# Encore Capital Group, Inc.

Q1 2016 EARNINGS CALL

# CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

The statements in this presentation that are not historical facts, including, most importantly, those statements preceded by, or that include, the words "will," "may," "believe," "projects," "expects," "anticipates" or the negation thereof, or similar expressions, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). These statements may include, but are not limited to, statements regarding our future operating results, earnings per share, and growth. For all "forward-looking statements," the Company claims the protection of the safe harbor for forward-looking statements contained in the Reform Act. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company and its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors are discussed in the reports filed by the Company with the Securities and Exchange Commission, including its most recent report on Form 10-K, as it may be amended from time to time. The Company disclaims any intent or obligation to update these forward-looking statements.

# ENCORE UPDATE

# U.S. SUPPLY REMAINS STABLE, ENCORE WELL POSITIONED WHEN MARKET SUPPLY IMPROVES

- Domestic pricing environment is showing early signs of improvement
- We're making continued progress on our consumer-centric liquidation programs
- Emphasis on strategic cost management is reducing our expense base and ensuring improved returns
- Earnings and ROIC over time will be driven by liquidation improvements, portfolio pricing, and focus on cost management
- Propel divestiture allows us to deploy capital at higher returns

# OUR EUROPEAN BUSINESS CONTINUES TO GROW THROUGH PORTFOLIO PURCHASES IN SPAIN

- Cabot is the first large debt buyer to achieve Financial Conduct Authority (FCA) authorization
- We continue to seek the highest returns for our capital, leading to recent purchases in Spain and France
- Innovation and consumer-focused liquidation programs, similar to those in our U.S. business, will drive higher returns at Cabot
- Earnings and ROIC will be driven by higher allocation of capital to Spain, organic growth initiatives, and tax advantaged strategies

# WE'RE TAKING A MEASURED APPROACH TO EXPANDING OUR LATIN AMERICAN PRESENCE

- We remain optimistic about our prospects in Latin America, but are taking our time to make prudent investments
- Projected after-tax returns from our R&D investments remain solid
- Refinancia is demonstrating solid progress
- We continue to deploy capital employing risk-adjusted expectations
- Latin America is a favorable ROIC environment characterized by higher IRR's, lower effective tax rates, a favorable regulatory backdrop, and contingency collection opportunities

# WE CONTINUE TO DEVELOP AND GROW OUR PLATFORMS FOR THE FUTURE

- Our acquisition of Baycorp provides a beachhead for future opportunities in Australia and New Zealand
- Our EARC in India has received approval from the Foreign Investment Promotion Board and is now coordinating with the Reserve Bank of India for our ARC license
- We continue to transfer knowledge across our global platforms to improve liquidations and performance

# THE DIVESTITURE OF PROPEL REDUCED ENCORE'S LEVERAGE

## Debt and Debt Ratios[1]

| Encore | With Cabot and Propel at 12/31/15[2] | With Cabot at 3/31/16[3] | Without Cabot at 3/31/16[3] |
|---|---|---|---|
| **Total Debt** | $2.995 B | $2.672 B | $1.157 B |
| **Total Debt / Adjusted EBITDA** | 2.83x | 2.50x | 1.57x |
| **Total Debt / Equity** | 5.02x | 4.38x | 1.90x |

1) Preferred equity certificates treated as equity
2) As reported
3) Propel sale completed on 3/31/16

**Although we fully consolidate Cabot's debt on our balance sheet, their debt is non-recourse to Encore, despite our 43% economic interest**

# Detailed Financial Discussion

# ENCORE DELIVERED ECONOMIC EPS GROWTH OF 13% IN THE FIRST QUARTER

| GAAP EPS* | Economic EPS** |
|---|---|
| $1.12 | $1.31 |

| GAAP Net Income* | Adjusted Income** |
|---|---|
| $29 million | $34 million |

| Collections |
|---|
| $448 million |

| Adjusted EBITDA** |
|---|
| $287 million |

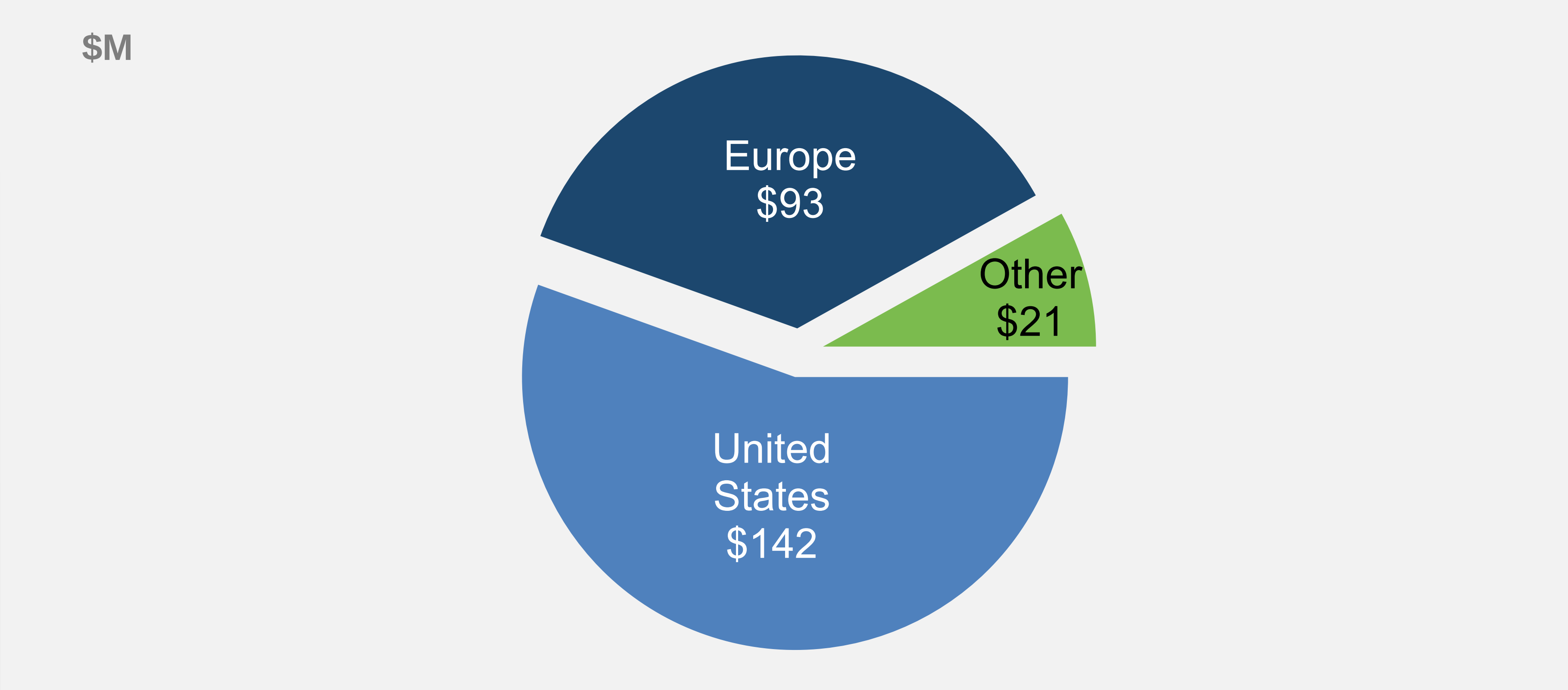
| Cost-to-Collect*** |
|---|
| 37.7% |

**Estimated Remaining Collections of $5.7 billion**

* From Continuing Operations Attributable to Encore
** Please refer to appendix for reconciliation of Economic EPS, Adjusted EBITDA, and Adjusted income to GAAP
*** Cost-to-Collect = Adjusted operating expenses / dollars collected. See appendix for reconciliation of Adjusted operating expenses to GAAP

# Q1 DEPLOYMENTS REFLECT A MODESTLY IMPROVING DOMESTIC PURCHASING ENVIRONMENT

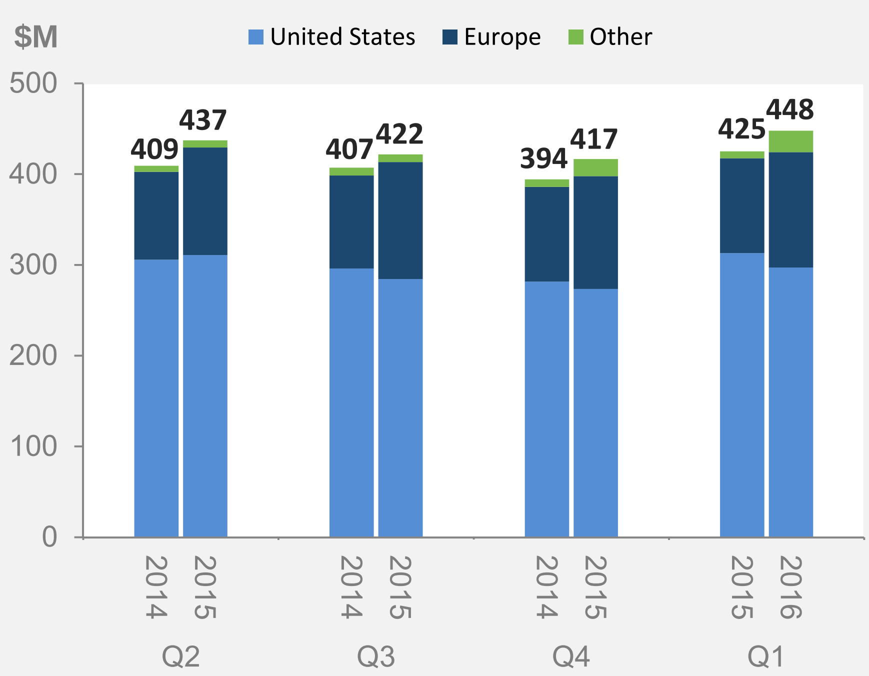
## Q1-2016 Deployments



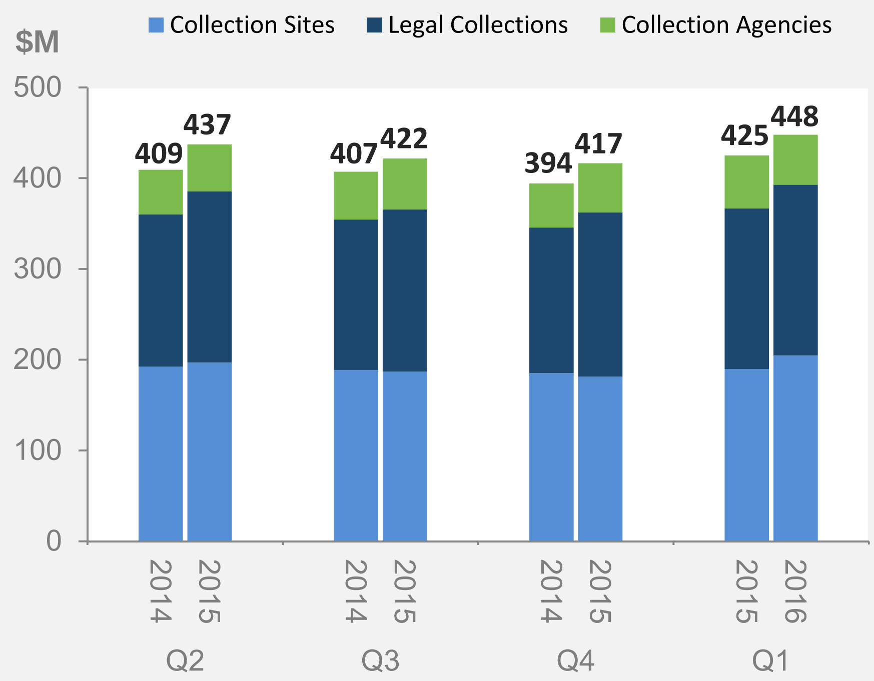

**Total $257**

# Q1 COLLECTIONS REFLECT STEADY EXECUTION AND GROWTH

## Collections by Geography

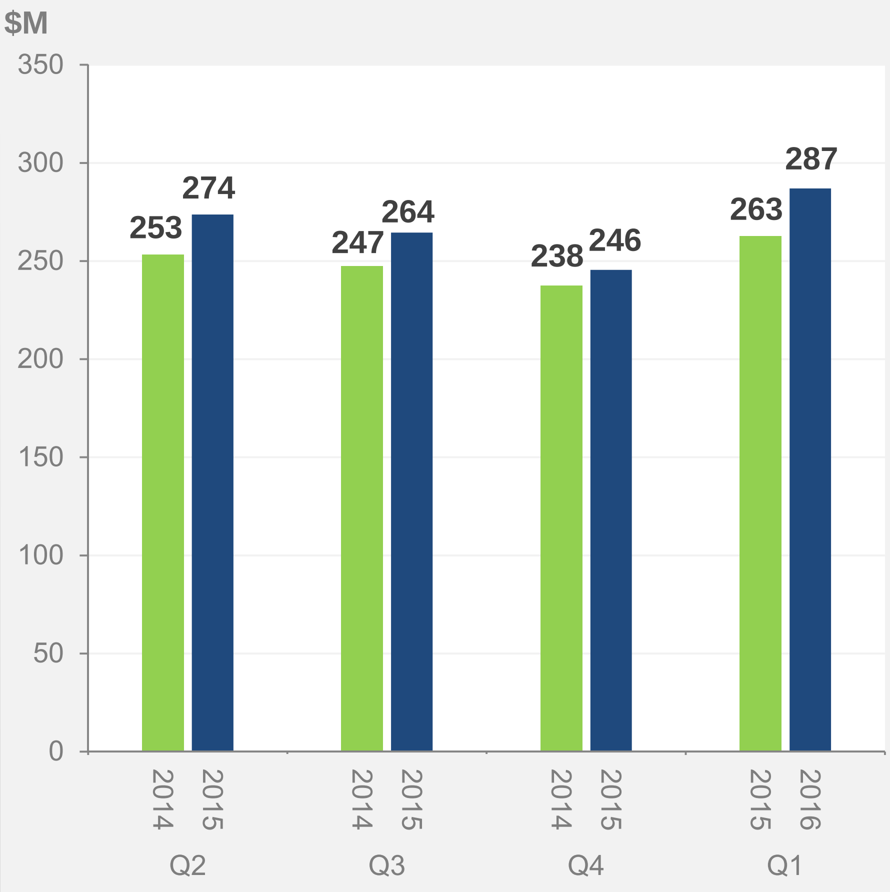



## Collections by Channel

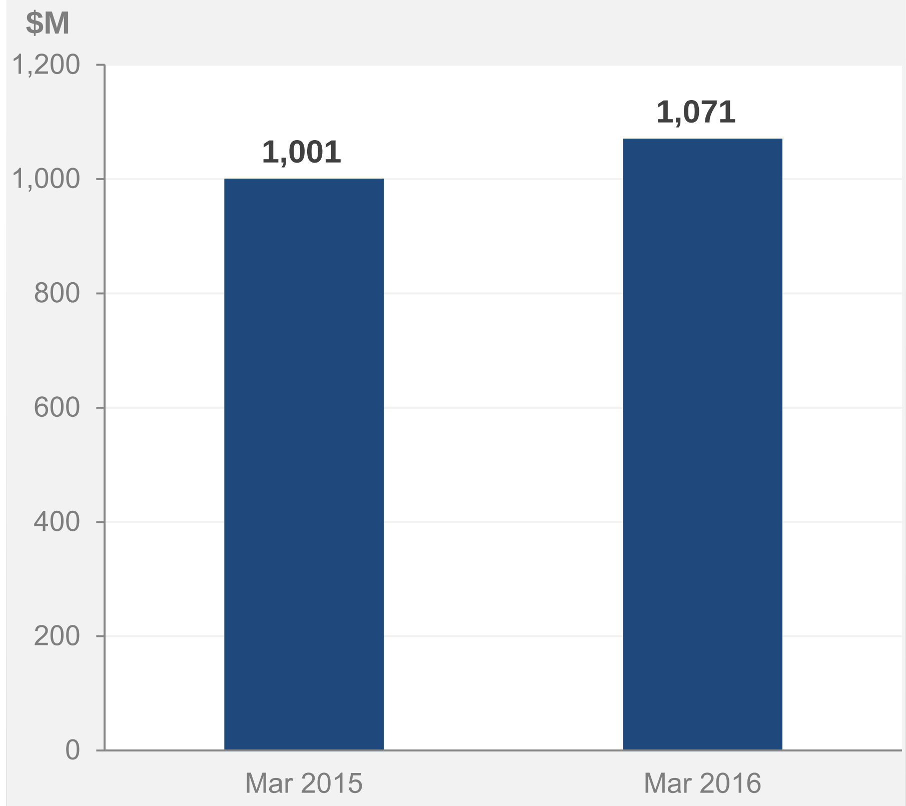


# LOWER COSTS LED TO IMPROVED CASH FLOWS

## Quarterly Adjusted EBITDA*

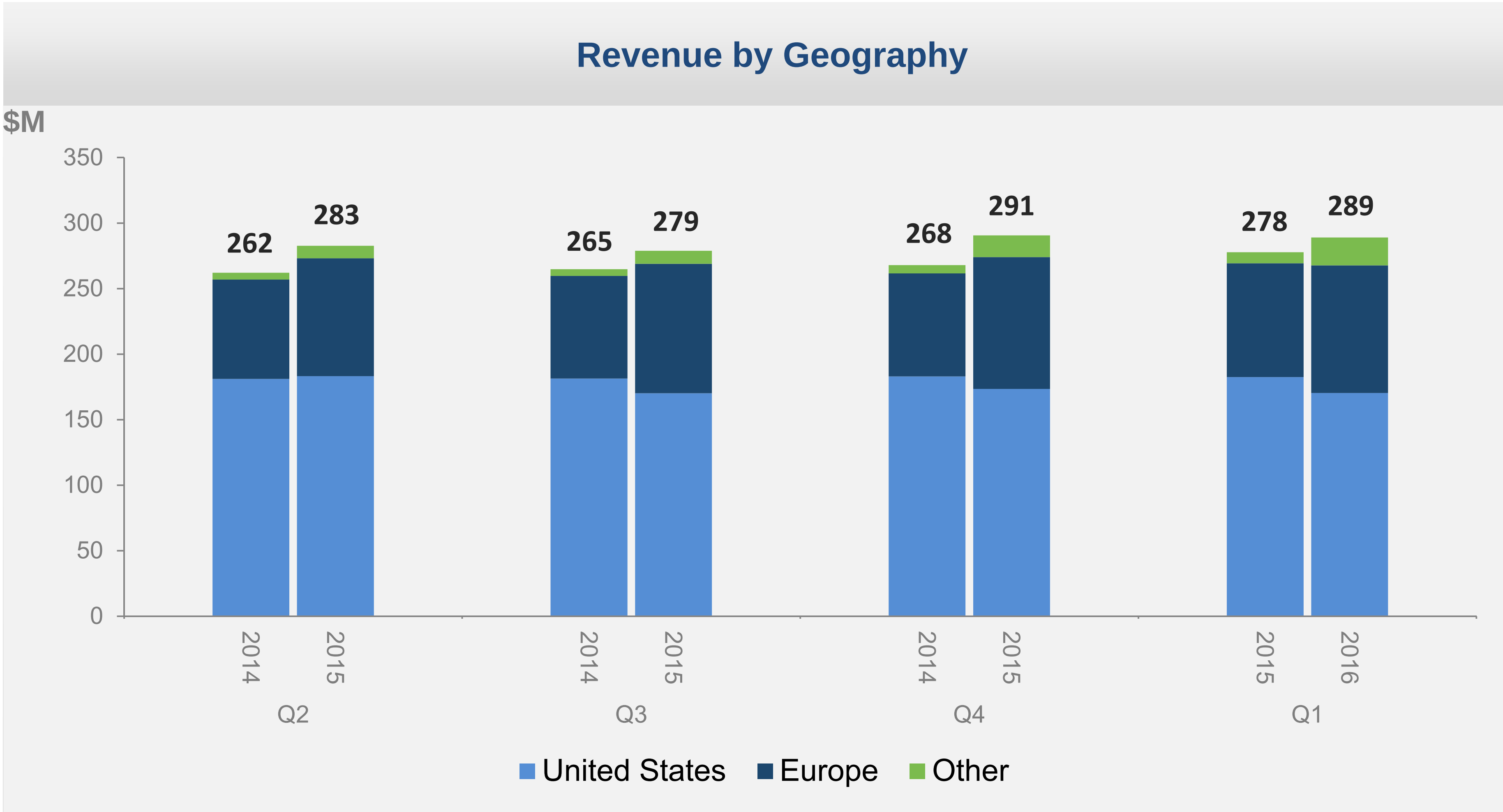



## TTM Adjusted EBITDA*

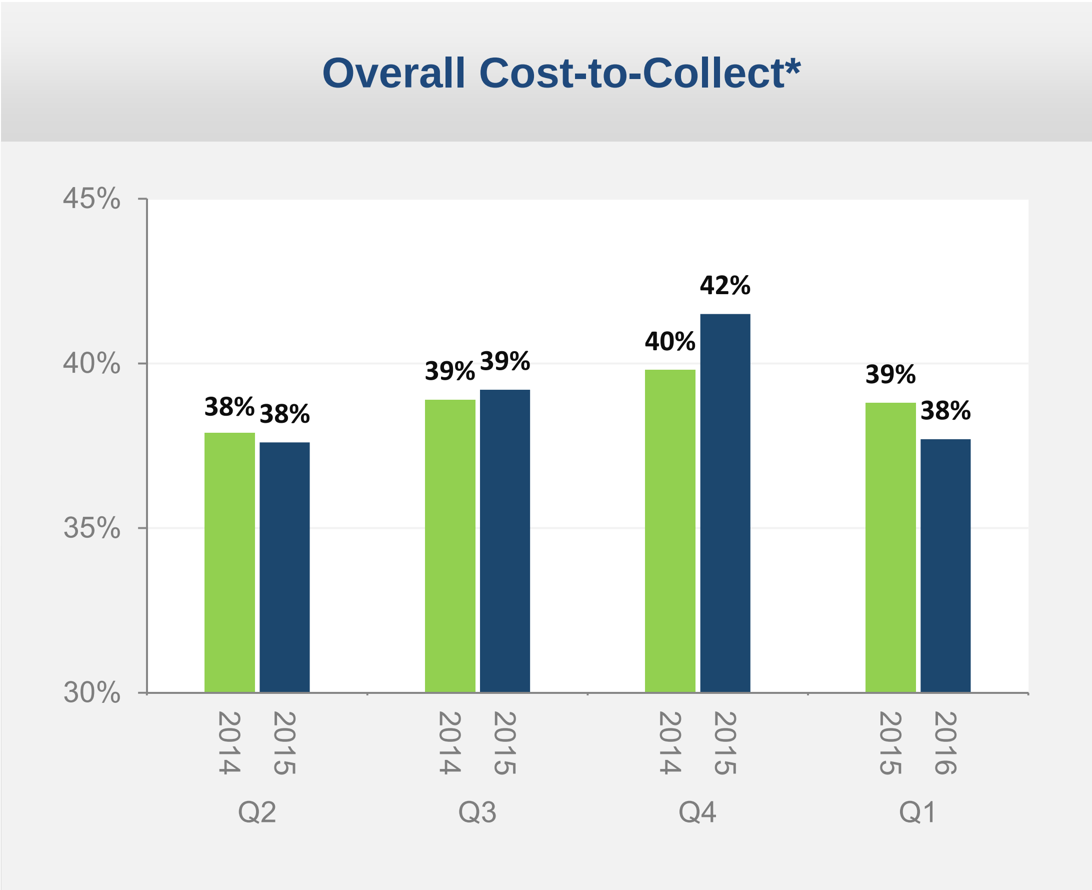



* Please refer to Appendix for reconciliation of Adjusted EBITDA to GAAP

# OUR QUARTERLY REVENUE GROWTH WAS DRIVEN BY OUR INTERNATIONAL BUSINESS



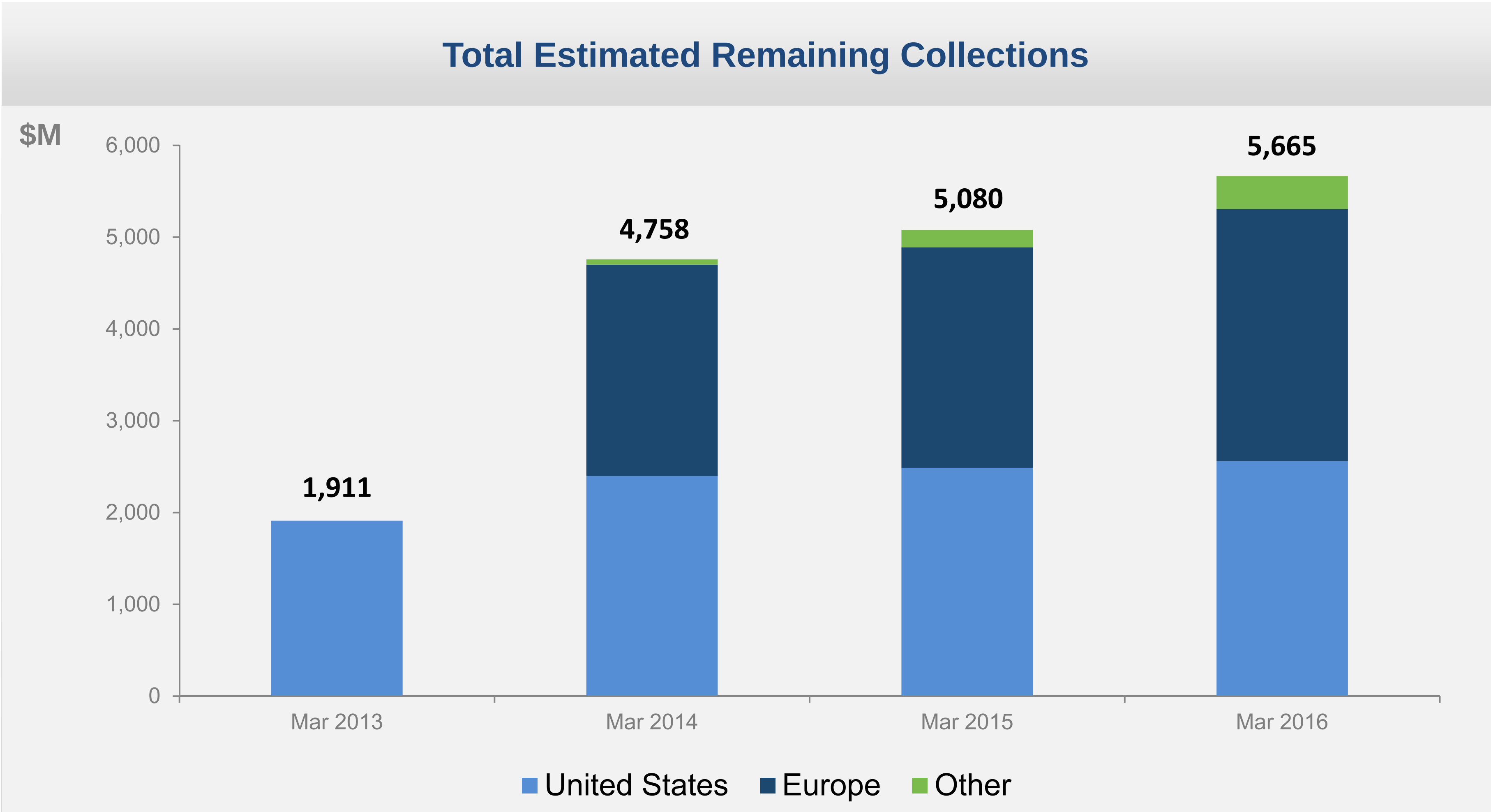
# COST-TO-COLLECT DECLINED THROUGH IMPROVED LIQUIDATION PROGRAMS AND STRATEGIC COST MANAGEMENT



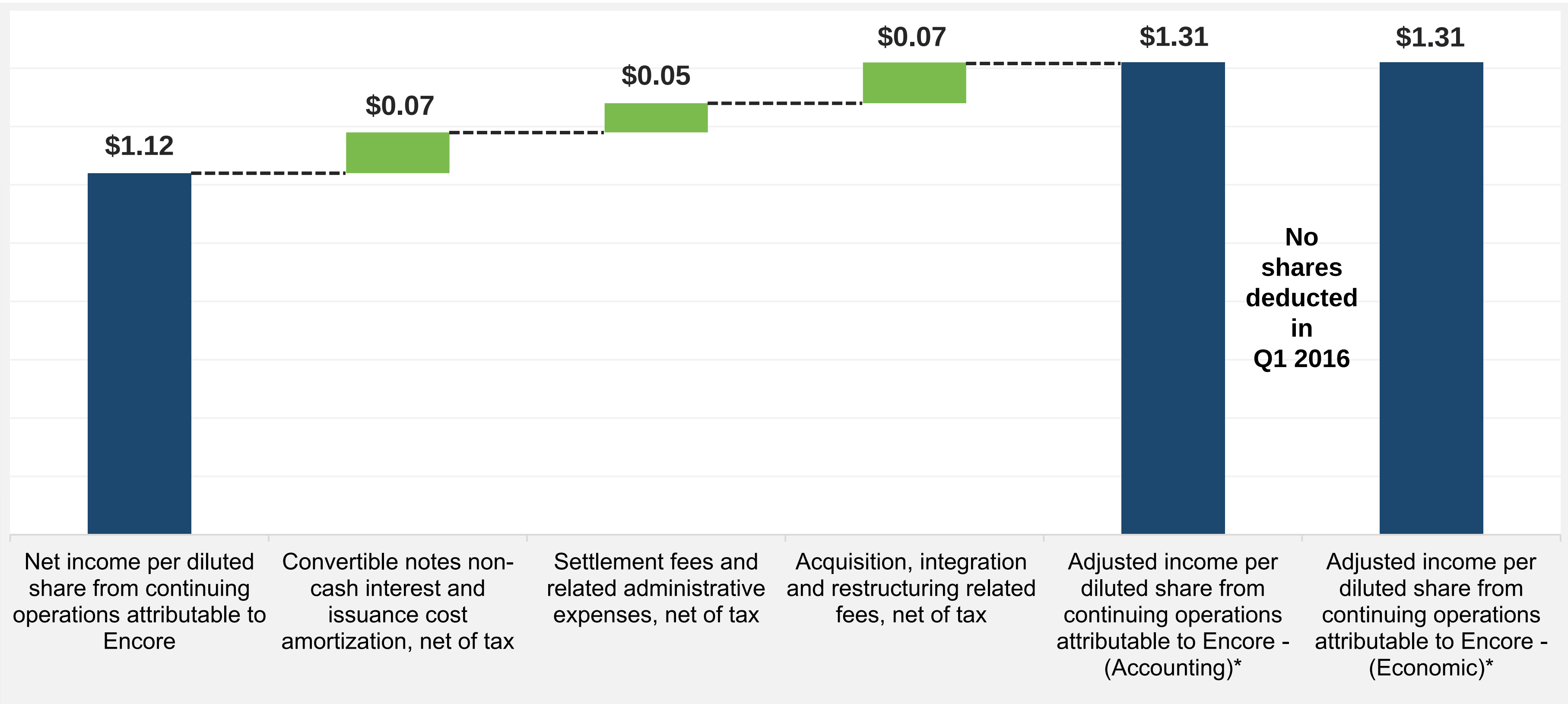

| Location | Q1 2016 CTC | Q1 2015 CTC |
|---|---|---|
| **United States** | 39.2% | 40.9% |
| **Europe** | 33.7% | 33.2% |
| **Other** | 40.0% | 29.0% |
| **Encore total** | 37.7% | 38.8% |

* Cost-to-Collect = Adjusted operating expenses / dollars collected. See appendix for reconciliation of Adjusted operating expenses to GAAP.

# OUR ERC GREW OVER $500 MILLION IN THE LAST YEAR



# ENCORE DELIVERED ECONOMIC EPS OF $1.31 IN Q1




* Please refer to Appendix for reconciliation of Adjusted EPS / Economic EPS measurements to GAAP

# SUMMARY

**U.S. Market**

- We have already secured $330 million in purchases and forward flow commitments for the U.S. market in 2016
- Pricing in the U.S. showing early signs of modest improvement

**Cost Management**

- We are emphasizing strategic expense management and reducing costs in our businesses around the globe

**Attractive IRR's**

- Our businesses in our expansion markets, especially in Latin America, are demonstrating attractive after-tax IRR's

**Earnings & ROIC**

- We are managing earnings and ROIC within each of our global businesses
- We are focusing less on large platform acquisitions going forward
- Propel divestiture allowing us to deploy more capital at higher returns

# Q&A

# Appendix

# NON-GAAP FINANCIAL MEASURES

This presentation includes certain financial measures that exclude the impact of certain items and therefore have not been calculated in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The Company has included information concerning Adjusted EBITDA because management utilizes this information, which is materially similar to a financial measure contained in covenants used in the Company's revolving credit facility, in the evaluation of its operations and believes that this measure is a useful indicator of the Company's ability to generate cash collections in excess of operating expenses through the liquidation of its receivable portfolios. The Company has included information concerning Adjusted Operating Expenses in order to facilitate a comparison of approximate cash costs to cash collections for the portfolio purchasing and recovery business in the periods presented. The Company has included Adjusted Income Attributable to Encore and Adjusted Income Attributable to Encore per Share (also referred to as Economic EPS when adjusted for certain shares associated with our convertible notes that will not be issued but are reflected in the fully diluted share count for accounting purposes) because management uses these measures to assess operating performance, in order to highlight trends in the Company's business that may not otherwise be apparent when relying on financial measures calculated in accordance with GAAP. The Company has included impacts from foreign currency exchange rates to facilitate a comparison of operating metrics that are unburdened by variations in foreign currency exchange rates over time.

Adjusted EBITDA, Adjusted Operating Expenses, Adjusted Income Attributable to Encore, Adjusted Income Attributable to Encore per Share/Economic EPS, and impacts from foreign currency exchange rates have not been prepared in accordance with GAAP. These non-GAAP financial measures should not be considered as alternatives to, or more meaningful than, net income, net income per share, and total operating expenses as indicators of the Company's operating performance. Further, these non-GAAP financial measures, as presented by the Company, may not be comparable to similarly titled measures reported by other companies. The Company has attached to this presentation a reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

# RECONCILIATION OF ADJUSTED INCOME AND ECONOMIC / ADJUSTED EPS

## Reconciliation of Adjusted Income and Economic / Adjusted EPS to GAAP EPS (Unaudited, In Thousands, except per share amounts), Three Months Ended

| | March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | $ | Per Diluted Share – Accounting | Per Diluted Share – Economic* | $ | Per Diluted Share – Accounting | Per Diluted Share – Economic* |
| GAAP net income from continuing operations attributable to Encore, as reported | $ 28,876 | $ 1.12 | $ 1.12 | $ 27,545 | $ 1.01 | $ 1.04 |
| Adjustments: | | | | | | |
| Convertible notes non-cash interest and issuance cost amortization, net of tax | 1,804 | 0.07 | 0.07 | 1,666 | 0.06 | 0.07 |
| Acquisition, integration and restructuring related expenses, net of tax | 1,329 | 0.05 | 0.05 | 1,348 | 0.05 | 0.05 |
| Settlement fees and related administrative expenses, net of tax | 1,853 | 0.07 | 0.07 | --- | --- | --- |
| **Adjusted income from continuing operations attributable to Encore** | **$ 33,862** | **$ 1.31** | **$ 1.31** | **$ 30,559** | **$ 1.12** | **$ 1.16** |

* Economic EPS for the three months ended March 31, 2016 and March 31, 2015 excludes zero shares and approximately 0.9 million shares, respectively, issuable upon the conversion of the company's convertible senior notes that are included for accounting purposes but will not be issued due to certain hedge and warrant transactions.

# RECONCILIATION OF ADJUSTED EBITDA

## Reconciliation of Adjusted EBITDA to GAAP Net Income (Unaudited, In $ Thousands) Three Months Ended

| | 6/30/14 | 9/30/14 | 12/31/14 | 3/31/15 | 6/30/15 | 9/30/15 | 12/31/15 | 3/31/16 |
|---|---|---|---|---|---|---|---|---|
| GAAP net income, as reported | $ 21,353 | $ 30,138 | $ 27,957 | $ 29,967 | $ 25,185 | ($ 9,364) | $ 1,596 | $ 26,607 |
| (Income) loss from discontinued operations, net of tax | (1,212) | (2,068) | (958) | (1,880) | (1,661) | (2,286) | 29,214 | 3,182 |
| Interest expense | 43,218 | 43,498 | 42,264 | 42,303 | 46,250 | 47,816 | 50,187 | 50,691 |
| Provision for (benefit from) income taxes | 13,100 | 8,636 | 15,558 | 14,614 | 14,921 | (6,361) | 3,988 | 10,148 |
| Depreciation and amortization | 6,619 | 6,725 | 7,860 | 8,137 | 7,878 | 8,043 | 9,102 | 9,861 |
| Amount applied to principal on receivable portfolios | 161,048 | 155,435 | 139,076 | 160,961 | 167,024 | 156,229 | 144,075 | 177,711 |
| Stock-based compensation expense | 4,715 | 4,009 | 3,621 | 5,905 | 6,198 | 5,156 | 4,749 | 3,718 |
| Acquisition, integration and restructuring related expenses | 4,616 | 1,000 | 2,212 | 2,766 | 7,892 | 2,235 | 2,635 | 2,141 |
| Settlement fees and related administrative expenses | --- | --- | --- | --- | --- | 63,019 | --- | 2,988 |
| **Adjusted EBITDA** | **$ 253,457** | **$ 247,373** | **$ 237,590** | **$ 262,773** | **$ 273,687** | **$ 264,487** | **$ 245,546** | **$287,047** |

# RECONCILIATION OF ADJUSTED OPERATING EXPENSES

## Reconciliation of Adjusted Operating Expenses to GAAP Operating Expenses (Unaudited, In $ Thousands) Three Months Ended

| | 6/30/14 | 9/30/14 | 12/31/14 | 3/31/15 | 6/30/15 | 9/30/15 | 12/31/15 | 3/31/16 |
|---|---|---|---|---|---|---|---|---|
| GAAP total operating expenses, as reported | $ 185,703 | $ 184,064 | $ 183,437 | $ 194,895 | $ 198,362 | $ 248,185 | $ 206,271 | $ 205,513 |
| Adjustments: | | | | | | | | |
| Stock-based compensation expense | (4,715) | (4,009) | (3,621) | (5,905) | (6,198) | (5,156) | (4,749) | (3,718) |
| Operating expenses related to non-portfolio purchasing and recovery business | (21,452) | (20,784) | (20,818) | (21,623) | (19,946) | (20,835) | (26,144) | (26,885) |
| Acquisition, integration and restructuring related expenses | (4,616) | (1,000) | (2,212) | (2,766) | (7,892) | (2,235) | (2,635) | (3,059) |
| Settlement fees and related administrative expenses | --- | --- | --- | --- | --- | (54,697) | --- | (2,988) |
| **Adjusted operating expenses related to portfolio purchasing and recovery business** | **$ 154,920** | **$ 158,271** | **$ 156,786** | **$ 164,601** | **$ 164,326** | **$ 165,262** | **$ 172,743** | **$ 168,863** |

# IMPACT OF FLUCTUATIONS IN FOREIGN CURRENCY EXCHANGE RATES

## (Unaudited, In Thousands, except per share amounts)

| Three Months Ended 3/31/16 | As Reported | Constant Currency |
|---|---|---|
| Revenue | $ 289,017 | $ 298,329 |
| Operating expenses | $ 205,513 | $ 211,551 |
| Net income* | $ 28,876 | $ 29,702 |
| Adjusted net income* | $ 33,862 | $ 34,731 |
| GAAP EPS* | $ 1.12 | $ 1.15 |
| Economic EPS* | $ 1.31 | $ 1.34 |
| Collections | $ 447,805 | $ 458,915 |
| ERC | $ 5,664,958 | $ 5,774,355 |

* from continuing operations attributable to Encore

Note: Constant Currency figures are calculated by employing Q1 2015 foreign currency exchange rates to recalculate Q1 2016 results.