

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

August 7, 2019
Date of report (Date of earliest event reported)

ENCORE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

000-26489
(Commission File Number)

48-1090909
(IRS Employer Identification No.)

350 Camino De La Reina, Suite 100
San Diego, California 92108
(Address of principal executive offices)(Zip Code)

(877) 445-4581
(Registrant's telephone number, including area code)

Not applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 Par Value Per Share	ECPG	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition.

On August 7, 2019, Encore Capital Group, Inc. posted a slide presentation on its website. A copy of the slide presentation is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated by reference herein.

The information in Item 2.02 of this Current Report on Form 8-K, including the information contained in Exhibit 99.1, is being furnished to the Securities and Exchange Commission pursuant to Item 2.02, and shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by a specific reference in such filing.

Item 9.01. Financial Statements and Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
99.1	Slide presentation of Encore Capital Group, Inc. dated August 7, 2019

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ENCORE CAPITAL GROUP, INC.

Date: August 7, 2019

/s/ Jonathan C. Clark

Jonathan C. Clark

Executive Vice President, Chief Financial Officer and Treasurer

EXHIBIT INDEX

Exhibit Number

Description

99.1 [Slide presentation of Encore Capital Group, Inc. dated August 7, 2019](#)



Encore Capital Group, Inc.

Q2 2019 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 reports on Form 10-K and Form 10-Q, as they may be amended from time to time. The Company disclaims any intent or obligation to update these forward-looking statements.



SECOND QUARTER 2019 FINANCIAL HIGHLIGHTS

Global Collections \$515M up 4% Record	Global Revenue¹ \$347M down 1%	Estimated Remaining Collections (ERC) \$7.4B up 2% Record	
GAAP EPS² \$1.17 up 17%	GAAP Net Income² \$36.7M up 39%	Economic EPS³ \$1.28 down 4%	Adjusted Income³ \$40.3M up 15%

1) Total Revenue, adjusted by net allowances and allowance reversals

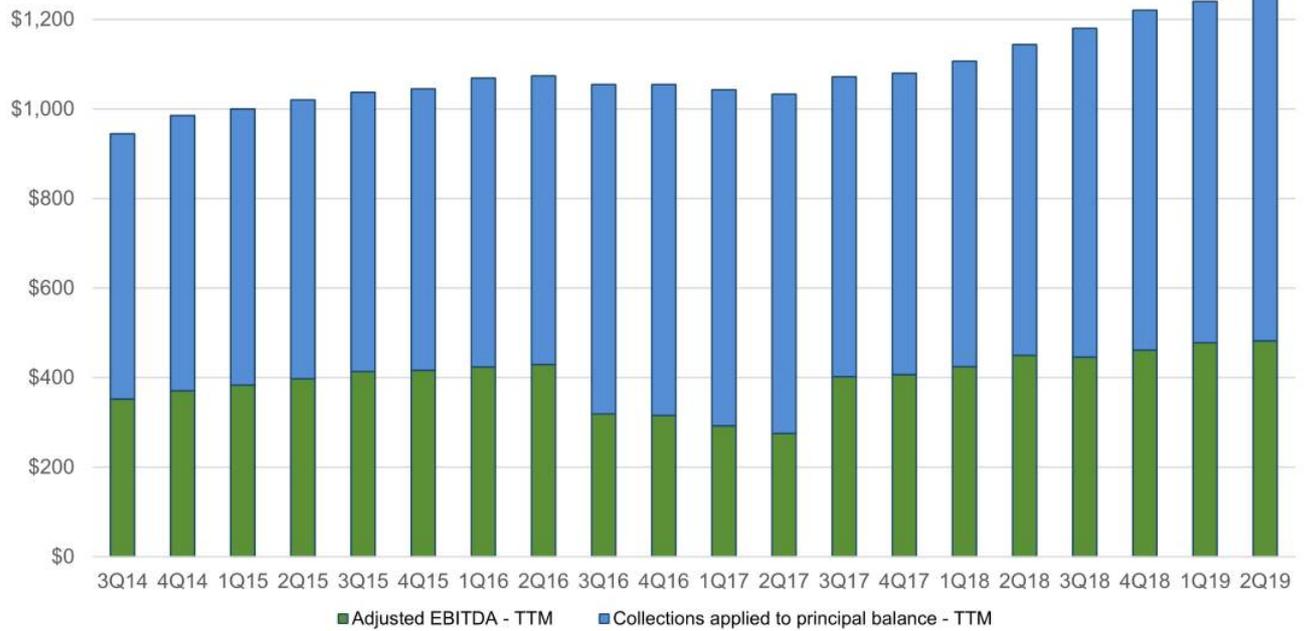
2) From continuing operations attributable to Encore

3) Please refer to Appendix for reconciliation of Economic EPS and Adjusted Income to GAAP



OUR ADJUSTED EBITDA REFLECTS OUR STRONG CASH GENERATION

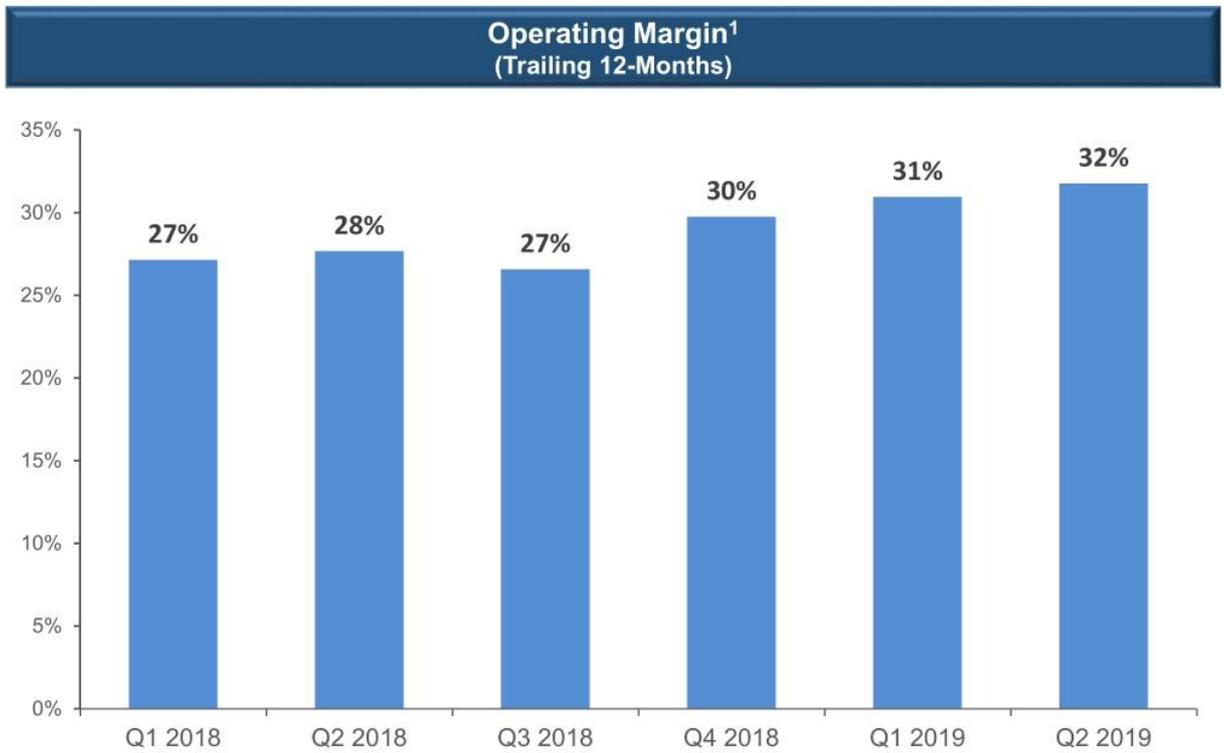
Adjusted EBITDA + Collections applied to principal balance
(Trailing 12-Months, in \$M)



Note: See appendix for reconciliation of Adjusted EBITDA to GAAP net income.



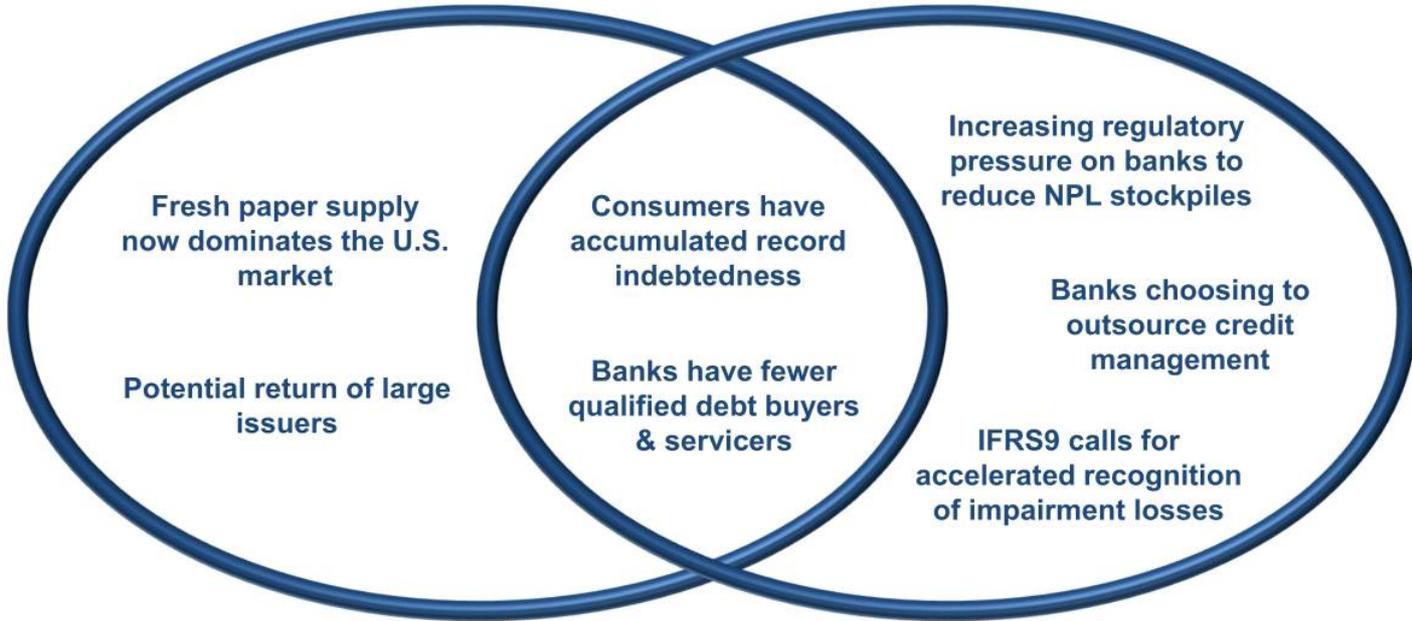
OUR OPERATING MARGIN TREND REFLECTS IMPROVEMENTS IN PORTFOLIO RETURNS AND OPERATING EFFICIENCY



1) Operating margin defined as GAAP operating income / revenues net of allowances and allowance reversals .

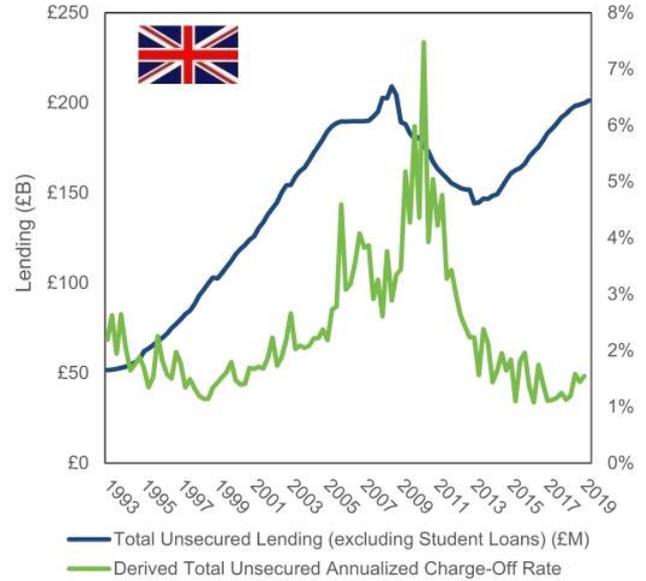
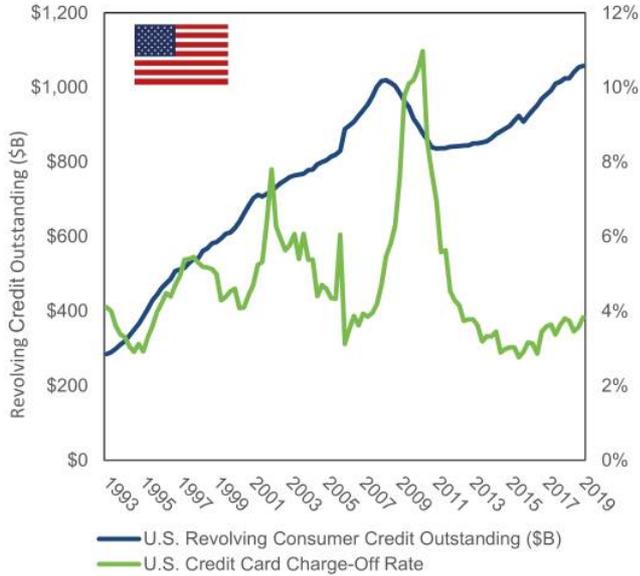
TAILWINDS CONTINUE TO DRIVE NPL SUPPLY...

Key Global Factors Driving NPL Supply



... WITH NEW NPL SUPPLY LIKELY TO GROW SIGNIFICANTLY

Revolving Credit / Unsecured Lending versus Charge-Off Rate



Sources: U.S. Federal Reserve, Bank of England

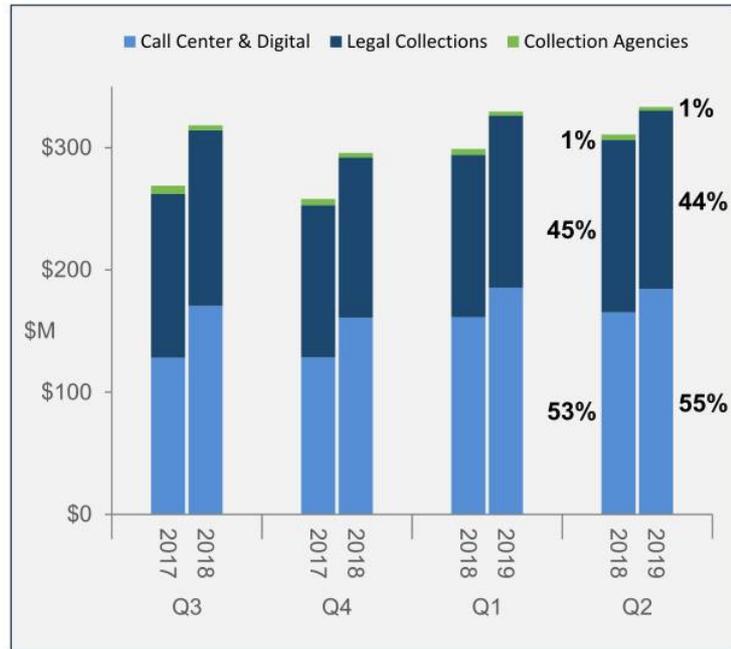
Even though charge-off rates remain near record low levels, record indebtedness is expected to drive strong supply in our two key markets

STRONGER THAN EXPECTED MCM COLLECTIONS IN Q2 GREW 7% TO A RECORD \$333 MILLION

Encore's U.S. Business

- ▶ We continue to purchase portfolios at strong returns as Q2 U.S. deployments totaled \$180M, consisting primarily of fresh paper
- ▶ U.S. call center & digital collections grew by 12% in Q2 2019 compared to Q2 2018
- ▶ Consumer-centric approach and increased productivity continue to drive a higher proportion of call center & digital collections
- ▶ Focus on expense management and cost reduction providing additional operating leverage

MCM Collections by Channel



CABOT CONTINUES TO GROW COLLECTIONS AND REDUCE LEVERAGE

Encore's European Business

- ▶ European portfolio purchases totaled \$57M in the second quarter, at returns that were 200 basis points higher than last year
- ▶ Collections from debt purchasing in Europe grew 7% in constant currency compared to Q2 2018
- ▶ European ERC of \$3.7B was up 6% in constant currency compared to June 30, 2018
- ▶ European operating results in Q2 a year ago included \$14.5M of net allowance reversals
- ▶ Cabot (CCM) continued to reduce its debt leverage
- ▶ CCM well-positioned regarding FCA's¹ latest areas of focus

DP Collections

\$158M

up 7%

in constant currency

ERC

\$3.7B

up 6%

in constant currency

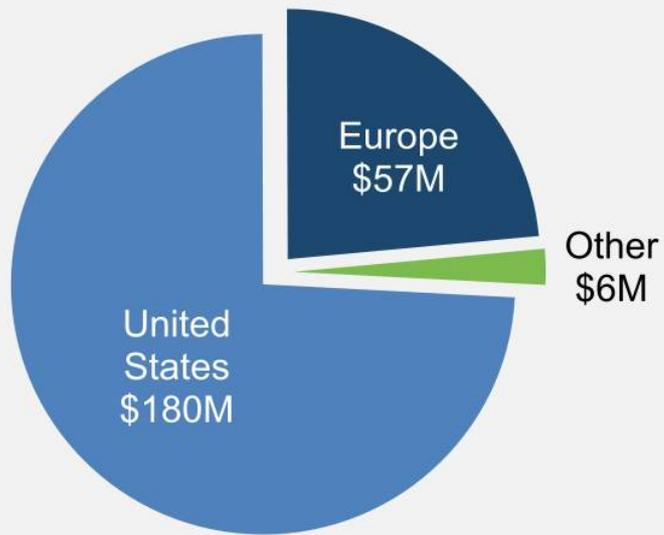
1) Financial Conduct Authority



Detailed Financial Discussion

PORTFOLIO PURCHASES IN Q2 REFLECT OUR CURRENT EMPHASIS ON DEPLOYING MORE CAPITAL IN THE U.S. MARKET

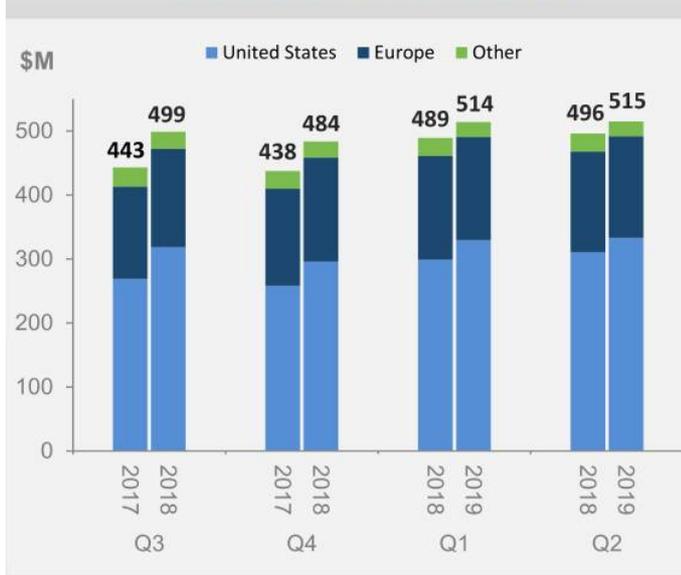
Q2 2019 Deployments



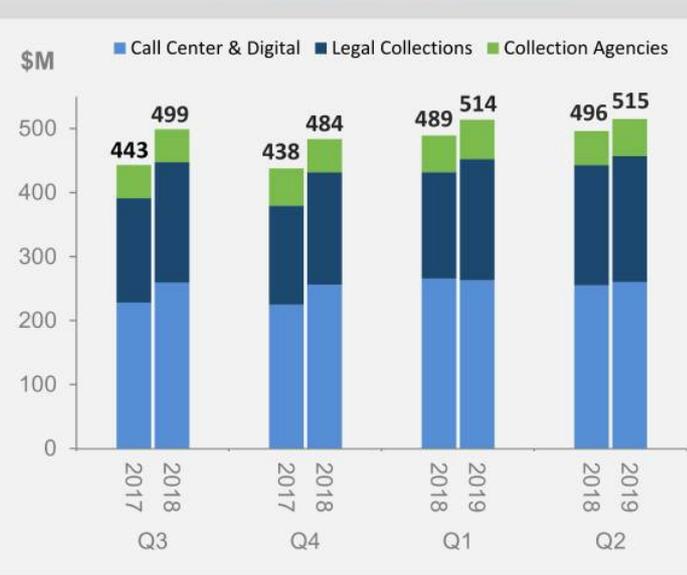
Total \$243M

CALL CENTER & DIGITAL COLLECTIONS IN THE U.S. GREW 12% IN THE SECOND QUARTER

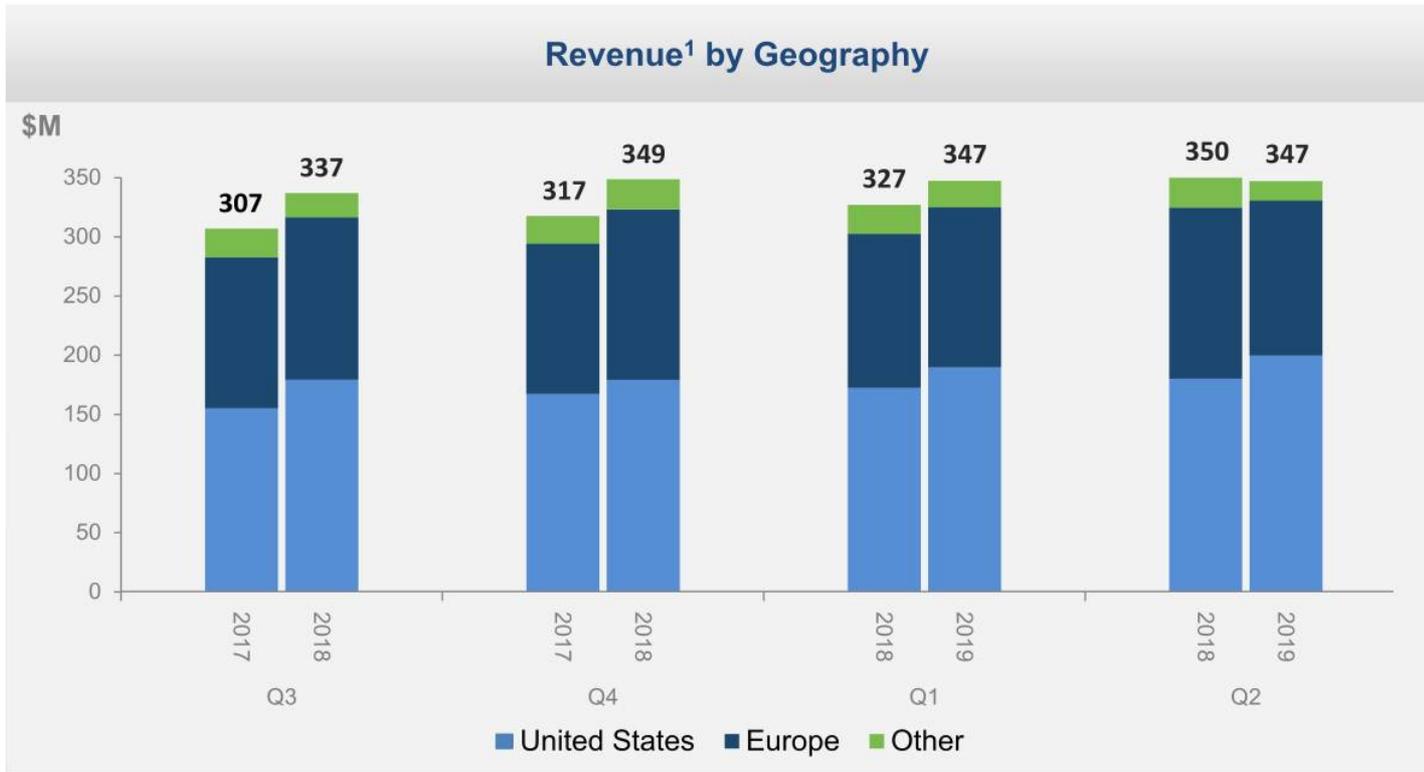
Collections by Geography



Collections by Channel



U.S. REVENUE GREW 11% IN THE SECOND QUARTER



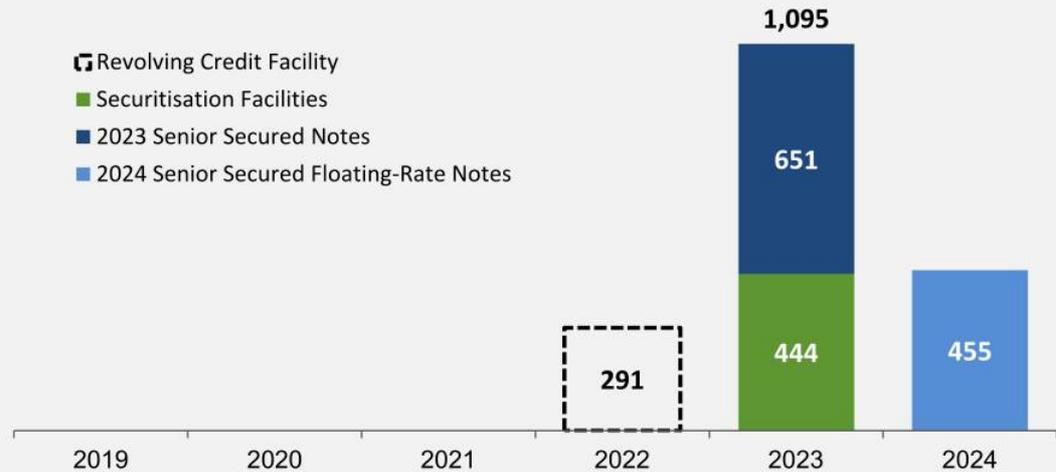
1) Net of allowances and allowance reversals

ESTIMATED REMAINING COLLECTIONS GREW \$134 MILLION IN THE LAST 12 MONTHS, TO \$7.4 BILLION



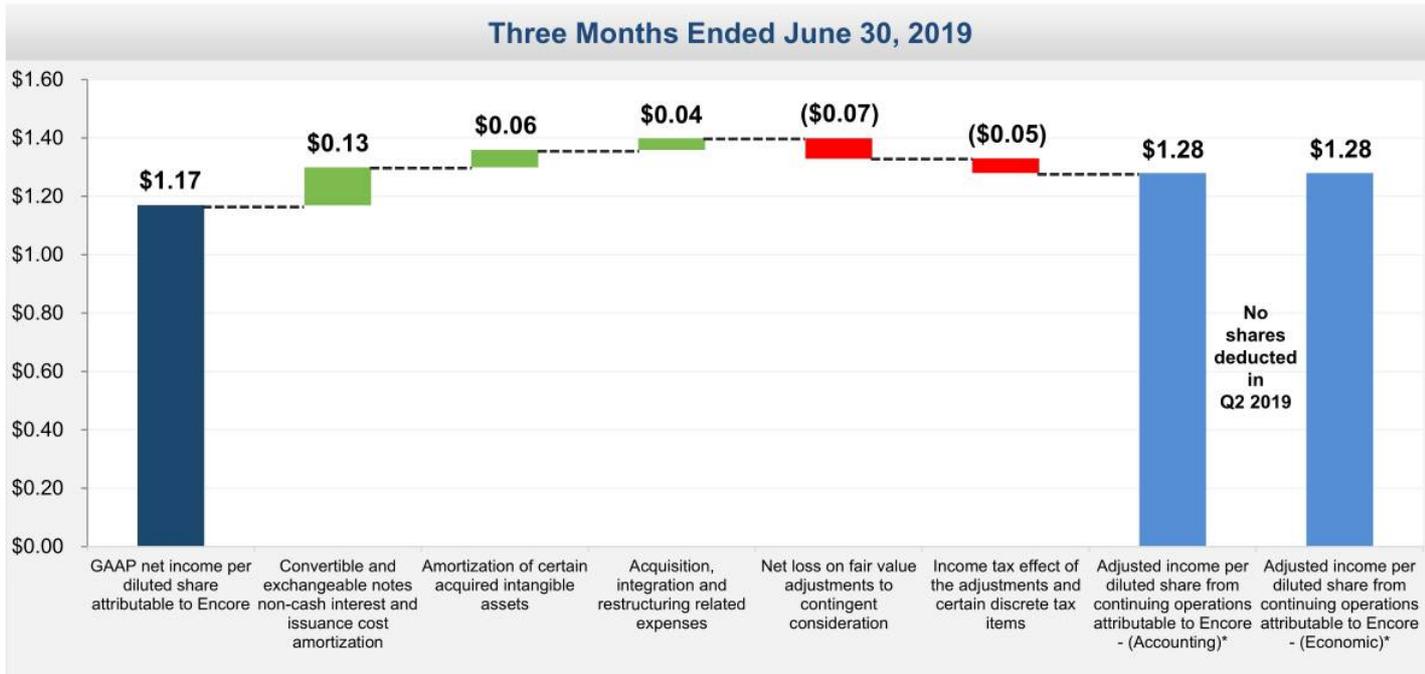
WE SUCCESSFULLY REPLACED ALL OF CABOT'S SENIOR SECURED NOTES MATURING IN 2021 WITH A NEW ISSUE DUE IN 2024

Cabot Debt Maturity Profile at June 30, 2019 (\$M)



Our new offering of Senior Secured Notes extended our maturity profile and increased our financial flexibility

ENCORE REPORTED GAAP EPS OF \$1.17 AND ECONOMIC EPS OF \$1.28 IN THE SECOND QUARTER OF 2019



Encore's Q2 GAAP and economic EPS include a \$0.23 per share charge related to Cabot refinancing and a \$0.13 per share impact related to Mexico portfolios

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

Q2 2019 SUMMARY AND OUTLOOK

- 1. Record performance**
 - ▶ Record global collections and ERC
 - ▶ Record MCM collections and revenues in the U.S.
- 2. Solid progress in expanding operating leverage**
 - ▶ Improving collections efficiency
 - ▶ A growing proportion of higher return pool groups in our collections
- 3. Leading platforms in the U.S. and the U.K.**
 - ▶ Continued improving collections effectiveness at MCM in the U.S.
 - ▶ Cabot well-positioned to benefit from European issuers' growing need for their products and services
- 4. Strong leading indicators of future growth in charge-offs and supply**
 - ▶ Reflected in record levels of consumer indebtedness in both the U.S. and the U.K.



Q&A



Appendix

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

	June 30,			
	2019		2018	
	\$	Per Diluted Share – Accounting & Economic	\$	Per Diluted Share – Accounting & Economic
GAAP net income attributable to Encore, as reported	\$ 36,661	\$ 1.17	\$ 26,298	\$ 1.00
Adjustments:				
Convertible and exchangeable notes non-cash interest and issuance cost amortization	4,038	0.13	3,070	0.12
Net gain on fair value adjustments to contingent consideration ¹	(2,199)	(0.07)	(2,378)	(0.09)
Amortization of certain acquired intangible assets ²	1,837	0.06	2,436	0.09
Acquisition, integration and restructuring related expenses ³	1,318	0.04	3,655	0.14
Loss on derivatives in connection with the Cabot Transaction ⁴	---	---	6,578	0.25
Adjustments attributable to noncontrolling interest ⁵	---	---	10	---
Income tax effect of above non-GAAP adjustments and certain discrete tax items ⁶	(1,388)	(0.05)	(4,618)	(0.18)
Adjusted income attributable to Encore	\$ 40,267	\$ 1.28	\$ 35,051	\$ 1.33

- 1) Amount represents the net gain recognized as a result of fair value adjustments to contingent considerations that were established for our acquisitions of debt solution service providers in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations.
- 2) As we acquire debt solution service providers around the world, we also acquire intangible assets, such as trade names and customer relationships. These intangible assets are valued at the time of the acquisition and amortized over their estimated lives. We believe that amortization of acquisition-related intangible assets, especially the amortization of an acquired company's trade names and customer relationships, is the result of pre-acquisition activities. In addition, the amortization of these acquired intangibles is a non-cash static expense that is not affected by operations during any reporting period. As a result, the amortization of certain acquired intangible assets is excluded from our adjusted income from continuing operations attributable to Encore and adjusted income from continuing operations per share.
- 3) Amount represents acquisition, integration and restructuring related expenses. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 4) Amount represents expenses related to the proposed and later withdrawn initial public offering by CCM. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 5) Certain of the above pre-tax adjustments include expenses recognized by our partially-owned subsidiaries. This adjustment represents the portion of the non-GAAP adjustments that are attributable to noncontrolling interest.
- 6) Amount represents the total income tax effect of the adjustments, which is generally calculated based on the applicable marginal tax rate of the jurisdiction in which the portion of the adjustment occurred. Additionally, we adjust for certain discrete tax items that are not indicative of our ongoing operations.

RECONCILIATION OF ADJUSTED EBITDA

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

	12/31/13	03/31/14	06/30/14	09/30/14	12/31/14	03/31/15	06/30/15	09/30/15
GAAP net income (loss), as reported	\$ 22,216	\$ 18,830	\$ 21,353	\$ 30,138	\$ 27,957	\$ 29,967	\$ 25,185	\$ (9,364)
(Income) loss from discontinued operations, net of tax	463	(967)	(1,212)	(2,068)	(958)	(1,880)	(1,661)	(2,286)
Interest expense	29,747	37,962	43,218	43,498	42,264	42,303	46,250	47,816
Interest income ¹	-	(168)	(238)	(258)	(298)	(414)	(370)	(407)
Provision (Benefit) for income taxes	14,805	11,275	13,100	8,636	15,558	14,614	14,921	(6,361)
Depreciation and amortization	4,873	5,897	6,619	6,725	7,860	8,137	7,878	8,043
Stock-based compensation expense	3,486	4,836	4,715	4,009	3,621	5,905	6,198	5,156
Acquisition, integration and restructuring related expenses ²	4,003	10,943	4,616	1,000	2,212	2,766	7,892	2,235
Settlement fees and related administrative expenses ³	-	-	-	-	-	-	-	63,019
Gain on fair value adjustments to contingent consideration ⁴	-	-	-	-	-	-	-	-
Expenses related to withdrawn Cabot IPO ⁵	-	-	-	-	-	-	-	-
Loss on derivatives in connection with Cabot Transaction ⁶	-	-	-	-	-	-	-	-
Adjusted EBITDA	\$ 79,593	\$ 88,608	\$ 92,171	\$ 91,680	\$ 98,216	\$ 101,398	\$ 106,293	\$ 107,851
Collections applied to principal balance ⁷	116,861	159,106	161,048	155,435	139,076	160,961	167,024	156,229

- 1) In the fourth quarter of 2016, we made a change to our presentation of adjusted EBITDA to adjust for interest income. In previous years we did not include interest income as an adjustment because it was immaterial. We have updated prior periods for comparability.
- 2) Amount represents acquisition, integration and restructuring related expenses (excluding amounts already included in the interest expense and stock-based compensation expense line items above). We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 3) Amount represents litigation and government settlement fees and related administrative expenses for certain TCPA settlements. We believe these fees and expenses are not indicative of ongoing operations, therefore, adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 4) Amount represents the gain recognized as a result of fair value adjustments to contingent considerations that were established for our acquisitions of debt solution service providers in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to Note 3 "Fair Value Measurement - Contingent Consideration" in the notes to our consolidated financial statements for further details.
- 5) Amount represents expenses related to the proposed and later withdrawn initial public offering by CCM. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 6) Amount represents the loss recognized on the forward contract we entered into in anticipation of the completion of the Cabot Transaction. We adjust for this amount because we believe the loss is not indicative of ongoing operations; therefore adjusting for this loss enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 7) Amount represents (a) gross collections from receivable portfolios less (b) revenue from receivable portfolios and (c) allowance charges or allowance reversals on receivable portfolios.

RECONCILIATION OF ADJUSTED EBITDA (continued)

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

	12/31/15	03/31/16	06/30/16	09/30/16	12/31/16	03/31/17	06/30/17	09/30/17
GAAP net income (loss), as reported	\$ 1,596	\$ 26,607	\$ 30,833	\$ (51,946)	\$ 11,323	\$ 14,979	\$ 19,076	\$ 42,144
(Income) loss from discontinued operations, net of tax	29,214	3,182	-	-	(829)	199	-	-
Interest expense	50,187	50,691	50,597	48,632	48,447	49,198	50,516	52,755
Interest income ¹	(473)	(499)	(620)	(694)	(725)	(779)	(919)	(943)
Provision (Benefit) for income taxes	3,988	10,148	13,451	(13,768)	28,374	12,067	13,531	17,844
Depreciation and amortization	9,102	9,861	8,235	8,032	8,740	8,625	8,672	8,522
Stock-based compensation expense	4,749	3,718	5,151	633	3,125	750	2,760	3,531
Acquisition, integration and restructuring related expenses ²	2,635	2,141	3,271	3,843	7,457	855	3,520	342
Settlement fees and related administrative expenses ³	-	2,988	698	2,613	-	-	-	-
Gain on fair value adjustments to contingent consideration ⁴	-	-	-	-	(8,111)	-	(2,773)	-
Expenses related to withdrawn Cabot IPO ⁵	-	-	-	-	-	-	-	-
Loss on derivatives in connection with Cabot Transaction ⁶	-	-	-	-	-	-	-	-
Adjusted EBITDA	\$ 100,998	\$ 108,837	\$ 111,616	\$ (2,655)	\$ 97,801	\$ 85,894	\$ 94,383	\$ 124,195
Collections applied to principal balance ⁷	144,075	177,711	166,648	247,427	147,203	188,893	173,946	159,408

- 1) In the fourth quarter of 2016, we made a change to our presentation of adjusted EBITDA to adjust for interest income. In previous years we did not include interest income as an adjustment because it was immaterial. We have updated prior periods for comparability.
- 2) Amount represents acquisition, integration and restructuring related expenses (excluding amounts already included in the interest expense and stock-based compensation expense line items above). We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 3) Amount represents litigation and government settlement fees and related administrative expenses for certain TCPA settlements. We believe these fees and expenses are not indicative of ongoing operations, therefore, adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 4) Amount represents the gain recognized as a result of fair value adjustments to contingent considerations that were established for our acquisitions of debt solution service providers in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to Note 3 "Fair Value Measurement - Contingent Consideration" in the notes to our consolidated financial statements for further details.
- 5) Amount represents expenses related to the proposed and later withdrawn initial public offering by CCM. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 6) Amount represents the loss recognized on the forward contract we entered into in anticipation of the completion of the Cabot Transaction. We adjust for this amount because we believe the loss is not indicative of ongoing operations; therefore adjusting for this loss enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 7) Amount represents (a) gross collections from receivable portfolios less (b) revenue from receivable portfolios and (c) allowance charges or allowance reversals on receivable portfolios.

RECONCILIATION OF ADJUSTED EBITDA (continued)

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

	12/31/17	03/31/18	06/30/18	09/30/18	12/31/18	03/31/19	06/30/19
GAAP net income (loss), as reported	\$ 2,779	\$ 23,713	\$ 26,974	\$ 13,016	\$ 46,033	\$ 49,442	\$ 36,822
(Income) loss from discontinued operations, net of tax	-	-	-	-	-	-	-
Interest expense	51,692	57,462	60,536	65,094	56,956	54,967	63,913
Interest income ¹	(994)	(1,017)	(1,082)	(747)	(499)	(1,022)	(1,238)
Provision (Benefit) for income taxes	8,607	9,470	11,308	16,879	9,095	3,673	11,753
Depreciation and amortization	14,158	10,436	10,923	9,873	9,996	9,995	9,741
Stock-based compensation expense	3,358	2,276	3,169	5,007	2,528	1,826	3,581
Acquisition, integration and restructuring related expenses ²	7,245	572	3,655	8,475	(5,179)	1,208	1,318
Settlement fees and related administrative expenses ³	-	-	-	-	-	-	-
Gain on fair value adjustments to contingent consideration ⁴	(49)	(2,274)	(2,378)	-	(1,012)	-	(2,199)
Expenses related to withdrawn Cabot IPO ⁵	15,339	2,984	-	-	-	-	-
Loss on derivatives in connection with Cabot Transaction ⁶	-	-	6,578	2,737	-	-	-
Adjusted EBITDA	\$ 102,135	\$ 103,622	\$ 119,683	\$ 120,334	\$ 117,918	\$ 120,089	\$ 123,691
Collections applied to principal balance ⁷	150,788	198,282	185,799	199,457	175,476	201,328	200,323

- 1) In the fourth quarter of 2016, we made a change to our presentation of adjusted EBITDA to adjust for interest income. In previous years we did not include interest income as an adjustment because it was immaterial. We have updated prior periods for comparability.
- 2) Amount represents acquisition, integration and restructuring related expenses (excluding amounts already included in the interest expense and stock-based compensation expense line items above). We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 3) Amount represents litigation and government settlement fees and related administrative expenses for certain TCPA settlements. We believe these fees and expenses are not indicative of ongoing operations, therefore, adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 4) Amount represents the gain recognized as a result of fair value adjustments to contingent considerations that were established for our acquisitions of debt solution service providers in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to Note 3 "Fair Value Measurement - Contingent Consideration" in the notes to our consolidated financial statements for further details.
- 5) Amount represents expenses related to the proposed and later withdrawn initial public offering by CCM. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 6) Amount represents the loss recognized on the forward contract we entered into in anticipation of the completion of the Cabot Transaction. We adjust for this amount because we believe the loss is not indicative of ongoing operations; therefore adjusting for this loss enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 7) Amount represents (a) gross collections from receivable portfolios less (b) revenue from receivable portfolios and (c) allowance charges or allowance reversals on receivable portfolios.

RECONCILIATION OF ADJUSTED OPERATING EXPENSES RELATED TO PORTFOLIO PURCHASING AND RECOVERY BUSINESS

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

	9/30/17	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18	03/31/19	06/30/19
GAAP total operating expenses, as reported	\$ 202,829	\$ 253,246	\$ 238,336	\$ 246,314	\$ 239,246	\$ 232,834	\$ 236,019	\$ 233,142
Adjustments:								
Operating expenses related to non-portfolio purchasing and recovery business ¹	(28,934)	(41,164)	(46,614)	(56,052)	(45,980)	(45,069)	(46,082)	(42,232)
Acquisition, integration and restructuring related expenses ²	(342)	(11,911)	(572)	(3,655)	(8,475)	5,179	(1,208)	(1,318)
Stock-based compensation expense	(3,531)	(3,358)	(2,276)	(3,169)	(5,007)	(2,528)	(1,826)	(3,581)
Gain on fair value adjustments to contingent consideration ³	---	49	2,274	2,378	---	1,012	---	2,199
Expenses related to withdrawn Cabot IPO ⁴	---	(15,339)	(2,984)	---	---	---	---	---
Adjusted operating expenses related to portfolio purchasing and recovery business	\$ 170,022	\$ 181,523	\$ 188,164	\$ 185,816	\$ 179,784	\$ 191,428	\$ 186,903	\$ 188,210

- 1) Operating expenses related to non-portfolio purchasing and recovery business include operating expenses from other operating segments that primarily engage in fee-based business, as well as corporate overhead not related to our portfolio purchasing and recovery business.
- 2) Amount represents acquisition, integration and restructuring related operating expenses (excluding amounts already included in stock-based compensation expense). We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.
- 3) Amount represents the gain recognized as a result of fair value adjustments to contingent considerations that were established for our acquisitions of debt solution service providers in Europe. We have adjusted for this amount because we do not believe this is indicative of ongoing operations. Refer to Note 3 "Fair Value Measurement - Contingent Consideration" in the notes to our consolidated financial statements for further details.
- 4) Amount represents expenses related to the proposed and later withdrawn initial public offering by CCM. We adjust for this amount because we believe these expenses are not indicative of ongoing operations; therefore adjusting for these expenses enhances comparability to prior periods, anticipated future periods, and our competitors' results.

IMPACT OF FLUCTUATIONS IN FOREIGN CURRENCY EXCHANGE RATES

(Unaudited, in millions, except per share amounts)

Encore Consolidated			Cabot (Europe)		
Three Months Ended 6/30/19	As Reported	Constant Currency	Three Months Ended 6/30/19	As Reported	Constant Currency
Revenue ¹	\$347	\$356	Revenue ¹	\$131	\$139
Operating expenses	\$233	\$239	Collections	\$158	\$168
Net income ²	\$37	\$38	ERC	\$3,659	\$3,804
Adjusted income ²	\$40	\$42			
GAAP EPS ²	\$1.17	\$1.21			
Economic EPS ²	\$1.28	\$1.32			
Collections	\$515	\$526			
ERC	\$7,350	\$7,503			

1) Net of allowances and allowance reversals

2) From continuing operations attributable to Encore

Note: Constant Currency figures are calculated by employing Q2 2018 foreign currency exchange rates to recalculate Q2 2019 results. All constant currency values are calculated based on the average exchange rates during the respective periods, except for ERC, which is calculated using the changes in the period-ending exchange rates. Management refers to operating results on a constant currency basis so that the operating results can be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the company's operating performance. Constant currency financial results are calculated by translating current period financial results in local currency using the prior period's respective currency conversion rate. Certain foreign subsidiaries' local currency financial results in our calculation include the translation effect from their foreign operating results.



ENCORE'S LEVERAGE RATIOS

Leverage Ratios

Encore Consolidated	at 06/30/19	at 03/31/19	at 06/30/18
Total Debt	\$3.53 B	\$3.59 B	\$3.53 B
Total Debt / Equity	3.9x	4.1x	5.7x
Total Debt / (TTM Adjusted EBITDA + TTM Collections applied to principal balance) ¹	2.8x	2.9x	3.1x

1) See appendix for reconciliation of Adjusted EBITDA to GAAP net income.



Q2 2019 IMPROVEMENT IN COST-TO-COLLECT PRIMARILY REFLECTS A HIGHER PROPORTION OF CALL CENTER & DIGITAL COLLECTIONS



Location	Q2 2019 CTC	Q2 2018 CTC
United States	39.2%	40.8%
Europe	28.8%	29.1%
Other	51.2%	46.7%
Encore total	36.6%	37.5%

1. Cost-to-Collect = Adjusted operating expenses / collections. See appendix for reconciliation of Adjusted operating expenses to GAAP.

