

Encore Capital Group, Inc.
 Second Quarter 2025 Conference Call Prepared Remarks
 06-Aug-2025



Slide #	Commentary
	Bruce Thomas
1	<p>Thank you, Operator. Good afternoon and welcome to Encore Capital Group's second 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. 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 second quarter of 2025 and the second 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>Q2 2025 Highlights</p>	<p>Thanks, Bruce, and good afternoon, everyone. Thank you for joining us.</p> <p>Encore delivered another strong performance in the second quarter, which is reflected in our financial metrics across the board. Portfolio purchases in Q2 of \$367 million dollars were up 32% compared to the second quarter last year. Collections increased 20% to a record \$655 million dollars. Estimated remaining collections, or ERC, increased 12% to a record \$9.4 billion dollars. Our record collections performance helped earnings increase sharply, with Q2 earnings per share of \$2.49 up 86% compared to the second quarter a year ago.</p> <p>Our leverage improved to 2.6 times at the end of Q2, compared to 2.7 times a year ago and was flat compared to Q1 2025, despite significant portfolio purchasing again in the second quarter. Additionally, we continued our share repurchases in Q2, purchasing \$15 million dollars of Encore shares in the quarter, bringing our total to \$25 million dollars for the first half 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 second quarter were a record \$317 million dollars at very attractive returns. MCM also delivered record collections of \$490 million dollars in Q2, up 24% compared to Q2 a year ago.</p> <p>Turning to Europe, our Cabot business delivered a solid second quarter. Portfolio purchases of \$50 million dollars were in line with their historical trend. Cabot's collections of \$164 million dollars were up 10% compared to a year ago as reported, and were up 4% in constant currency.</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>4</p> <p>Our Strategy and Market Presence</p> <p>(continued)</p>	<p>We recently released the third edition of our Economic Freedom study, which is a part of our continuing commitment to understand consumers' personal finances in the U.S. and the U.K. and how they plan to manage past-due debt. The detailed report as well as a summary of key findings can be found on our website.</p>
<p>5</p> <p>Portfolio Purchases</p>	<p>I would now like to highlight Encore's second quarter performance in terms of several key metrics, starting with portfolio purchasing:</p> <p>Encore's global portfolio purchases for the quarter were \$367 million dollars, an increase of 32% compared to Q2 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 second quarter, is a reminder that the flexibility of our global funding structure allows us to direct our capital toward markets with the highest returns.</p>
<p>6</p> <p>Collections</p>	<p>Global collections in Q2 were up 20% to a record \$655 million dollars. 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 year-to-date through the second quarter compared to our ERC at the end of 2024 was 107%.</p>

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<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 second quarter on a trailing twelve-month basis was up 23% compared to the same period a year ago.</p>
<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 increased to its highest level in more than 10 years and remains at an elevated level.</p> <p>The combination of strong lending and elevated charge off rates 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. Second quarter delinquency data supports our expectation that 2025 will be another record year of portfolio purchasing by our MCM business in the U.S.</p>

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<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 \$317 million dollars in Q2 at very strong returns. This was a 34% increase in portfolio purchases compared to Q2 a year ago.</p> <p>In addition to its record portfolio purchases in Q2, our MCM business continues to excel operationally. MCM collections in the second quarter were a record \$490 million dollars, an increase of 24% compared to Q2 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>
<p>11</p> <p>Cabot (U.K. and Europe) Business</p>	<p>Turning to our business in Europe, Cabot delivered solid performance in the second quarter of 2025.</p> <p>Collections in Q2 were \$164 million dollars, up 10% compared to Q2 last year as reported, and were up 4% in constant currency.</p> <p>Cabot's portfolio purchases in the first quarter were \$50 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>

	Tomas Hernanz
12 Detailed Financial Discussion	Thank you, Ashish.
13 Summary Earnings Statement and Key Financial Measures	<p>Moving to the financial results slide:</p> <p>In the second quarter, we delivered strong growth in collections and portfolio revenue of 20% and 12%, respectively.</p> <p>Strong collections performance was supported by record levels of U.S. portfolio purchases in recent quarters, stable consumer behavior, our focus on operational execution and seasonality tailwinds, particularly in the U.S. Collections yield was 64.4% in Q2, an improvement of 2.9 percentage points compared to last year.</p> <p>Portfolio revenue increased by 12% to \$361 million dollars supported by 14% growth in average receivable portfolios and a portfolio yield of 35.5%.</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>Changes in recoveries were \$55.6 million dollars for the quarter. Of that total, the vast majority - \$52.3 million dollars - were recoveries above forecast. Changes in expected future recoveries were \$3.3 million dollars. Both of our businesses - MCM in the U.S. and Cabot in Europe – were once again net positive contributors to changes in recoveries.</p> <p>Put differently, we collected \$52.3 million dollars more than we forecasted in our ERC, which is incremental cashflow. This is an outstanding result that reflects the effectiveness of our collection platforms and the strength of the consumer. Despite some of the negative news and macro uncertainty in the</p>

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<p>13</p> <p>Summary</p> <p>Earnings Statement and Key Financial Measures</p> <p>(continued)</p>	<p>U.S. our consumers' payment behavior remains stable. We continue to monitor for any signs of change.</p> <p>Debt purchasing revenue increased by 27% to \$417 million dollars and the resulting debt purchasing yield was 41.0%. Approximately 5.5% was the impact of changes in recoveries. Servicing and other revenues were \$25 million dollars, bringing total revenue to \$442 million dollars, reflecting growth of 24%.</p> <p>Operating expenses increased 15% to \$291 million dollars, compared to 20% growth in collections. Operating expense growth continued to be driven by onboarding of new portfolios resulting from increased purchasing levels in recent quarters.</p> <p>Cash efficiency margin for the quarter improved one percentage point to 57.3% compared to 56.2% in Q2 last year. We expect cash efficiency margin to remain near current levels for the remainder of the year.</p> <p>Interest expense and other income increased by 23% to \$73 million dollars, reflecting higher debt balances as well as higher interest rates from bond issuances in 2024. Our tax provision of \$19 million dollars implies a corporate tax rate of approximately 25%, which is in line with our previous guidance.</p> <p>Finally, net income increased by 82% to \$59 million dollars resulting in earnings per share for the quarter of \$2.49 compared to \$1.34 in Q2 last year.</p> <p>To conclude, we delivered a solid quarter through strong operational execution and financial discipline.</p>
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<p>14</p> <p>Balance Sheet Strength</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 0.1 times improvement vs last year and flat vs the previous quarter.</p> <p>During Q2 we increased the size of our RCF by \$190 million dollars, to \$1.485 billion dollars, and extended its maturity to 2029. In July we increased the size of our US facility by \$150 million dollars, to \$450 million dollars, and extended its maturity to 2028. The combination of those two transactions improved our liquidity by up to \$340 million dollars.</p> <p>As a result of our actions in May and July, we don't have any material maturities until 2028, and we have strong liquidity to continue to grow our US business in 2025 and beyond.</p> <p>With that, I'd like to turn it back over to Ashish.</p>
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	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 indeed what we are doing as highlighted by our recent purchasing history.</p> <p>Next on our capital allocation priority list are share repurchases. We repurchased \$15 million dollars of Encore shares in the second quarter, consistent with the framework we've laid out in the past. This brings our total share repurchases to \$25 million dollars for the first half of the year.</p>

16 Guidance	<p>Before I close, I'd like to summarize where we stand today and how the year is progressing. The U.S. market continues to be very favorable with a robust supply of 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 the first two quarters of 2025. In terms of operations, Cabot continues to deliver stable collections performance.</p> <p>Overall, if you look back at the past several quarters, our actions have led to very strong purchasing and a positive growth trend in collections and cash generation. And I feel really good about our position, how the year is going and expect this momentum to continue.</p> <p>And so, as a result of our strong first half of the year and our positive outlook for the remainder of 2025, we are providing the following guidance on key metrics for the year:</p> <p>As we originally guided, we anticipate global portfolio purchasing in 2025 to exceed the \$1.35 billion dollars of purchases we made in 2024, as MCM is poised to surpass their record level of purchasing of a year ago.</p> <p>However, we are raising our guidance on global collections. We now expect global collections to grow by approximately 15.5%, to \$2.5 billion dollars. This is an increase from our prior 11% growth expectation.</p> <p>We also continue to 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>
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Q&A Session	
16 Closing	Thanks for taking the time to join us today and we look forward to providing our third quarter results in November.