Encore Capital Group, Inc.
First Quarter 2014 Conference Call Prepared Remarks
May 8, 2014

Slide Number	Commentary
	Bruce Thomas
1	Thank you, Operator. Good afternoon and welcome to Encore Capital Group's first quarter 2014 earnings call. With me on the call today are Ken Vecchione, our President and Chief Executive Officer, and Paul Grinberg, our Executive Vice President and Chief Financial Officer. Ken and Paul will make prepared remarks, and then we will be happy to take your questions.
2	Before we begin, we have a few housekeeping items. Unless otherwise noted, all comparisons made on this conference call will be between the first quarter of 2014 and the first quarter of 2013. Today's discussion will include forward-looking statements subject to risks and uncertainties. Actual results could differ materially from these forward-looking statements. Please refer to our SEC filings for a detailed discussion of potential risks. 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 earnings release, which was filed on Form 8-K earlier today. As a reminder, this conference call will also be made available for replay on the Investors section of our website, where we will also post our prepared remarks following the conclusion of this call. With that, let me turn the call over to Ken Vecchione, our President and Chief Executive Officer.

	Ken Vecchione
3 (Intro and 1st quarter results)	Thank you, Bruce, and good afternoon. I appreciate everyone joining us for a discussion of our first quarter results. • Encore had a terrific quarter. Our GAAP EPS was 82 cents per share, compared to 80 cents per share in the first quarter of 2013. Excluding one-time expenses and convertible non-cash interest, Non-GAAP Economic EPS was a record $1.08 per share, an increase of 26% from the first quarter of 2013. • Cash collections increased 47 percent to nearly $400 million dollars. This significant increase was driven by our acquisitions of Asset Acceptance, Cabot, and Marlin – each of which I will talk about in more detail as we move through the presentation. Adjusted EBITDA was $250 million dollars, an increase of 43 percent. • Our overall cost-to-collect this quarter was 38.4 percent, reflecting the presence of Asset Acceptance and Cabot in our results this year. Our Estimated Remaining Collections, or ERC, at March 31st was approximately $4.8 billion dollars, an increase of $2.8 billion dollars from last year.

4 (Deployments)	During the quarter, we deployed $487 million dollars, $105 million dollars of which was in our core business in the U.S. Our capital deployment in the U.K. was also meaningful. Excluding the $208 million dollars associated with the Marlin acquisition, we deployed $143 million dollars in portfolio purchases in the U.K. during the first quarter. We believe that this demonstrates the strength of our U.K. platform and confirms our thesis of geographic diversification. Our strong level of capital deployment in the first quarter demonstrates that we are able to deploy capital profitably even in this period of lower supply - primarily in the US market - driven by record low levels of charge-offs and the temporary pause in selling from a couple of large issuers. We are deploying capital at Refinancia and Propel in line with our business plans. With the closing of Grove on April 1st, we now have five asset classes and geographies where we can channel our capital deployment, providing us with the opportunities we need to help us achieve our target of long-term 15 percent annual Economic EPS growth.

5 (Value creation/ TSR House)	Before I talk about our progress on the acquisition front, let me review our value creation model with you. When we consider expansion and diversification, we look for opportunities that align with our four pillars of value creation. Our value creation model demands that we leverage our analytic strength, operational scale and cost leadership in order to increase liquidation and operate more efficiently. For each one of our new businesses, we will leverage the significant analytic and operational insights we've developed at Encore over the last few years. Whether that's leveraging our deep consumer insights at Propel, our efficient and low cost call center in India for Cabot or our call center specialization at Refinancia, our goal is to take what we've learned and apply it across our global operations. This disciplined approach, together with the strength of the people across all of our sites, is at the foundation of our value creation model. Our convertible bond issuance in the first quarter and the recent securitization of Propel's assets demonstrate our ability to raise capital at favorable terms and confirm our role as strong stewards of your capital. Paul will discuss both of these in more detail. Part of being strong stewards of capital is returning capital to shareholders. I'm pleased to announce that our board has recently approved a $50 million dollar share repurchase plan. As we said at our Investor Day last year, we are always evaluating the best uses for our capital. And even in periods where we are able to generate strong returns from buying portfolio and new businesses like we are in today's market, there are good reasons to buy back our stock. One of those reasons is when we believe that our stock is undervalued, which is currently the case. Another reason is to protect our shareholders from the dilution associated with equity grants. With this approval, we plan to include share repurchases in our future capital deployment efforts. I'd now like to give you an update on the progress of our recent acquisitions.

6 (Cabot)	We are very pleased with the financial performance of Cabot. Cabot's contribution to our overall profitability has increased in each of the last three quarters and is in line with our investment models. From an operational perspective, our first initiative was to leverage our talented workforce in India. Cabot India went live in January, a full two months ahead of our original schedule and our quality and compliance scores have exceeded the targets we set. We are now moving on to some of the other operational initiatives we identified with the Cabot management team.
7 (Marlin)	Cabot acquired Marlin Financial Group in February and the integration of the two businesses is well underway. Through its enhanced litigation platform and success in collection on older and non-performing debt, Marlin has solidified Cabot's position as the market leader in the high-growth UK market. When combining its acquisition by Cabot with Marlin's first quarter portfolio purchases, Marlin brought $598 million dollars of ERC to Cabot in the first quarter. But just as important, Marlin's platform will generate substantial incremental ERC and earnings from Cabot's previous purchases. Marlin's success in collecting on non-performing debt, together with Cabot's strength in semi-performing debt, will allow the combined business to bid across the age and balance spectrum.
8 (Propel)	Today marks the two-year anniversary of our acquisition of Propel Financial Services, one of the nation's leading acquirers of delinquent property tax liens. Since the acquisition, we've expanded Propel's business into eleven states. We successfully influenced legislation in Nevada, expanding the Texas model there. We acquired a large competitor in Texas and we've leveraged Encore's analytical strength and our Costa Rica call center to enhance Propel's operations. These efforts are paying major dividends. Propel's first quarter profits almost doubled compared to a year ago and the portfolio continues to grow.

9 (Acquisition)	Last week, Propel completed the acquisition of a nationwide tax lien portfolio and servicing platform from a national acquirer of delinquent tax liens in a transaction valued at approximately $43 million dollars. This acquisition will expand Propel's operational footprint to 22 states across the country, increasing our ability to deploy capital in this business. The many successful acquisitions we have completed over the past two years demonstrate our ability to identify solid businesses with strong management teams, to integrate companies once we've acquired them, and to execute on the synergies and operational initiatives we identify in our due diligence.
10 (Asset Acceptance)	Turning now to Asset Acceptance, we completed our merger with Asset in June of last year and our progress in integrating the business into Encore is nearing completion. We've exceeded our initial expectations for collections and we've achieved all of our major milestones on or ahead of schedule, including the work we've planned on software integration and call center optimization. Because of our strong performance so far, we can continue to focus our energy on continued collection enhancement and future cost savings. This quarter our focus was on executing and integrating the acquisitions of the past several months. We like how Encore has evolved over the past year and we will continue to be opportunistic whenever acquisition targets become available. With that, I will turn it over to Paul, who will go through the financial results in more detail. Paul…

	Paul Grinberg
11 (Detailed Financial Discussion)	Thank you, Ken. As Ken discussed, we had a very strong first quarter, reflecting strong performance from our core business and our recent acquisitions. Before I go into our financial results in detail, I would just like to remind you that, as required by US GAAP, we are showing 100% of Cabot and Refinacia's results in our financial statements. Where indicated, we will adjust the numbers to account for our non-controlling interest.
12 (Collections)	We generated nearly $400 million dollars of collections in the seasonally strong first quarter. $81 million dollars of collections in the quarter came from Cabot. For the quarter, our call centers outside of the U.K. contributed 36 percent of total collections, or $142 million dollars, compared to $127 million dollars in Q1 of 2013. Domestic legal channel collections grew to $151 million dollars in Q1, compared to $122 million dollars in 2013, and accounted for 38 percent of total collections. For some of Cabot's purchases, we are contractually required to keep accounts with certain collection agencies for a period of time after purchase. When excluding Cabot, 6 percent of collections in the quarter came from third-party collection agencies.

13 (Revenue)	For the quarter, revenue was $254 million dollars, an increase of 75 percent over the $145 million dollars in the first quarter of 2013. With regard to our revenue from receivable portfolios, as a percentage of collections and excluding the effects of allowance reversals, our revenue recognition rate was 59.1 percent, driven largely by Cabot's influence, compared to 51.7 percent in Q1 of 2013. For the quarter, we had $3.2 million dollars of allowance reversals, the majority of which were zero basis allowance reversals, compared to $1.0 million dollars of allowance reversals in Q1 of 2013. We had no portfolio allowances in the quarter. As many of you know, once we have evidence of sustained over-performance in a pool, we will increase that pool's yield. Consistent with this practice, and as a result of continued over-performance primarily in the 2009 through 2012 vintages, we increased yields in those pool groups this quarter.

14 (Cost to Collect)	Turning to cost-to-collect, excluding acquisition-related and other one-time costs, our overall cost-to-collect for the first quarter was 38.4 percent. Breaking the overall cost-to-collect into its components, Cabot's cost-to-collect in the quarter was comparatively low, approximately 29%, due to the fact that Cabot's portfolio primarily consists of consumers who are already on payment plans and involves very little litigation. The Marlin acquisition, with its litigation platform, has marginally increased Cabot's cost to collect. But with that increase should come incremental net collections and a higher overall return. For our U.S. business, direct cost per dollar collected in our call centers was 6.2 percent in Q1, versus 5.7 percent last year. This was the result of increased costs associated with the Asset business. As we mentioned when we acquired Asset, we expected our call center cost-to-collect to remain elevated for three to four quarters as we adjusted our combined workforce to the appropriate levels. Direct cost per dollar collected in the legal channel was 36.7 percent, down from 37.7 percent in Q1 of 2013. While cost-to-collect is an important metric, we don't focus on it in isolation. Overall, success in our business is driven by generating the greatest net return per dollar invested. We accomplish that by generating more gross dollars collected per investment dollar at what we believe to be the lowest cost per dollar collected in the industry.

15 (LO & IL)	Our legal channel, which includes both legal outsourcing and our internal legal operations in the United States, continues to be a strong contributor to the business, both in terms of dollars collected and cost to collect. Total dollars collected in our legal outsourcing channel was $120 million dollars, at a cost to collect of 36.1%, up from 35.1% last year. This increase was primarily related to higher legal outsourcing costs at Asset Acceptance. In the past three years, our cost to collect in internal legal has improved from 200 percent, to 80 percent, to under 50 percent last year as we invested in our technology platform, hired staff, and opened new sites. As our volume in the channel increased, our cost to collect continued to improve. In Q1, we collected 31 million dollars in our internal legal channel, at a cost to collect of 38.9%. We've broken out our legal cost to collect between our external and internal legal channels in our 10Q to provide more visibility into our progress in reducing cost to collect in our Internal Legal channel. I'd like to reiterate that our long-stated preference is to work with our consumers to negotiate a mutually acceptable payment plan, tailored to their personal financial situation. These plans almost always involve substantial discounts from what is owed to us. We not only believe that this is the right thing to do for our consumers, but the right thing to do for our business. For Encore, legal action is always a last resort and is pursued only after numerous attempts to communicate and reach an acceptable agreement with a consumer.

16 (Cash flows)	As mentioned earlier, collections reached another all-time high in the first quarter. This growth in collections led to improved cash flows, with first quarter Adjusted EBITDA increasing 43 percent over last year to $250 million dollars. As investors who are familiar with Encore know, Adjusted EBITDA is one of the most important ways that we measure our company's operating performance. It helps us determine amounts available for future purchases, capital expenditures, debt service, and taxes - and it gives investors a clear picture of the strong cash flow generated by our business.
17 (ERC)	Our Estimated Remaining Collections, or ERC, at the end of the first quarter was $4.8 billion dollars, an increase of 150% over last year. This was driven by the acquisitions of Asset Acceptance, Cabot and Marlin. We believe that our ERC, which reflects the value of portfolios that we have already acquired, is conservatively stated, because of our cautious approach to setting initial curves and our practice of only increasing future expectations after a sustained period of overperformance.
18 (Cabot EPS)	Cabot contributed $6 million dollars to Encore's Q1 adjusted income, which is the equivalent of 21 cents of economic earnings per share. Remember that we own our interest in Cabot together with our partner JC Flowers. Cabot's contribution to Encore's profit is calculated by backing out JC Flowers' and managements' interests and the preferred equity certificates attributable to Encore, which eliminate in consolidation.

19 (EPS walk)	To fully understand our overall results, there were certain one-time and non-cash items that affected our results this quarter. 5 cents were related to the non-cash interest costs associated with our convertible notes and 15 cents were related to one-time acquisition costs and advisory fees primarily associated with the acquisition of Marlin, for a total of 20 cents per share. After adjusting for these, we end up with $1.02 per fully diluted share, and $1.08 on a non-GAAP economic basis. In calculating our EPS on a non-GAAP economic basis, we exclude those shares associated with our convertible debt that are reflected in our EPS denominator from an accounting perspective, but which will not be issued, as a result of the call spread we entered into at the time we issued the convert. For Q1, there were approximately 1.5 million shares included in the calculation of GAAP EPS which will not increase the number of outstanding shares as a result of the call spread.

20 (New Convert)	During the first quarter, we took advantage of the strong convertible market once again and issued $161 million dollars of notes at a 2.875% interest rate for seven years. Using a capped call structure similar to what we have used in the past, we increased the conversion price from $59.39 up to $83.14. The proceeds from the convert were used to purchase a capped call and to repay a portion of the amount outstanding on our credit facility. On a cash basis, this was an accretive transaction and provides us with fixed-rate, low-cost funding. In the future, we will be able to draw on our credit facility for portfolio acquisitions or to support our geographic and asset class diversification efforts. At the end of the first quarter, our credit facility had $470 million of availability excluding the $250 million accordion. Also in the quarter, we completed the warrant amendment underlying the call spread on our convertible notes due in 2017 to protect against dilution up to $60 per share. This transaction, like similar ones before it, has the potential to provide substantial savings given our strong views about the strength of our business and our future share price.

21 (Propel Securitization)	In another important capital markets transaction, this week Propel closed the first ever securitization of Texas tax liens. This was a very successful transaction which was more than 6 times oversubscribed. The terms, which were very favorable for a first-time issuer, included a “triple-A” rating from S&P and Kroll, a 92.5% advance rate and a fixed coupon of 1.44%. This financing brings several immediate and future benefits to Propel and ultimately to Encore: • It lowers our cost of capital • It provides access to a new source of capital and sets the stage for programmatic issuances • It eliminates exposure to rising interest rates • It also creates capacity on our existing credit facilities to allow us to continue to increase market share through organic growth and acquisition Given Propel's first quarter results, its recent securitization, and the recent acquisition of a national tax lien portfolio, we are extremely excited about Propel's expected ability to grow and make meaningful contributions to Encore's profits. With that, I’d like to turn it back over to Ken for his closing comments.

	Ken Vecchione
22 (Closing)	Thanks, Paul. As you can see from our activities in the U.K. and Latin America, and when we begin deploying capital in India early next year, we are transitioning ourselves into a global company. With that comes the ability to deploy capital in different geographies and different asset classes, which we believe will continue to allow us to generate strong growth in earnings and top quartile total shareholder return, even when one market may have pricing or other pressures. As we continue our asset class and geographic diversification strategy, we will become an even more versatile company with a broader range of investment opportunities to consider when choosing how best to deploy our capital. And while we've done a lot over the last year, we have executed well, as evidenced by our results so far. But we know that as we do more, we must manage the execution risk. As many of you know, Paul has spent a significant amount of his time working on identifying and analyzing new business opportunities and in helping with the ongoing oversight of these businesses. We continue to see significant opportunities in new markets and geographies and believe that we should pursue these to continue to build shareholder value. It is becoming more and more difficult for Paul to work on these new opportunities and continue managing the financial operations of the company. There are just so many hours in the day. Since Paul has done so well in helping us expand our business, I have asked him to spend even more of his time in pursuit of those opportunities and in overseeing some of our recent acquisitions. To give him the time and bandwidth to be successful, we have decided to undertake a search to find a strong, experienced Chief Financial Officer to offload that important portion of Paul's current responsibilities. We're just in the beginning stages of planning this transition, and it will take time to find the right candidate for this important role. And Paul isn't going anywhere. He will be intimately involved in the process and will essentially manage

	the new person for a period of time to ensure a smooth transition. We view this change as an investment in the growth of our company, and a great opportunity to add bench strength along the way. We look forward to Paul's continued contributions to Encore's future success and I want to congratulate him on all the hard work and dedication that has positioned him for this terrific opportunity. With that, we would be happy to answer any questions you may have. Operator, please open up the line for questions.