



Slide #	Commentary
	<b>Bruce Thomas</b>
1	<p>Thank you, Operator. Good afternoon and welcome to Encore Capital Group's first quarter 2016 earnings call. With me on the call today are Ken Vecchione, our President and Chief Executive Officer, Jonathan Clark, Executive Vice President and Chief Financial Officer, Ashish Masih, Executive Vice President, US Debt Purchasing &amp; Operations, and Paul Grinberg, Group Executive, International and Corporate Development. Ken and Jon will make prepared remarks today, and then we will be happy to take your questions.</p>
2  (Safe Harbor)	<p>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 2016 and the first quarter of 2015. 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 and uncertainties.</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 earnings presentation, which was filed on Form 8-K earlier today.</p> <p>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.</p> <p>With that, let me turn the call over to Ken Vecchione, our President and Chief Executive Officer.</p>



	<b>Ken Vecchione</b>
<p>3  (Intro)</p>	<p>Thank you, Bruce, and good afternoon.</p> <p>In the first quarter, we earned \$1.31 in Economic EPS, growing 13% percent compared to last year, assisted by higher collections, growing revenues, strategic cost management initiatives, a lower tax rate and a benefit from our foreign exchange hedging strategy.</p> <p>This performance has led to an improvement in our return on invested capital.</p> <p>Our returns in the U.S. market remain higher than last year’s returns driven by continued progress in our consumer-focused liquidation programs. Our international businesses helped drive collections and revenues higher than a year ago, while our emphasis on strategic cost management in the U.S. contributed to a 110 basis point improvement in our overall cost-to-collect.</p> <p>Full-year commitment levels for our U.S. business continued to grow, and the domestic pricing environment is showing early signs of improvement.</p> <p>In Europe, Cabot had a strong deployment quarter as we expanded our presence in Spain. This led to an overall solid quarter of Q1 purchases for Encore.</p>



4  (U.S.)	<p>I'd now like to provide broader strategic context to the results and describe how we are managing the business on a regional basis.</p> <p>In the U.S. market, domestic supply remains stable and we're seeing early signs of pricing improvement in some categories of portfolios. Encore's solid capital deployment in the first quarter reflected the market's emerging pricing discipline. Forward flow and bulk commitments for the year continue to grow, currently totaling nearly \$330 million dollars for 2016.</p> <p>We spoke last quarter of the progress we've made in improving liquidations in our domestic business and our programs remain on track. Importantly, our IRR's on deployed capital remain 15% higher than last year as our consumer-focused programs improve collections. These programs have not only provided better returns for our business, but offer better solutions for our consumers to improve their lives, resulting in substantially reduced levels of consumer complaints.</p> <p>We also began to publicly emphasize invested capital returns a quarter ago. We remain convinced that the best path to improve shareholder value is to manage all of our businesses on a return-on-invested-capital-basis. Our U.S. business will contribute to the overall rise in earnings and ROIC through enhanced liquidation programs, portfolio pricing, and strategic cost management.</p> <p>The completion of the Propel divestiture at the end of Q1 contributed to the rise in our return on invested capital as we lowered our leverage and improved our liquidity.</p> <p>Our liquidation and strategic cost management initiatives position Encore to improve returns as market supply increases.</p>
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5  (Europe)	<p>In Europe, Cabot recently became the first large debt buyer to achieve authorization from the Financial Conduct Authority – or FCA – affirming its leadership position in the U.K.</p> <p>This quarter more of our European capital was deployed in Spain - and for the first time in France - where pricing and projected returns have recently been more favorable.</p> <p>Generally, first quarter activity in the U.K. is seasonally lighter, but we see a strong purchasing pipeline for the second quarter.</p> <p>At Cabot and Grove, we're deploying many of the same innovative and consumer-focused liquidation programs in an effort to drive higher returns through the sharing of best practices with our U.S. business.</p> <p>Our European earnings and ROIC will be driven by higher returns, by leveraging our existing platforms, and allocating capital to countries that offer higher returns and lower effective tax rates than the United States.</p>
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6  (Latin America)	<p>Latin America holds tremendous potential for Encore. Perhaps the most challenging aspect of this region lies in the need to be patient and in taking a measured approach to expansion, particularly with Brazil's current political and economic uncertainty.</p> <p>We are optimistic about our long-term prospects in both Mexico and Brazil. We're carefully monitoring the activity surrounding R&amp;D investments that we've already made in the region and our projected after-tax returns remain solid. As we've indicated in the past, when we consider investments in international markets, we adjust our expectations for geopolitical and economic risk unique to each country.</p> <p>Our Refinancia subsidiary based in Colombia is showing signs of sustained improvement and predictability.</p> <p>We believe investments in Latin America will generate ROIC that will enhance our overall invested capital returns through the region's higher IRR's, lower effective tax rates and favorable supply environment. Going forward, we may expand our contingency collections capability in this region through a "capital-lite" acquisition model. This involves investing lower levels of capital to acquire a collections agency in the region instead of larger debt buyers who own their portfolios.</p> <p>We remain appropriately cautious - and optimistic - about our potential for expansion in Latin America.</p>
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<p>7  (What's Next)</p>	<p>The U.S., Europe and Latin America contribute measurably to our financial results. However, as we look to the future, we continue to expand our platforms in other regions.</p> <p>Our acquisition of Baycorp will serve as another beachhead for our international business as we explore future opportunities in Australia and New Zealand.</p> <p>In India, we have worked diligently to establish our own Asset Reconstruction Company and to align ourselves with appropriate investment partners. We continue to clear regulatory milestones required to operate in the country and will begin modest investments when appropriate.</p> <p>We also continue to share best practices and transfer knowledge across our global platform to improve liquidations and performance.</p>
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<p>8  (Debt and Debt Ratios)</p>	<p>The sale of Propel provided significant benefits for Encore, improving our invested capital returns, reducing our debt, providing liquidity, and allowing us to take advantage of new opportunities for higher returns we're seeing in the U.S. and around the world.</p> <p>The completed sale of Propel enables investors to see our leverage in much the same way that our lenders do, without Cabot.</p> <p>After selling Propel, we've reduced our leverage during the last quarter from 5.02 times to 4.38 times. And considering these ratios without Cabot, our debt to equity ratio moves substantially lower, to 1.9 times.</p> <p>It's important to remember that we fully consolidate Cabot's debt on our balance sheet because we have a 43 percent economic interest in Cabot and we control their board. Nonetheless, Cabot's debt has no recourse to Encore. Consequently, Encore is far less levered than a casual glance at our financials would indicate.</p> <p>I'll now turn it over to Jon, who will go through the financial results in more detail. Jon...</p>
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	<b>Jonathan Clark</b>
9  (Detailed Financial Discussion)	<p>Thank you, Ken.</p> <p>Before I go into our financial results in detail, I would like to remind you that, as required by US GAAP, we are showing 100 percent of the results for Cabot, Grove, Refinancia and Baycorp in our financial statements. Where indicated, we will adjust the numbers to account for non-controlling interests. In addition, because the Propel sale occurred at the end of the first quarter, we're treating their results as discontinued operations in Q1 and the results I'll be mentioning over the next several minutes will be from continuing operations.</p>
10  (Q1 Results)	<p>In the first quarter, Encore generated GAAP net income from continuing operations of \$1.12 per share and Economic EPS of \$1.31, an increase of 13% over last year. This earnings growth was supported by collections that grew 5%, to \$448 million dollars, and our strategic cost management, which contributed to a lower cost to collect.</p>



<p>11  (Deployments)</p>	<p>Deployments totaled \$257 million dollars in the first quarter.</p> <p>In the United States, the majority of our \$142 million dollars of deployments represented charged-off credit card paper, nearly three quarters of which was comprised of fresh accounts. This domestic purchasing level was 44 percent higher than the first quarter of last year and reflects our sustained U.S. market share. U.S. year-to-date purchases and commitments now total nearly \$330 million dollars for 2016. Market share was maintained without sacrificing returns.</p> <p>Cabot deployed \$93 million dollars during the first quarter with the majority attributed to portfolio purchases in Spain.</p> <p>We deployed \$21 million dollars in other geographies in the first quarter, including purchases in Australia and Latin America.</p>
<p>12  (Q1 Collections)</p>	<p>Worldwide collections grew 5 percent, to \$448 million dollars in the first quarter of 2016, driven primarily by the continued growth of our international business. In constant currency terms, collections grew 8 percent in the quarter.</p> <p>The first calendar quarter of each year has historically been Encore's largest collections quarter. We expect this pattern to remain in place for 2016 as well.</p> <p>Two of the most significant changes to our collections on a year-over-year basis are:</p> <ul style="list-style-type: none"> <li>• Cabot's growth, which accounted for more than \$23 million dollars of incremental collections compared to Q1 last year,</li> <li>• and the addition of Baycorp, our subsidiary in Australia and New Zealand.</li> </ul>



<p>13  (Cash Flows)</p>	<p>In addition to being our strongest collections quarter historically, the first calendar quarter of each year tends to also generate our highest level of cash flows. Our collections performance and the effects of our cost control efforts led to meaningfully higher cash flows in the first quarter. In Q1, we generated \$287 million dollars of Adjusted EBITDA, an increase of 9 percent over the first quarter of 2015.</p> <p>On a trailing twelve months basis, we generated adjusted EBITDA of \$1 billion, 71 million dollars, which was up 7 percent compared to the same period of the prior year.</p>
<p>14  (Q1 Revenues)</p>	<p>Revenue in the quarter was \$289 million dollars, an increase of 4 percent over the first quarter of 2015. In constant currency terms, revenues grew 7 percent in the quarter.</p> <p>International revenues grew 25 percent in Q1 driven primarily by Cabot's acquisition of dlc and the addition of Baycorp. Of particular note in the first quarter was a record proportion of revenues delivered by our international businesses, topping 41 percent for the first time in Encore's history.</p> <p>Once again, we had no portfolio allowances in the quarter.</p> <p>We recorded \$2 million dollars of net portfolio allowance reversals in Q1, compared to \$3 million dollars in the same quarter a year ago.</p> <p>In the first quarter, we increased yields primarily in the 2011 through 2014 vintages as a result of sustained over-performance by pools within those vintages.</p>



<p>15  (Cost-to-Collect)</p>	<p>Turning to cost-to-collect, excluding acquisition-related and other one-time costs, our overall cost-to-collect for the first quarter was 37.7 percent, compared to 38.8 percent in the same quarter a year ago. This reduction of 110 basis points year-over-year reflects the impact of our strategic cost management efforts in the U.S., and a higher concentration of Cabot's collections in our total. Cabot's collection costs trend lower than our overall cost-to-collect because of the many consumers who are already on payment plans with Cabot, and who historically involve little litigation.</p> <p>We continue to be successful in developing stronger relationships with our consumers, resulting in scheduled payment plans with far less discounting than in the past. These payments over time are yielding a greater net return per invested dollar.</p>
<p>16  (ERC)</p>	<p>Our Estimated Remaining Collections, or ERC, at the end of the first quarter was \$5.7 billion dollars, an increase of 12 percent, compared to the end of March a year ago. In constant currency terms, our ERC grew 14 percent on a year-over-year basis.</p>



17 (Q1 EPS Walk)	<p>In the first quarter, we recorded GAAP net income from continuing operations of \$1.12 per share. Adjustments included 7 cents related to the non-cash interest and issuance costs associated with our convertible notes, 5 cents related to acquisition, integration and restructuring costs, and 7 cents related to our T CPA settlement. After these adjustments, we end up with \$1.31 per fully diluted share, and our non-GAAP Economic EPS was also \$1.31.</p> <p>Because our shares traded at an average price below the initial conversion prices of our convertible debt during the quarter, we did not exclude any shares from the calculation of our Economic EPS.</p> <p>You'll see that our tax rate is lower in the first quarter, which included a favorable settlement. We've said in the past that an appropriate tax run-rate for us is in the low to mid-30's on a percentage basis and we now believe that the effective tax rate for the year will be in the low 30's.</p> <p>In addition, Encore faced a 3 cent currency drag in the first quarter. However, this was more than offset by a 7 cent hedge gain related to Cabot's Euro denominated floating rate note. As a result, Encore realized a net currency pick-up of 4 cents.</p> <p>With that, I'd like to turn it back over to Ken.</p>
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	<b>Ken Vecchione</b>
18  (Summary)	Thanks, Jon.  In summary, we made progress in a number of key areas in Q1. We had a good deployment quarter, we booked new business at improved IRR's, and we benefitted from our cost management initiatives rolling out, which led to our growth in earnings and ROIC.
19  (Q&A Session)	Now we'd be happy to answer any questions that you may have. Operator, please open up the lines for questions.
19  (Sign Off)	That concludes the call for today. Thanks for taking the time to join us and we look forward to providing our second quarter 2016 results in August.