.6 %
2012	15,710	12,735	3,464	3,536	42.0 %
2013	33,899	34,798	(2,352)	8,496	40.5 %
2014	19,436	12,675	2,936	19,095	6.7 %
2015	20,239	10,910	(410)	26,798	3.9 %
2016	41,296	22,059	4,045	51,362	4.1 %
2017	68,623	41,259	7,308	71,864	5.5 %
2018	116,625	57,425	34,342	144,877	3.9 %
2019	205,418	101,362	70,220	266,853	3.8 %
2020	249,218	115,142	86,722	313,031	3.7 %
2021	188,280	124,295	(686)	315,128	3.9 %
2022	52,000	41,413	5,711	380,805	2.9 %
Subtotal	1,051,165	612,489	213,326	1,603,384	4.1 %
Europe:					
ZBA	26	25	—	—	— %
2013	53,910	46,474	(7,490)	133,011	3.2 %
2014	50,373	38,125	—	119,425	3.0 %
2015	32,966	23,514	(1,452)	91,243	2.4 %
2016 ⁽¹⁾	30,559	23,476	(1,386)	81,564	2.8 %
2017	48,047	30,545	(13,706)	144,706	1.9 %
2018	48,567	30,840	(7,964)	183,490	1.6 %
2019	49,314	29,406	2,562	149,704	1.9 %
2020	35,344	21,789	4,065	90,513	2.2 %
2021	50,681	36,078	(12,158)	179,361	1.9 %
2022	21,990	14,845	3,496	165,613	1.6 %
Subtotal	421,777	295,117	(34,033)	1,338,630	2.2 %
Other geographies:⁽²⁾					
All vintages	2,439	—	—	34,188	— %
Subtotal	2,439	—	—	34,188	— %
Total	\$ 1,475,381	\$ 907,606	\$ 179,293	\$ 2,976,202	3.2 %

(1) Portfolio balance includes non-accrual pool groups. The EIR presented is only for pool groups that accrete portfolio revenue.

(2) Annual pool groups for other geographies have been aggregated for disclosure purposes.

Servicing revenues during the three and nine months ended September 30, 2023 decreased as compared to servicing revenues during the three and nine months ended September 30, 2022. The decreases were primarily attributable to reduced demand from BPO clients of \$2.2 million and \$6.5 million, in the respective comparison periods.

Other revenues increased during the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022, primarily driven by increases of approximately \$2.5 million and \$6.8 million of gains recognized on the sale of real estate assets in the respective comparison periods.

Operating Expenses

The following table summarizes operating expenses for the periods presented (*in thousands, except percentages*):

	Three Months Ended September 30,			
	2023	2022	\$ Change	% Change
Salaries and employee benefits	\$ 95,067	\$ 89,241	\$ 5,826	6.5 %
Cost of legal collections	56,274	52,891	3,383	6.4 %
General and administrative expenses	35,559	37,274	(1,715)	(4.6)%
Other operating expenses	27,959	28,286	(327)	(1.2)%
Collection agency commissions	8,046	7,884	162	2.1 %
Depreciation and amortization	11,196	11,659	(463)	(4.0)%
Total operating expenses	<u>\$ 234,101</u>	<u>\$ 227,235</u>	<u>\$ 6,866</u>	<u>3.0 %</u>

	Nine Months Ended September 30,			
	2023	2022	\$ Change	% Change
Salaries and employee benefits	\$ 294,772	\$ 285,077	\$ 9,695	3.4 %
Cost of legal collections	167,525	163,756	3,769	2.3 %
General and administrative expenses	108,053	105,775	2,278	2.2 %
Other operating expenses	81,864	82,718	(854)	(1.0)%
Collection agency commissions	26,583	27,412	(829)	(3.0)%
Depreciation and amortization	32,768	35,134	(2,366)	(6.7)%
Total operating expenses	<u>\$ 711,565</u>	<u>\$ 699,872</u>	<u>\$ 11,693</u>	<u>1.7 %</u>

Our operating results are impacted by foreign currency translation, which represents the effect of translating operating results where the functional currency is different than our U.S. dollar reporting currency. The strengthening of the U.S. dollar relative to other foreign currencies has a favorable impact on our international operating expenses, and the weakening of the U.S. dollar relative to other foreign currencies has an unfavorable impact on our international operating expenses. Our operating expenses were unfavorably impacted by foreign currency translation by approximately \$5.5 million, primarily as a result of the weakening of the U.S. dollar against the British Pound by approximately 7.1% for the three months ended September 30, 2023 as compared to the three months ended September 30, 2022. The foreign currency translation effect was immaterial to our operating results during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

Operating expenses are explained in more detail as follows:

Salaries and Employee Benefits

The increase in salaries and employee benefits during the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, was primarily due to the following reasons:

- An increase in salaries and bonus of approximately \$4.4 million primarily due to an increase in overall headcount and market adjustments; and
- An unfavorable impact of foreign currency translation of approximately \$2.8 million driven by the weakening of the U.S. dollar against the British Pound.

The increase in salaries and employee benefits during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, was primarily due to the following reasons:

- An increase in salaries and bonus of approximately \$10.3 million primarily due to an increase in overall headcount and market adjustments; and
- The increase was partially offset by decreased stock-based compensation expense of \$1.2 million primarily attributed to forfeiture of certain stock awards.

Cost of Legal Collections

Cost of legal collections is primarily contingent fees paid to our external network of attorneys and the cost of litigation. We pursue legal collections using a network of attorneys that specialize in collection matters and through our internal legal channel. Under the agreements with our contracted attorneys, we advance certain out-of-pocket court costs. Cost of legal collections does not include internal legal channel employee costs, which are included in salaries and employee benefits in our condensed consolidated statements of income.

The following table summarizes our cost of legal collections during the periods presented (*in thousands, except percentages*):

	Three Months Ended September 30,			
	2023	2022	\$ Change	% Change
Court costs	\$ 34,720	\$ 30,997	\$ 3,723	12.0 %
Legal collection fees	21,554	21,894	(340)	(1.6)%
Total cost of legal collections	<u>\$ 56,274</u>	<u>\$ 52,891</u>	<u>\$ 3,383</u>	<u>6.4 %</u>

	Nine Months Ended September 30,			
	2023	2022	\$ Change	% Change
Court costs	\$ 97,746	\$ 92,575	\$ 5,171	5.6 %
Legal collection fees	69,779	71,181	(1,402)	(2.0)%
Total cost of legal collections	<u>\$ 167,525</u>	<u>\$ 163,756</u>	<u>\$ 3,769</u>	<u>2.3 %</u>

The increases of cost of legal collections during the three and nine months ended September 30, 2023, as compared to the three and nine months ended September 30, 2022, were primarily due to increased legal placement in this channel. The increase during the three months ended September 30, 2023 as compared to the same period in the prior year was also due to the unfavorable impact of foreign currency translation of approximately \$0.8 million driven by the weakening of the U.S. dollar against the British Pound.

General and Administrative Expenses

The decrease in general and administrative expense during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022, was primarily due to the following reasons:

- Decrease in costs associated with corporate legal fees of approximately \$3.8 million;
- Decrease in rent expenses of approximately \$1.6 million; and
- The decrease was partially offset by an increase in information technology expenses of \$2.8 million and the unfavorable impact of foreign currency translation of approximately \$0.9 million driven by the weakening of the U.S. dollar against the British Pound.

The increase in general and administrative expense during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022, was primarily due to the following reasons:

- Approximately \$11.7 million of increased general and administrative expense including costs associated with information technology, business travel, and facilities expense; and
- The increase was partially offset by a decrease in rent expenses of approximately \$5.1 million and a decrease in corporate legal fees of approximately \$4.1 million.

Other Operating Expenses

The decreases in other operating expenses during the three and nine months ended September 30, 2023, as compared to the three and nine months ended September 30, 2022, were primarily due to decreases in temporary services and direct collection expenses. These decreases were partially offset by increases in postage and printing expenses during the three and nine months ended September 30, 2023.

Collection Agency Commissions

Collection agency commissions are commissions paid to third-party collection agencies. Collections through the collections agencies channel are predominately in Europe and vary from period to period depending on, among other things, the number of accounts placed with an agency versus accounts collected internally. Commission rates vary depending on, among other things, the amount of time that has passed since the charge-off of the accounts placed with an agency, the asset class, and the geographic location of the receivables. Generally, freshly charged-off accounts have a lower commission rate than accounts that have been charged off for a longer period of time, and commission rates for purchased bankruptcy portfolios are lower than the commission rates for charged-off credit card accounts.

Depreciation and Amortization

The decreases in depreciation and amortization expense during the three and nine months ended September 30, 2023, as compared to three and nine months ended September 30, 2022, were primarily due to smaller depreciable and amortizable asset balances.

Interest Expense

The following table summarizes our interest expense for the periods presented (*in thousands, except percentages*):

	Three Months Ended September 30,			
	2023	2022	\$ Change	% Change
Stated interest on debt obligations	\$ 46,692	\$ 35,472	\$ 11,220	31.6 %
Amortization of debt issuance costs	3,503	3,516	(13)	(0.4)%
Amortization of debt discount	363	320	43	13.4 %
Total interest expense	<u>\$ 50,558</u>	<u>\$ 39,308</u>	<u>\$ 11,250</u>	28.6 %

	Nine Months Ended September 30,			
	2023	2022	\$ Change	% Change
Stated interest on debt obligations	\$ 134,850	\$ 99,011	\$ 35,839	36.2 %
Amortization of debt issuance costs	11,453	10,985	468	4.3 %
Amortization of debt discount	1,073	999	74	7.4 %
Total interest expense	<u>\$ 147,376</u>	<u>\$ 110,995</u>	<u>\$ 36,381</u>	32.8 %

The increase in interest expense during the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, was primarily due to the following reasons:

- The effect resulting from rising interest rates of approximately \$7.5 million;
- The effect resulting from increased average debt balance of approximately \$3.0 million; and
- An unfavorable impact of foreign currency translation of approximately \$1.3 million driven by the weakening of the U.S. dollar against the British Pound.

The increase in interest expense during the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, was primarily due to the following reasons:

- The effect resulting from rising interest rates of approximately \$27.4 million; and
- The effect resulting from increased average debt balance of approximately \$6.2 million.

Other Income, net of Other Expense

Other income or expense consists primarily of foreign currency exchange gains or losses, interest income, and gains or losses recognized on certain transactions outside of our normal course of business. Other income, net, was \$5.1 million and \$1.2 million during the three months ended September 30, 2023 and 2022, respectively. Other income, net, was \$5.1 million and \$3.4 million during the nine months ended September 30, 2023 and 2022, respectively. We recorded approximately \$3.7 million of gain in other income as a result of a partial dedesignation of our cash flow hedge relationship associated with one of our interest rate cap contracts during the three and nine months ended September 30, 2023. Refer to “Note 4, Derivatives and Hedging Instruments” in the notes to our condensed consolidated financial statements for further details of the partial dedesignation.

Provision for Income Taxes

Provision for income taxes and effective tax rate are as follows for the periods presented (*\$ in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Provision for income taxes	\$ 10,724	\$ 10,920	\$ 27,162	\$ 89,194
Effective tax rate	35.7 %	25.7 %	29.7 %	25.0 %

For the three months ended September 30, 2023, the difference between our effective tax rate and the federal statutory rate was primarily due to the recording of valuation allowances in certain foreign jurisdictions. For the nine months ended September 30, 2023, the difference between our effective tax rate and the federal statutory rate was primarily due to state income taxes and an accrual related to state tax filing positions, and other foreign adjustments. For the three and nine months ended September 30, 2022, the difference between our effective tax rate and the federal statutory rate was primarily due to state and foreign income taxes.

Non-GAAP Disclosure

In addition to the financial information prepared in conformity with Generally Accepted Accounting Principles (“GAAP”), we provide historical non-GAAP financial information. Management believes that the presentation of such non-GAAP financial information is meaningful and useful in understanding the activities and business metrics of our operations. Management believes that these non-GAAP financial measures reflect an additional way of viewing aspects of our business that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business.

Management believes that the presentation of these measures provides investors with greater transparency and facilitates comparison of operating results across a broad spectrum of companies with varying capital structures, compensation strategies, derivative instruments, and amortization methods, which provide a more complete understanding of our financial performance, competitive position, and prospects for the future. Readers should consider the information in addition to, but not instead of, our financial statements prepared in accordance with GAAP. This non-GAAP financial information may be determined or calculated differently by other companies, limiting the usefulness of these measures for comparative purposes.

Adjusted EBITDA. Management utilizes adjusted EBITDA (defined as net income before interest income and expense, taxes, depreciation and amortization, stock-based compensation expenses, acquisition, integration and restructuring related expenses, and other charges or gains that are not indicative of ongoing operations), in the evaluation of our operating performance. Adjusted EBITDA for the periods presented is as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
GAAP net income, as reported	\$ 19,339	\$ 31,494	\$ 64,270	\$ 267,682
Adjustments:				
Interest expense	50,558	39,308	147,376	110,995
Interest income	(1,315)	(749)	(3,382)	(1,774)
Provision for income taxes	10,724	10,920	27,162	89,194
Depreciation and amortization	11,196	11,659	32,768	35,134
Stock-based compensation expense	3,092	3,191	11,017	12,231
Net gain on derivative instruments ⁽¹⁾	(3,512)	—	(3,512)	—
Acquisition, integration and restructuring related expenses ⁽²⁾	594	13	6,574	1,179
Adjusted EBITDA	\$ 90,676	\$ 95,836	\$ 282,273	\$ 514,641
Collections applied to principal balance ⁽³⁾	\$ 188,872	\$ 179,163	\$ 562,511	\$ 402,842

(1) Amount represents a \$3.7 million gain recognized as a result of the partial dedesignation in September 2023 of a derivative instrument previously designated as a hedging instrument, net of a \$0.2 million loss recognized on the change in fair value of the portion of the derivative that is not designated as a hedging instrument after the dedesignation. We adjust for this amount because we believe the gain or loss on derivative contracts is not indicative of ongoing operations.

(2) Amount represents acquisition, integration and restructuring related expenses. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore, adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors’ results. For the three and nine months ended September 30, 2023 amount represents costs related to headcount reductions in Europe. The remainder of the costs relating to the headcount reductions in Europe are included in stock-based compensation expense for the nine months ended September 30, 2023.

(3) Collections applied to principal balance is calculated in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Collections applied to investment in receivable portfolios, net	\$ 162,652	\$ 161,037	\$ 504,672	\$ 567,775
Changes in recoveries	17,067	13,080	30,054	(179,293)
Other proceeds applied to basis	9,153	5,046	27,785	14,360
Collections applied to principal balance	\$ 188,872	\$ 179,163	\$ 562,511	\$ 402,842

Supplemental Performance Data

The tables included in this supplemental performance data section include detail for purchases, collections and ERC by year of purchase.

Our collection expectations are based on account characteristics and economic variables. Additional adjustments are made to account for qualitative factors that may affect the payment behavior of our consumers and servicing related adjustments to ensure our collection expectations are aligned with our operations. We continue to refine our process of forecasting collections both domestically and internationally with a focus on operational enhancements. Our collection expectations vary between types of portfolio and geographic location. For example, in the U.K., due to the higher concentration of payment plans, as compared to the U.S. and other locations in Europe, we expect to receive streams of collections over longer periods of time. As a result, past performance of pools in certain geographic locations or of certain types of portfolio are not necessarily a suitable indicator of future results in other locations or for other types of portfolio.

The supplemental performance data presented in this section is impacted by foreign currency translation, which represents the effect of translating financial results where the functional currency of our foreign subsidiary is different than our U.S. dollar reporting currency. For example, the strengthening of the U.S. dollar relative to other foreign currencies has an unfavorable reporting impact on our international purchases, collections, and ERC, and the weakening of the U.S. dollar relative to other foreign currencies has a favorable impact on our international purchases, collections, and ERC.

We utilize proprietary forecasting models to continuously evaluate the economic life of each pool.

Cumulative Collections Money Multiple - Cumulative Collections from Purchased Receivables to Purchase Price Multiple

The following table summarizes our receivable purchases, related gross collections, and cumulative collections money multiples (*in thousands, except multiples*):

Year of Purchase	Purchase Price ⁽¹⁾	Cumulative Collections through September 30, 2023												Total ⁽²⁾	CCMM ⁽³⁾
		<2014	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023			
<i>United States:</i>															
<2014	\$ 3,244,415	\$6,065,954	\$1,048,635	\$ 768,510	\$ 523,386	\$ 377,466	\$ 277,776	\$ 221,292	\$ 169,334	\$ 152,031	\$ 115,602	\$ 72,263	\$ 9,792,249	3.0	
2014	517,644	—	144,178	307,814	216,357	142,147	94,929	69,059	47,628	34,896	25,212	16,257	1,098,477	2.1	
2015	499,038	—	—	105,610	231,102	186,391	125,673	85,042	64,133	42,774	25,655	15,364	881,744	1.8	
2016	552,988	—	—	—	110,875	283,035	234,690	159,279	116,452	87,717	51,650	27,926	1,071,624	1.9	
2017	527,548	—	—	—	—	111,902	315,853	255,048	193,328	144,243	85,348	46,684	1,152,406	2.2	
2018	629,415	—	—	—	—	—	175,042	351,696	308,302	228,919	144,566	72,025	1,280,550	2.0	
2019	675,500	—	—	—	—	—	—	174,693	416,315	400,250	256,444	131,426	1,379,128	2.0	
2020	538,132	—	—	—	—	—	—	—	213,450	430,514	311,573	156,099	1,111,636	2.1	
2021	404,245	—	—	—	—	—	—	—	—	120,354	240,605	149,638	510,597	1.3	
2022	551,345	—	—	—	—	—	—	—	—	—	98,277	204,751	303,028	0.5	
2023	604,753	—	—	—	—	—	—	—	—	—	—	102,039	102,039	0.2	
Subtotal	8,745,023	6,065,954	1,192,813	1,181,934	1,081,720	1,100,941	1,223,963	1,316,109	1,528,942	1,641,698	1,354,932	994,472	18,683,478	2.1	
<i>Europe:</i>															
<2014	619,079	134,259	249,307	212,129	165,610	146,993	132,663	113,228	93,203	93,907	68,938	44,291	1,454,528	2.3	
2014	623,129	—	135,549	198,127	156,665	137,806	129,033	105,337	84,255	84,169	65,156	41,970	1,138,067	1.8	
2015	419,941	—	—	65,870	127,084	103,823	88,065	72,277	55,261	57,817	42,660	27,518	640,375	1.5	
2016	258,218	—	—	—	44,641	97,587	83,107	63,198	51,609	51,017	40,214	27,321	458,694	1.8	
2017	461,571	—	—	—	—	68,111	152,926	118,794	87,549	86,107	61,762	37,562	612,811	1.3	
2018	432,258	—	—	—	—	—	49,383	118,266	78,846	80,629	61,691	36,684	425,499	1.0	
2019	273,354	—	—	—	—	—	—	44,118	80,502	88,448	63,607	41,831	318,506	1.2	
2020	116,227	—	—	—	—	—	—	—	22,721	59,803	45,757	29,104	157,385	1.4	
2021	255,788	—	—	—	—	—	—	—	—	43,082	66,529	44,789	154,400	0.6	
2022	244,508	—	—	—	—	—	—	—	—	—	36,957	52,840	89,797	0.4	
2023	175,239	—	—	—	—	—	—	—	—	—	—	22,722	22,722	0.1	
Subtotal	3,879,312	134,259	384,856	476,126	494,000	554,320	635,177	635,218	553,946	644,979	553,271	406,632	5,472,784	1.4	
<i>Other geographies⁽⁴⁾:</i>															
All vintages	340,283	10,465	29,828	42,665	109,884	112,383	108,480	75,601	28,960	20,682	3,334	3,113	545,395	1.6	
Subtotal	340,283	10,465	29,828	42,665	109,884	112,383	108,480	75,601	28,960	20,682	3,334	3,113	545,395	1.6	
Total	<u>\$12,964,618</u>	<u>\$6,210,678</u>	<u>\$1,607,497</u>	<u>\$1,700,725</u>	<u>\$1,685,604</u>	<u>\$1,767,644</u>	<u>\$1,967,620</u>	<u>\$2,026,928</u>	<u>\$2,111,848</u>	<u>\$2,307,359</u>	<u>\$1,911,537</u>	<u>\$1,404,217</u>	<u>\$24,701,657</u>	1.9	

(1) Adjusted for Put-Backs and Recalls. Put-Backs (“Put-Backs”) and recalls (“Recalls”) represent ineligible accounts that are returned by us or recalled by the seller pursuant to specific guidelines as set forth in the respective purchase agreement.

(2) Cumulative collections from inception through September 30, 2023, excluding collections on behalf of others.

(3) Cumulative Collections Money Multiple (“CCMM”) through September 30, 2023 refers to cumulative collections as a multiple of purchase price.

(4) Annual pool groups for other geographies have been aggregated for disclosure purposes.

Purchase Price Multiple - Total Estimated Collections from Purchased Receivables to Purchase Price Multiple

The following table summarizes our purchases, resulting historical gross collections, estimated remaining gross collections from purchased receivables, and purchase price multiple (*in thousands, except multiples*):

	Purchase Price ⁽¹⁾	Historical Collections ⁽²⁾	Estimated Remaining Collections	Total Estimated Gross Collections	Purchase Price Multiple ⁽³⁾
<i>United States:</i>					
<2014 ⁽⁴⁾	\$ 3,244,415	\$ 9,792,249	\$ 217,563	\$ 10,009,812	3.1
2014 ⁽⁴⁾	517,644	1,098,477	50,132	1,148,609	2.2
2015	499,038	881,744	45,736	927,480	1.9
2016	552,988	1,071,624	81,930	1,153,554	2.1
2017	527,548	1,152,406	129,575	1,281,981	2.4
2018	629,415	1,280,550	213,710	1,494,260	2.4
2019	675,500	1,379,128	385,780	1,764,908	2.6
2020	538,132	1,111,636	449,968	1,561,604	2.9
2021	404,245	510,597	443,891	954,488	2.4
2022	551,345	303,028	871,722	1,174,750	2.1
2023	604,753	102,039	1,277,962	1,380,001	2.3
Subtotal	8,745,023	18,683,478	4,167,969	22,851,447	2.6
<i>Europe:</i>					
<2014 ⁽⁴⁾	619,079	1,454,528	509,098	1,963,626	3.2
2014 ⁽⁴⁾	623,129	1,138,067	415,123	1,553,190	2.5
2015 ⁽⁴⁾	419,941	640,375	258,050	898,425	2.1
2016	258,218	458,694	209,527	668,221	2.6
2017	461,571	612,811	279,559	892,370	1.9
2018	432,258	425,499	332,318	757,817	1.8
2019	273,354	318,506	295,541	614,047	2.2
2020	116,227	157,385	194,621	352,006	3.0
2021	255,788	154,400	376,385	530,785	2.1
2022	244,508	89,797	375,711	465,508	1.9
2023	175,239	22,722	278,616	301,338	1.7
Subtotal	3,879,312	5,472,784	3,524,549	8,997,333	2.3
<i>Other geographies⁽⁵⁾:</i>					
All vintages	340,283	545,395	48,646	594,041	1.7
Subtotal	340,283	545,395	48,646	594,041	1.7
Total	\$ 12,964,618	\$ 24,701,657	\$ 7,741,164	\$ 32,442,821	2.5

(1) Purchase price refers to the cash paid to a seller to acquire a portfolio less Put-backs, Recalls, and other adjustments. Put-Backs and Recalls represent ineligible accounts that are returned by us or recalled by the seller pursuant to specific guidelines as set forth in the respective purchase agreement.

(2) Cumulative collections from inception through September 30, 2023, excluding collections on behalf of others.

(3) Purchase Price Multiple represents total estimated gross collections divided by the purchase price.

(4) Includes portfolios acquired in connection with certain business combinations.

(5) Annual pool groups for other geographies have been aggregated for disclosure purposes.

Estimated Remaining Gross Collections by Year of Purchase

The following table summarizes our estimated remaining gross collections from purchased receivable portfolios and estimated future cash flows from real estate-owned assets (*in thousands*):

Estimated Remaining Gross Collections by Year of Purchase ⁽¹⁾											
	2023 ⁽³⁾	2024	2025	2026	2027	2028	2029	2030	2031	>2031	Total ⁽²⁾
<i>United States:</i>											
<2014 ⁽⁴⁾	\$ 21,464	\$ 66,147	\$ 43,733	\$ 30,369	\$ 20,901	\$ 14,125	\$ 9,244	\$ 5,808	\$ 3,402	\$ 2,370	\$ 217,563
2014 ⁽⁴⁾	4,776	14,686	9,362	6,600	4,654	3,283	2,317	1,636	1,155	1,663	50,132
2015	4,410	13,683	8,524	5,838	4,106	2,893	2,042	1,444	1,023	1,773	45,736
2016	7,824	24,743	15,735	10,400	7,098	4,990	3,515	2,481	1,754	3,390	81,930
2017	11,914	37,735	25,263	17,221	11,455	7,884	5,560	3,930	2,786	5,827	129,575
2018	19,534	61,688	42,295	28,651	19,533	12,845	8,859	6,254	4,429	9,622	213,710
2019	35,726	113,956	76,483	51,098	34,587	23,532	15,620	10,804	7,611	16,363	385,780
2020	41,577	130,004	90,472	60,143	40,826	27,816	18,937	12,632	8,798	18,763	449,968
2021	40,621	130,993	86,650	59,602	39,820	27,172	18,768	13,006	8,904	18,355	443,891
2022	70,597	281,958	168,896	108,646	75,134	51,039	35,632	25,207	17,910	36,703	871,722
2023	64,553	287,094	340,702	209,011	120,890	80,890	54,308	37,505	26,561	56,448	1,277,962
Subtotal	322,996	1,162,687	908,115	587,579	379,004	256,469	174,802	120,707	84,333	171,277	4,167,969
<i>Europe:</i>											
<2014 ⁽⁴⁾	14,666	55,970	50,934	46,921	43,335	40,345	37,271	34,428	31,690	153,538	509,098
2014 ⁽⁴⁾	13,673	49,425	44,401	40,382	35,779	32,959	30,654	27,811	25,187	114,852	415,123
2015 ⁽⁴⁾	8,701	32,594	28,350	25,445	23,311	20,618	18,623	16,672	14,903	68,833	258,050
2016	8,875	30,931	26,643	22,493	20,161	16,595	14,350	12,145	10,772	46,562	209,527
2017	11,815	40,767	34,970	30,005	26,816	22,450	19,505	16,827	14,584	61,820	279,559
2018	12,583	47,879	41,797	36,127	31,919	26,770	23,383	19,940	17,656	74,264	332,318
2019	13,361	46,593	39,756	32,461	26,813	22,558	19,648	16,868	14,516	62,967	295,541
2020	9,559	33,755	29,209	25,211	18,939	14,188	11,188	9,321	7,938	35,313	194,621
2021	15,314	58,802	51,788	46,280	39,725	32,986	26,351	21,031	17,614	66,494	376,385
2022	18,400	66,083	55,855	46,694	38,423	31,340	25,938	21,264	17,226	54,488	375,711
2023	12,255	53,207	45,599	36,436	28,962	22,680	17,921	14,136	11,412	36,008	278,616
Subtotal	139,202	516,006	449,302	388,455	334,183	283,489	244,832	210,443	183,498	775,139	3,524,549
<i>Other geographies⁽⁵⁾:</i>											
All vintages	2,038	7,831	6,529	5,581	4,815	4,126	3,588	3,174	2,682	8,282	48,646
Subtotal	2,038	7,831	6,529	5,581	4,815	4,126	3,588	3,174	2,682	8,282	48,646
Portfolio ERC	464,236	1,686,524	1,363,946	981,615	718,002	544,084	423,222	334,324	270,513	954,698	7,741,164
REO ERC ⁽⁶⁾	9,680	45,742	46,008	18,964	7,652	6,402	2,009	—	—	—	136,457
Total ERC	\$ 473,916	\$1,732,266	\$1,409,954	\$1,000,579	\$725,654	\$550,486	\$425,231	\$334,324	\$270,513	\$ 954,698	\$7,877,621

(1) As of September 30, 2023, ERC for Zero Basis Portfolios include approximately \$59.5 million for purchased consumer and bankruptcy receivables in the United States. ERC for Zero Basis Portfolios in Europe and other geographies was immaterial. ERC also includes approximately \$53.1 million from cost recovery portfolios, primarily in other geographies.

(2) Represents the expected remaining gross cash collections over a 180-month period. As of September 30, 2023, ERC for 84-month and 120-month periods were:

	84-Month ERC	120-Month ERC
United States	\$ 3,886,043	\$ 4,087,833
Europe	2,515,536	3,017,590
Other geographies	36,970	43,979
Portfolio ERC	6,438,549	7,149,402
REO ERC	136,457	136,457
Total ERC	\$ 6,575,006	\$ 7,285,859

(3) Amount for 2023 consists of three months data from October 1, 2023 to December 31, 2023.

(4) Includes portfolios acquired in connection with certain business combinations.

- (5) Annual pool groups for other geographies have been aggregated for disclosure purposes.
- (6) Real estate-owned assets ERC includes approximately \$135.2 million and \$1.3 million of estimated future cash flows for Europe and Other Geographies, respectively.

Estimated Future Collections Applied to Investment in Receivable Portfolios

As of September 30, 2023, we had \$3.3 billion in investment in receivable portfolios. The estimated future collections applied to the investment in receivable portfolios net balance is as follows (*in thousands*):

Years Ending December 31,	United States	Europe	Other Geographies	Total
2023 ⁽¹⁾	\$ 115,369	\$ 52,015	\$ 1,570	\$ 168,954
2024	481,153	196,501	5,947	683,601
2025	435,187	172,446	4,939	612,572
2026	279,307	149,000	4,203	432,510
2027	171,834	127,596	3,545	302,975
2028	114,310	105,994	3,008	223,312
2029	76,834	91,044	2,585	170,463
2030	52,799	77,485	2,275	132,559
2031	37,361	68,436	1,602	107,399
2032	26,785	62,234	—	89,019
2033	19,404	57,520	—	76,924
2034	14,165	55,725	—	69,890
2035	10,707	55,223	—	65,930
2036	8,608	57,050	—	65,658
2037	5,576	60,796	—	66,372
2038	1,915	50,491	—	52,406
Total	\$ 1,851,314	\$ 1,439,556	\$ 29,674	\$ 3,320,544

(1) Amount for 2023 consists of three months data from October 1, 2023 to December 31, 2023.

Liquidity and Capital Resources

Liquidity

The following table summarizes our cash flow activities for the periods presented (*in thousands*):

	Nine Months Ended September 30,	
	2023	2022
	(Unaudited)	
Net cash provided by operating activities	\$ 116,211	\$ 154,876
Net cash used in investing activities	(270,726)	(40,672)
Net cash provided by (used in) financing activities	158,872	(140,692)

Operating Cash Flows

Cash flows from operating activities represent the cash receipts and disbursements related to all of our activities other than investing and financing activities.

Net cash provided by operating activities was \$116.2 million and \$154.9 million during the nine months ended September 30, 2023 and 2022, respectively. Operating cash flows are derived by adjusting net income for non-cash operating items such as depreciation and amortization, changes in recoveries, stock-based compensation charges, and changes in operating assets and liabilities which reflect timing differences between the receipt and payment of cash associated with transactions and when they are recognized in results of operations.

Investing Cash Flows

Cash flows relating to investing activities is primarily affected by receivable portfolio purchases offset by collection proceeds applied to the investment in receivable portfolios.

Net cash used in investing activities was \$270.7 million and \$40.7 million during the nine months ended September 30, 2023 and 2022, respectively. Receivable portfolio purchases, net of put-backs, were \$772.1 million and \$569.0 million during the nine months ended September 30, 2023 and 2022, respectively. Collection proceeds applied to the investment in receivable portfolios, were \$504.7 million and \$567.8 million during the nine months ended September 30, 2023 and 2022, respectively.

Financing Cash Flows

Financing cash flows are generally affected by borrowings under our credit facilities and proceeds from various debt offerings, offset by repayments of amounts outstanding under our credit facilities and repayments of various notes.

Net cash provided by financing activities was \$158.9 million during the nine months ended September 30, 2023 and net cash used in financing activities was \$140.7 million during the nine months ended September 30, 2022. Borrowings under our credit facilities were \$630.1 million and \$637.3 million during the nine months ended September 30, 2023 and 2022, respectively. Repayments of amounts outstanding under our credit facilities were \$446.7 million and \$432.4 million during the nine months ended September 30, 2023 and 2022, respectively. During the nine months ended September 30, 2023, we issued \$230.0 million 4.00% convertible senior notes that mature in 2029, and used \$212.5 million in cash to repurchase and settle our exchangeable senior notes due 2023. During the nine months ended September 30, 2022, we paid \$221.2 million to settle our convertible senior notes due 2022 using cash on hand and drawings under our Global Senior Facility.

Capital Resources

Our primary sources of capital are cash collections from our investment in receivable portfolios, bank borrowings, debt offerings, and equity offerings. Depending on the capital markets, we consider additional financings to fund our operations and any potential acquisitions. From time to time, we may repurchase outstanding debt or equity and/or restructure or refinance debt obligations. Our primary cash requirements include funding the purchase of receivable portfolios, operating expenses, the payment of interest and principal on borrowings, the payment of income taxes, funding any entity acquisitions and share repurchases.

We are in material compliance with all covenants under our financing arrangements. See “Note 7: Borrowings” in the notes to our condensed consolidated financial statements for a further discussion of our debt. Available capacity under our Global Senior Facility, was \$307.2 million as of September 30, 2023.

In October 2023, we entered into various transactions, agreements and amendments related to our borrowings including:

- an additional issuance of €100.0 million (approximately \$105.8 million based on an exchange rate of \$1.00 to €0.94, the exchange rate as of September 30, 2023) aggregate principal amount of Encore 2028 Floating Rate Notes at an issue price of 99.01%;
- a \$175.0 million securitized senior facility;
- an amendment to the Cabot Securitisation Senior Facility; and
- an agreement to increase the size of our Global Senior Facility by \$23.0 million from \$1,180.0 million to \$1,203.0 million.

See “Note 14: Subsequent Events” in the notes to our condensed consolidated financial statements for detailed discussion of these transactions.

Our Board of Directors has approved a \$300.0 million share repurchase program. Repurchases under this program are expected to be made from cash on hand and/or a drawing from our Global Senior Facility and may be made from time to time, subject to market conditions and other factors, in the open market, through private transactions, block transactions, or other methods as determined by our management and Board of Directors, and in accordance with market conditions, other corporate considerations, and applicable regulatory requirements. The program does not obligate us to acquire any particular amount of common stock, and it may be modified or suspended at our discretion. During the three and nine months ended September 30, 2023, we did not make any repurchases under the share repurchase program. During the three and nine months ended September 30, 2022, we repurchased 457,244 and 1,280,857 shares of our common stock for approximately \$25.9 million and 76.6 million, respectively. Our practice is to retire the shares repurchased. As of September 30, 2023, authorization for \$91.9 million of share repurchases remained under the share repurchase program.

Our cash and cash equivalents as of September 30, 2023, consisted of \$27.2 million held by U.S.-based entities and \$117.5 million held by foreign entities. Most of our cash and cash equivalents held by foreign entities is indefinitely reinvested and may be subject to material tax effects if repatriated. However, we believe that our sources of cash and liquidity are sufficient to meet our business needs in the United States and do not expect that we will need to repatriate the funds.

Included in cash and cash equivalents is cash that was collected on behalf of, and remains payable to, third-party clients. The balance of cash held for clients was \$18.9 million as of September 30, 2023.

Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, timing of cash collections from our consumers, and other risks detailed in our Risk Factors. However, we believe that we have sufficient liquidity to fund our operations for at least the next twelve months, given our expectation of continued positive cash flows from operations, our cash and cash equivalents, our access to capital markets, and availability under our credit facilities. Our future cash needs will depend on our acquisitions of portfolios and ability to collect on investment in receivable portfolios.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions based on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Our actual results could differ from these estimates under different assumptions or conditions. Refer to “Critical Accounting Policies and Estimates” contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2022, for a complete discussion of our critical accounting policies and estimates. Other than the ongoing reassessment of expected future recoveries of our investment in receivable portfolios during each reporting period under our CECL accounting policy as discussed in “Note 5: Investment in Receivable Portfolios, Net” to our condensed consolidated financial statements, there have been no material changes to our critical accounting policies and estimates since our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rates. As of September 30, 2023, there had not been a material change in any of the foreign currency risk information disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Interest Rates. As of September 30, 2023, there had not been a material change in the interest rate risk information disclosed in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Item 4 – Controls and Procedures

Attached as exhibits to this Form 10-Q are the certifications required by Rule 13a-14 of the Securities Exchange Act of 1934, as amended. This section includes information concerning the controls and controls evaluation referred to in the certifications.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the “SEC”) and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and accordingly, management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on their most recent evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act are effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

Information with respect to this item may be found in “Note 11: Commitments and Contingencies,” to the condensed consolidated financial statements.

Item 1A – Risk Factors

There is no material change in the information reported under “Part I-Item 1A-Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Item 2 - Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Securities

None.

Item 5 - Other Information

None.

Item 6 – Exhibits

<u>Number</u>	<u>Description</u>
3.1.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Company’s Registration Statement on Form S-1/A filed on June 14, 1999, File No. 333-77483)
3.1.2	Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on April 4, 2002, File No. 000-26489)
3.1.3	Second Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.1.3 to the Company’s Quarterly Report on Form 10-Q filed on August 7, 2019)
3.2	Amended and Restated Bylaws, as amended through December 13, 2022 (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on December 16, 2022)
10.1	Amended and Restated Senior Facilities Agreement, dated September 15, 2023, by and among Encore Capital Group, Inc., the several guarantors, banks and other financial institutions and lenders from time to time party thereto and Truist Bank as Agent and Security Agent (filed herewith)
10.2	Amendment No. 4 to Fourth Amended and Restated Senior Secured Note Purchase Agreement, dated September 15, 2023, by and among Encore Capital Group, Inc. and the purchasers named therein (filed herewith)
31.1	Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	Inline XBRL Instance Document - The instance document does not appear in the interactive data file because XBRL tags are embedded within the inline XBRL document. (filed herewith)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENCORE CAPITAL GROUP, INC.

By: /s/ Jonathan C. Clark
Jonathan C. Clark
Executive Vice President,
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Date: November 1, 2023