

Encore Capital Group, Inc.
First Quarter 2025 Conference Call Prepared Remarks
07-May-2025



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

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	Ashish Masih
<p>3</p> <p>Q1 2025 Highlights</p>	<p>Thanks, Bruce, and good afternoon, everyone. Thank you for joining us.</p> <p>Encore's 2025 is off to a strong start, which is reflected in every measure of our first quarter financial performance. Portfolio purchases in Q1 of \$368 million dollars were up 24% compared to the first quarter last year and collections of \$605 million dollars were up 18%. This solid collections performance helped earnings more than double compared to last year, as Q1 earnings per share of \$1.93 was up 103% compared to the first quarter a year ago.</p> <p>Our leverage improved to 2.6 times at the end of Q1, compared to 2.8 times a year ago and was flat compared to Q4 2024, despite significant portfolio purchasing in the first quarter. Additionally, we resumed share repurchases in Q1, purchasing \$10 million dollars of Encore shares in the first quarter and - as of today - a total of \$16 million dollars since the beginning of the year.</p> <p>Our MCM business in the U.S. continues to deliver very strong results. Empowered by the ongoing favorable supply environment, MCM portfolio purchases in the first quarter were a record \$316 million dollars at very attractive returns. MCM also delivered record collections of \$454 million dollars in Q1, up 23% compared to Q1 a year ago.</p> <p>Turning to Europe, our Cabot business delivered a solid first quarter. Portfolio purchases of \$51 million dollars were in line with their historical trend. Cabot's collections of \$150 million dollars were up 7% compared to a year ago.</p>

<p>4</p> <p>Our Strategy and Market Presence</p>	<p>At this time, I believe it's helpful to remind investors of the critical role we play in the consumer credit ecosystem by assisting in the resolution of unpaid debts. These unpaid debts are an expected and necessary outcome of the lending business model. Our Mission is to create pathways to economic freedom for the consumers we serve, by helping them resolve their past-due debts. We achieve this by engaging consumers in honest, empathetic and respectful conversations.</p> <p>Our business is to purchase portfolios of non-performing loans at attractive returns while minimizing funding costs. For each portfolio that we own, we strive to exceed our collection expectations, while both maintaining an efficient cost structure and ensuring the highest level of compliance and consumer focus.</p> <p>We achieve these objectives through our three-pillar strategy. This strategy enables us to deliver outstanding performance and positions us well to capitalize on future opportunities. We believe this is instrumental for building long-term shareholder value.</p> <p>The first pillar of our strategy, Market Focus, concentrates our efforts on the markets where we can achieve the highest risk-adjusted returns. To that end, we pursue business in countries where the credit markets are large and have consistent flows of purchasing opportunities. We believe the best markets have a strong regulatory framework, have sophisticated sellers who make data available and where we can achieve stable, long-term returns. The markets we've chosen share these characteristics.</p> <p>As a reminder, our largest business, Midland Credit Management or MCM, is in the United States, where it has been operating for over 25 years and is the leader in the world's most valuable market. Cabot Credit Management has been operating for over 20 years and is one of the largest players in the United Kingdom and continues to build a stronger presence in our European markets of France and Spain.</p>
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<p>5</p> <p>Portfolio Purchasing</p>	<p>I would now like to highlight Encore’s first quarter performance in terms of several key metrics, starting with portfolio purchasing:</p> <p>Encore’s global portfolio purchases for the quarter were \$368 million dollars, an increase of 24% compared to Q1 2024. This increased level of purchasing will help drive Encore’s continued collections growth in 2025 and beyond.</p> <p>Our concentration of portfolio purchases in the U.S., where we allocated 86% of our deployed capital in the first quarter, is a reminder that the flexibility of our global funding structure allows us to direct our capital toward geographies with the highest returns.</p>
<p>6</p> <p>Collections</p>	<p>Global collections in Q1 were \$605 million dollars, up 18% compared to Q1 a year ago. After several years of lower deployments, the past few years of higher portfolio purchases at strong returns, particularly in the U.S., have led to meaningful growth in collections, which we expect to continue.</p> <p>Our global collections performance in the first quarter compared to our ERC at the end of 2024 was 103%.</p>
<p>7</p> <p>Cash Generation</p>	<p>We believe that our ability to generate significant cash provides us with an important competitive advantage, which is also a key component of our three-pillar strategy.</p> <p>Similar to the dynamic I mentioned earlier, higher portfolio purchases at strong returns over the past few years have also led to meaningful growth in cash generation. Our cash generation for the first quarter on a trailing twelve-month basis was up 23% compared to the same period a year ago.</p>

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<p>8</p> <p>U.S. Outstandings and Charge Off Rate</p>	<p>Let's now take a look at our two largest markets, beginning with the U.S.</p> <p>The U.S. Federal Reserve reports that revolving credit in the U.S. remains near record levels.</p> <p>At the same time, since bottoming out in late 2021, the credit card charge-off rate in the U.S. has also been rising and is now near its highest level in more than 10 years.</p> <p>The combination of higher lending and growth in the charge off rate continues to drive robust portfolio supply in the U.S.</p>
<p>9</p> <p>U.S. Bankcard Delinquency Rates</p>	<p>Similarly, U.S. consumer credit card delinquencies, which are a leading indicator of future charge offs, also remain near multi-year highs. With both lending and the charge off rate at elevated levels, purchasing conditions in the U.S. market remain highly favorable. We are observing continued strong U.S. market supply and attractive pricing as well. First quarter delinquency data supports our expectation that 2025 will be another year of very strong portfolio sales by U.S. banks and credit card issuers.</p>
<p>10</p> <p>MCM (U.S.) Business</p>	<p>After surging to its highest level ever in 2024, portfolio supply in the U.S. market remains robust. MCM continues to capture significant portions of this opportunity, deploying a record \$316 million dollars in Q1 at very strong returns. This was a 34% increase in portfolio purchases compared to Q1 a year ago.</p> <p>In addition to its record investment in portfolios in Q1, our MCM business continues to excel operationally. MCM collections in the first quarter were a record \$454 million dollars, an increase of 23% compared to Q1 last year, driven by strong execution in what is typically a seasonally strong first half of the year. Consumer payment behavior in the U.S. remains stable.</p>

Encore Capital Group, Inc.
First Quarter 2025 Conference Call Prepared Remarks
07-May-2025



<p>11</p> <p>Cabot U.K. and European Business</p>	<p>Turning to our business in Europe, Cabot delivered solid performance in the first quarter of 2025.</p> <p>Collections in Q1 were \$150 million dollars, up 7% compared to Q1 last year.</p> <p>Cabot's portfolio purchases in the first quarter were \$51 million dollars, in line with their historical trend.</p> <p>We continue to be selective with Cabot's deployments as the U.K. market remains impacted by subdued consumer lending and low delinquencies, in addition to continued robust competition.</p> <p>I'd now like to hand over the call to Tomas for a more detailed look at our financial results...</p>
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Tomas Hernanz	
<p>12</p> <p>Detailed Financial Discussion</p>	<p>Thank you, Ashish.</p>
<p>13</p> <p>Summary Earnings Statement and Key Financial Measures</p>	<p>Moving to the financial results slide, we want to provide a new format going forward that I hope you will find helpful in understanding the seemingly complex accounting required for our fairly simple business. I will try to help you to better understand our business while simplifying the accounting and outlining the different drivers.</p> <p>First, we purchase consumer NPL portfolios from some of the largest financial institutions, second, we collect on them largely through our internally integrated operations and lastly, we fund those portfolio purchases through our global funding structure. I will now walk you through how everything comes together in our results:</p> <p>In the first quarter, we delivered strong growth in collections and portfolio revenue of 18% and 9%, respectively. Collections growth was positively impacted by robust recoveries above forecast. This overperformance comprised 5% of the total 18% in collections growth. For the rest of the year, we expect collections and portfolio revenue growth rates to align more closely.</p> <p>As a reminder, “changes in recoveries”, is the sum of two numbers: First, “recoveries above or below forecast” is the amount we collected above or below our ERC expectation for the quarter and is also known as “cash overs” or “cash unders”. Second, “changes in expected future recoveries” is the net present value of changes in the ERC forecast beyond the current quarter.</p> <p>Strong collections performance was supported by record levels of U.S. portfolio purchases in recent quarters, our focus on operational delivery and seasonality tailwinds, particularly in the U.S. Typically, positive seasonality tends to be more pronounced in the first half of the year with the second half</p>

Encore Capital Group, Inc.
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<p>13</p> <p>Summary Earnings Statement and Key Financial Measures</p> <p>(continued)</p>	<p>being somewhat softer for collections. Collections yield was 62.6% in Q1, a 4.2% improvement compared to last year. Collections yield is calculated by dividing collections by the average receivable portfolios for the quarter. We annualize it by multiplying it by 4. We expect collections yield to remain around 60% for the year.</p> <p>Portfolio revenue increased by 9% to \$345 million dollars supported by 10% growth in average receivable portfolios and a portfolio yield of 35.7%.</p> <p>Portfolio yield is calculated by dividing portfolio revenue by the average receivable portfolios for the quarter. We annualize it by multiplying it by 4. Portfolio yield is a very transparent metric that can be calculated for each of the debt buyers and demonstrates our superior returns in our industry. Our portfolio yield has been stable in recent quarters and we expect it to remain around 36% for the year.</p> <p>Changes in recoveries were \$21.5 million dollars for the quarter. Of that total, \$27.0 million dollars were recoveries above forecast, partially offset by negative \$5.5 million dollars of changes in expected future recoveries. Both of our businesses - MCM in the U.S. and Cabot in Europe - were net positive contributors to changes in recoveries.</p> <p>The resulting debt purchasing revenue increased by 21% to \$367 million dollars and the resulting debt purchasing yield was 37.9%. Approximately 2.2% was the impact of changes in recoveries. Servicing and other revenue remained largely unchanged at \$26 million dollars, bringing total revenue to \$393 million dollars, reflecting growth of 20%.</p> <p>While collections increased 18% in Q1, operating expenses increased only 8% to \$263 million dollars, evidence of significant operating leverage in the business. Cash efficiency margin for the quarter improved 3.5 percentage points to 58.3% compared to 54.8% in Q1 last year. We expect cash efficiency margin to remain near current levels for the remainder of the year as we incur expenses relating to onboarding portfolios resulting from increased purchasing levels in recent quarters.</p>
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<p>13</p> <p>Summary Earnings Statement and Key Financial Measures (continued)</p>	<p>Cash efficiency margin is a critical operational metric to measure the efficiency of our operations. We have slightly amended the calculation to make it a quarterly metric. The introduction of quarterly cash efficiency margin is provided to enable better understanding of our operating performance and is also key to estimating future operating expenses. Please refer to the appendix in the presentation for more details.</p> <p>Interest expense and other income increased by 30% to \$69 million dollars, reflecting higher debt balances as well as higher interest rates from bond issuances in 2024. Our tax provision of \$14 million dollars implies a corporate tax rate of approximately 23%, which is in line with our previous guidance.</p> <p>Finally, net income increased by 101% to \$47 million dollars resulting in earnings per share for the quarter of \$1.93 compared to \$0.95 in Q1 last year.</p> <p>To conclude, we've made a solid start to the year that sets us up well for 2025.</p>
<p>14</p> <p>Balance Sheet Strength: Proactively Managing Borrowings</p>	<p>We believe our balance sheet provides us very competitive funding costs when compared to our peers. Our funding structure also provides us financial flexibility and diversified funding sources to compete effectively in this growing supply environment.</p> <p>Leverage closed at 2.6x, a 0.2 times improvement vs last year and flat vs the previous quarter.</p> <p>We don't have any material maturities until 2027, and we have strong liquidity to continue to grow our US business in 2025.</p> <p>With that, I'd like to turn it back over to Ashish.</p>

	Ashish Masih
<p>15</p> <p>Our Financial Objectives and Priorities</p>	<p>Thanks, Tomas.</p> <p>Now I would like to remind everyone of our key financial objectives and priorities.</p> <p>Maintaining a strong and flexible balance sheet, including a strong BB debt rating, as well as operating within our target leverage range of two to three times, remain critical objectives.</p> <p>With regard to our capital allocation priorities, buying portfolios, particularly in today's attractive U.S. market, offers the best opportunity to create long-term shareholder value by deploying capital at attractive returns. This is precisely what we are doing as highlighted by our recent purchasing history.</p> <p>Two quarters ago, we indicated that we had raised the priority of share repurchases above strategic M&A. This is important because, as we work our way through the current cycle, we anticipate that our leverage will continue to decline. As we foreshadowed in our last earnings call, we did resume stock repurchases in the first quarter.</p>

Encore Capital Group, Inc.
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<p>16</p> <p>Guidance</p>	<p>Before I close, I'd like to reiterate where we stand today and how the year is progressing. The U.S. market continues to be very favorable with ample portfolios available for purchase at strong returns. As a result, we continue to allocate the vast majority of our capital to the U.S. market and expect MCM's purchasing to again grow in 2025. MCM is also collecting very effectively on these purchases and powering Encore's collections growth. In the European market at Cabot, we are staying disciplined and expect to continue purchasing at a level similar to Q1. In terms of operations, Cabot is also now on a more solid footing and delivering stable collections performance.</p> <p>And so, as a result of our strong start to 2025 in the first quarter, and to emphasize the fundamental predictability of our business as well as our positive outlook for the remainder of 2025, we are reiterating our guidance on key metrics for the year:</p> <p>We anticipate global portfolio purchasing in 2025 to exceed the \$1.35 billion dollars of purchases we made in 2024.</p> <p>We expect global collections to grow by 11% to \$2.4 billion dollars.</p> <p>We also expect interest expense of approximately \$285 million dollars for the year, and we expect our effective tax rate for the year to be in the mid-20's on a percentage basis.</p> <p>Now we'd be happy to answer any questions that you may have. Operator, please open up the lines for questions.</p>
<p>Q&A Session</p>	
<p>16</p> <p>Closing</p>	<p>Thanks for taking the time to join us today and we look forward to providing our second quarter results in August.</p>