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June 9, 2016

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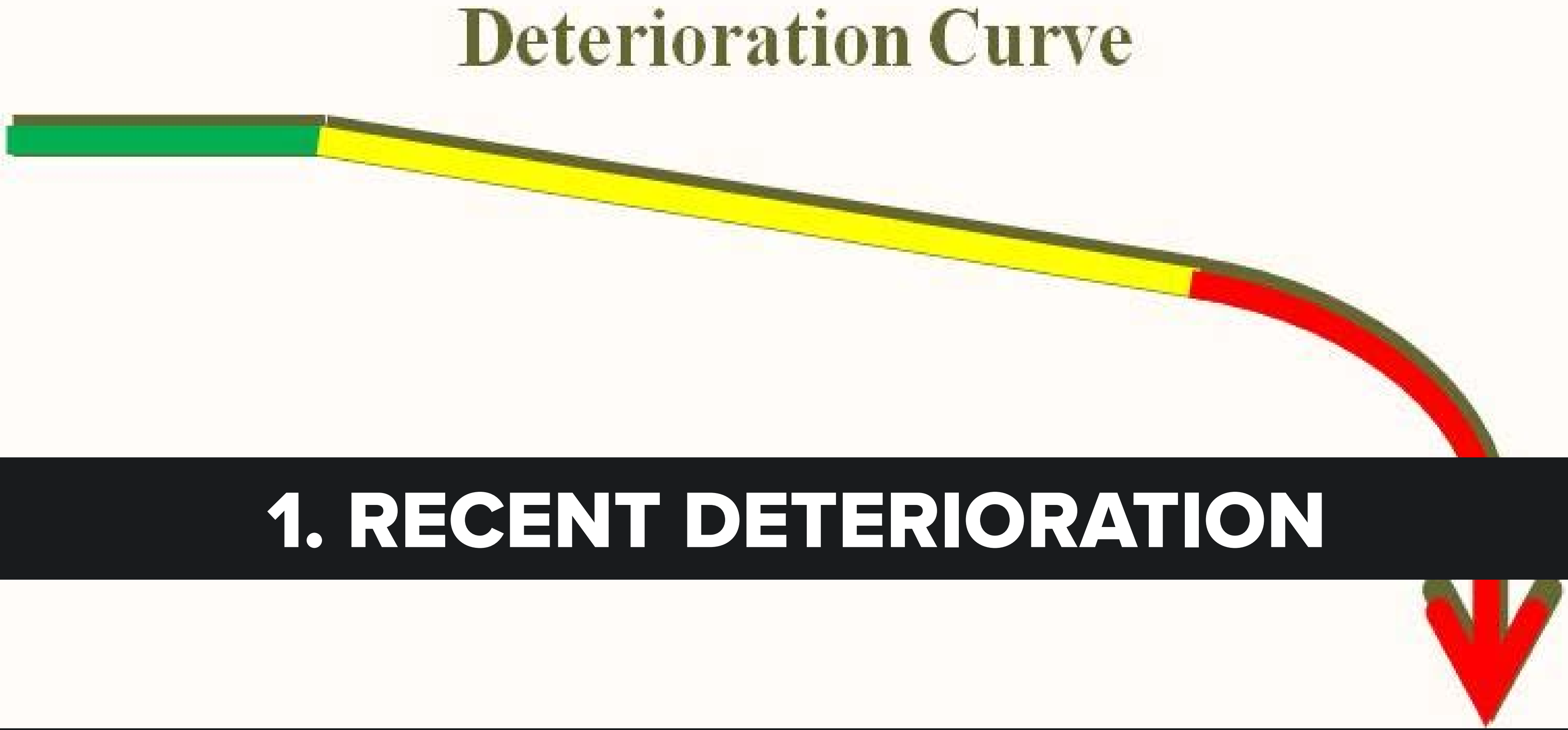
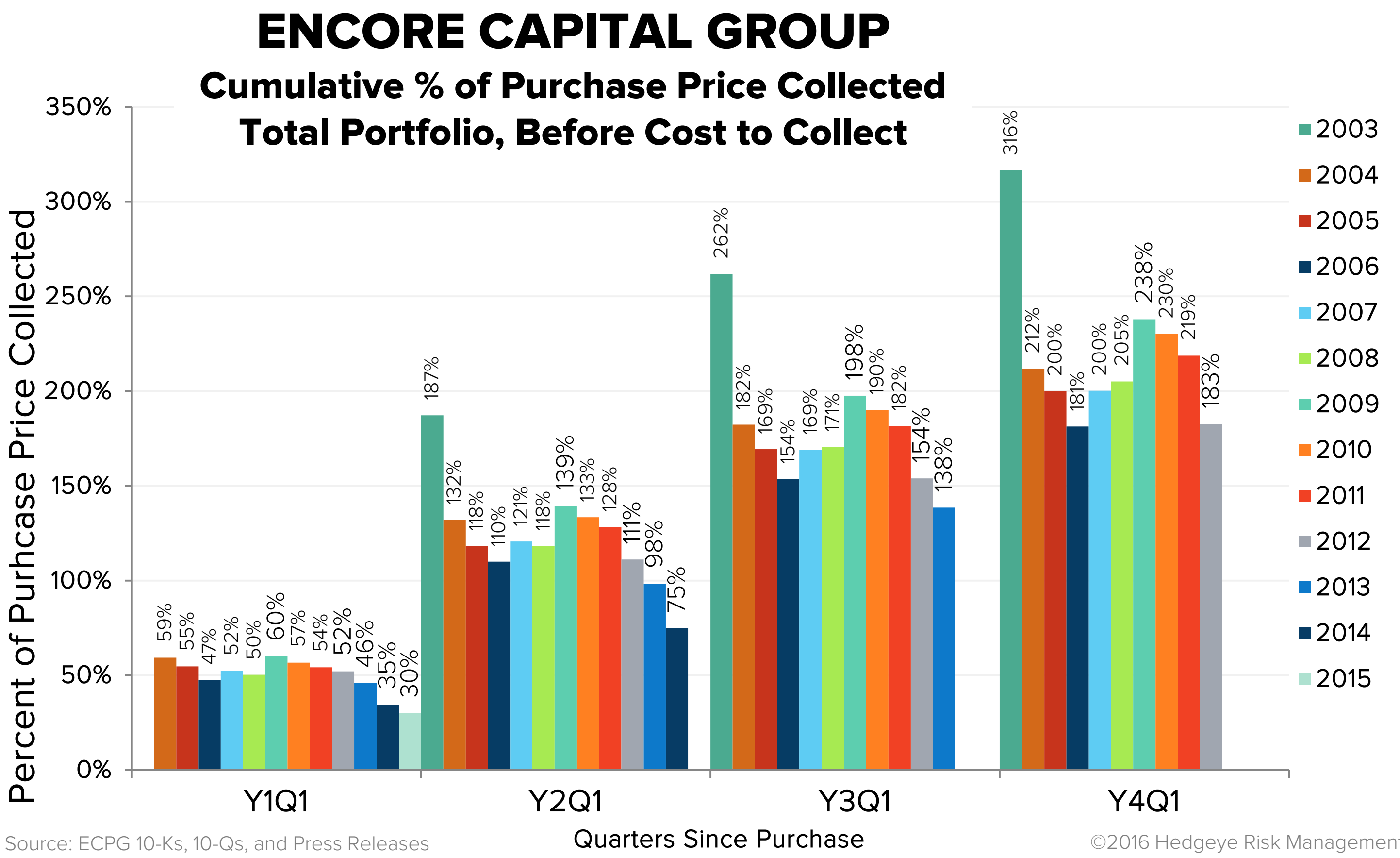
**ANSWERED AT THE END OF THE CALL*

ENCORE CAPITAL GROUP



1. RECENT DETERIORATION

COLLECTION PERFORMANCE, BY VINTAGE



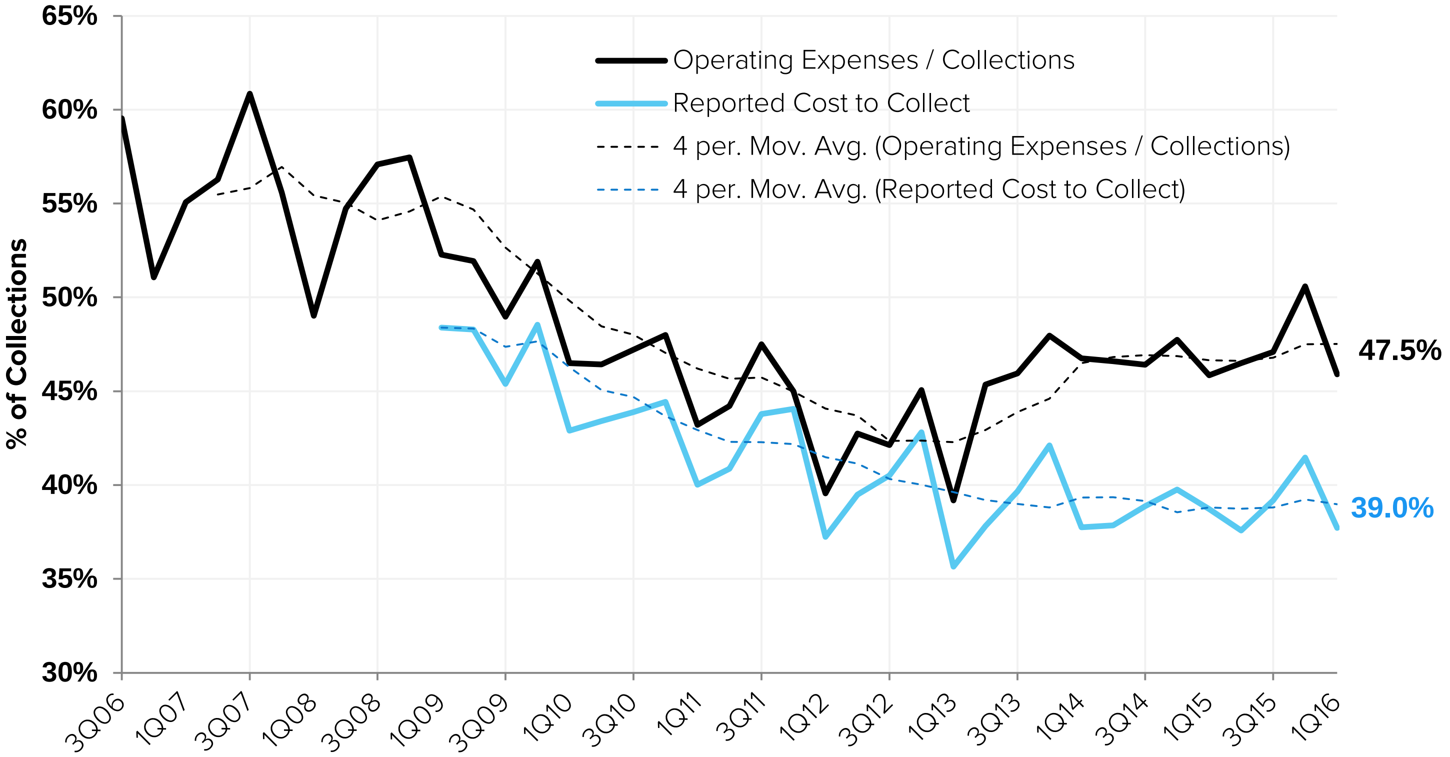
Source: ECPG 10-Ks, 10-Qs, and Press Releases

This chart shows collections as a % of purchase price by vintage from 2003-2015. Y1Q1 shows collections through the first quarter of the vintage year+1, i.e. 2014 vintage collections through 1Q15.

The best way to view this chart is by starting at the right and working left. Notice that 2012 paper is in-line with 2006 paper (Y4Q1). Now look at Y3Q1 and notice that 2013 paper is worse than 2012 or 2006. Y2Q1 shows that 2014 is worse than 2013 and Y1Q1 shows 2015 is worse than 2014. 2016, which isn't on here, is carried at the same multiple as 2015.

BUT, BUT, BUT ... COST TO COLLECT HAS FALLEN

WILL THE REAL COST TO COLLECT PLEASE STAND UP?



Source: ECPG, Hedgeye Analysis

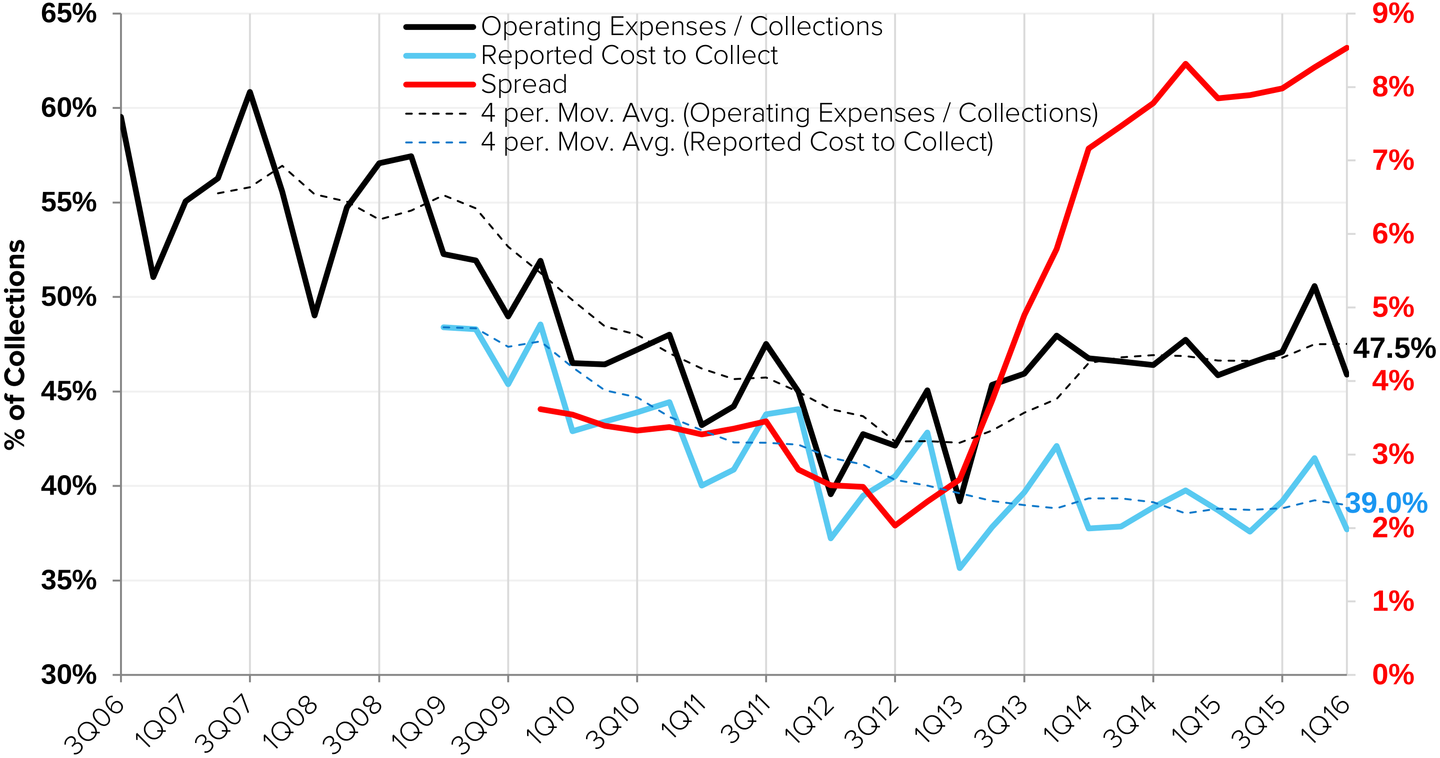
The company's rebuttal to the previous slide would likely be that the cost to collect has fallen over time, so comparing 2006-era paper to 2012 paper is apples and oranges.

This chart shows what's happened to Cost to Collect. The blue line is Encore's reported Cost to Collect (CTC), while the black line is what you get when you divide Opex/Collections, i.e. the real number.

The company represents that CTC fell from 2009 to 2012 and has been flat since, but the reality is that Opex/Collections have risen significantly since 2012 from the low-40s to the high-40s.

THE WIDENING DIVIDE

WILL THE REAL COST TO COLLECT PLEASE STAND UP?

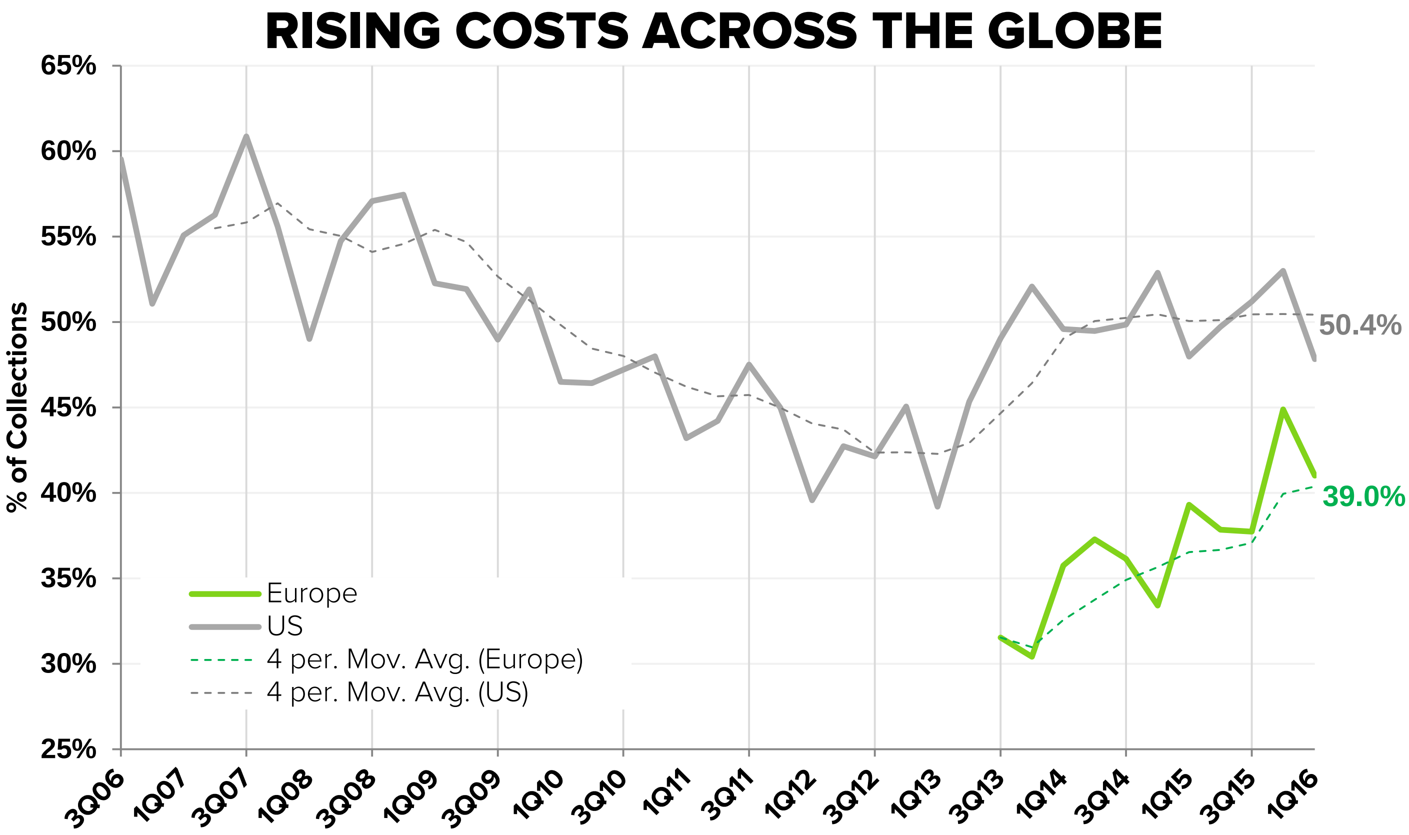


Source: ECPG, Hedgeye Analysis

In fact, when you plot the spread between the two series, as this chart does, it shows just how wide the divide between the "reported" costs and actual costs has become.

From 2009 to 2012, the spread between reported CTC and Opex/collections was ~2-3%. Since 2012, however, the spread has ballooned to 8-9%.

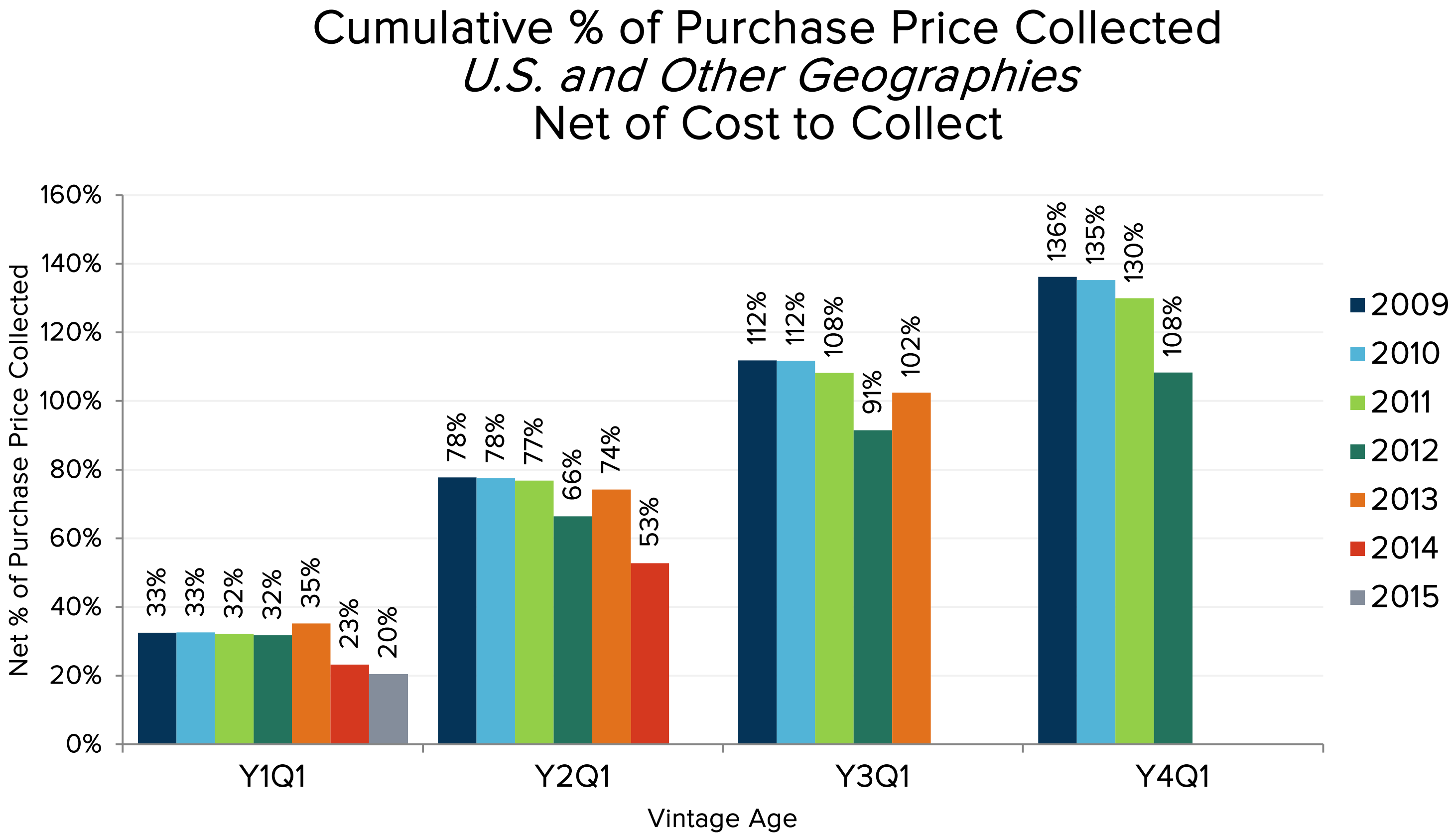
THE US & EUROPE BOTH HAVE ISSUES



Source: ECPG, Hedgeye Analysis

This chart shows Opex/collections for the US and Europe. The company breaks out specific regional collection costs and we've allocated overhead costs based on the regional share of collection costs. Costs in the US and Europe have both been rising significantly.

NET RECOVERIES USING THE COMPANY'S CTC



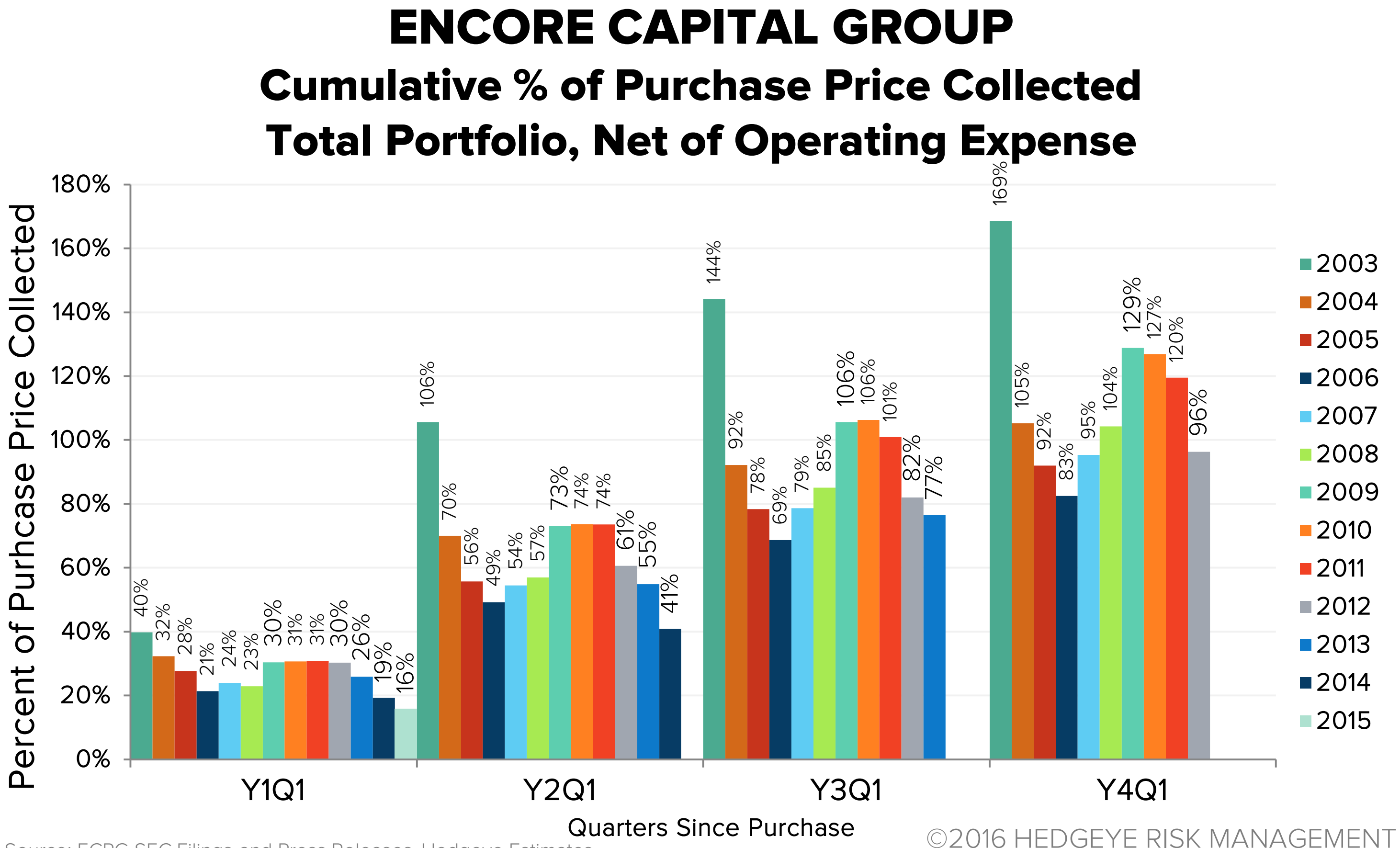
*E.g. 1QY1 for 2013V represents 1Q14. 1QY2 for 2013V represents 1Q15.
Source: ECPG 10-Ks, 10-Qs, and Press Releases

In their first 5 quarters, the **2014** and **2015** U.S. vintages only recovered **23%** and **20%**, respectively, of their purchase prices. Those are all-time low rates of net recovery for the company.

By Y2Q1, **2014's** underperformance versus older vintages only widened with a **53%** recovery vs 77-78% for 2009-2011.

While **2013** *appears* better than 2012, this has to do with its average purchase volume occurring earlier in the year. We'll cover this in greater detail in a moment.

NET RECOVERIES USING OPEX/COLLECTIONS

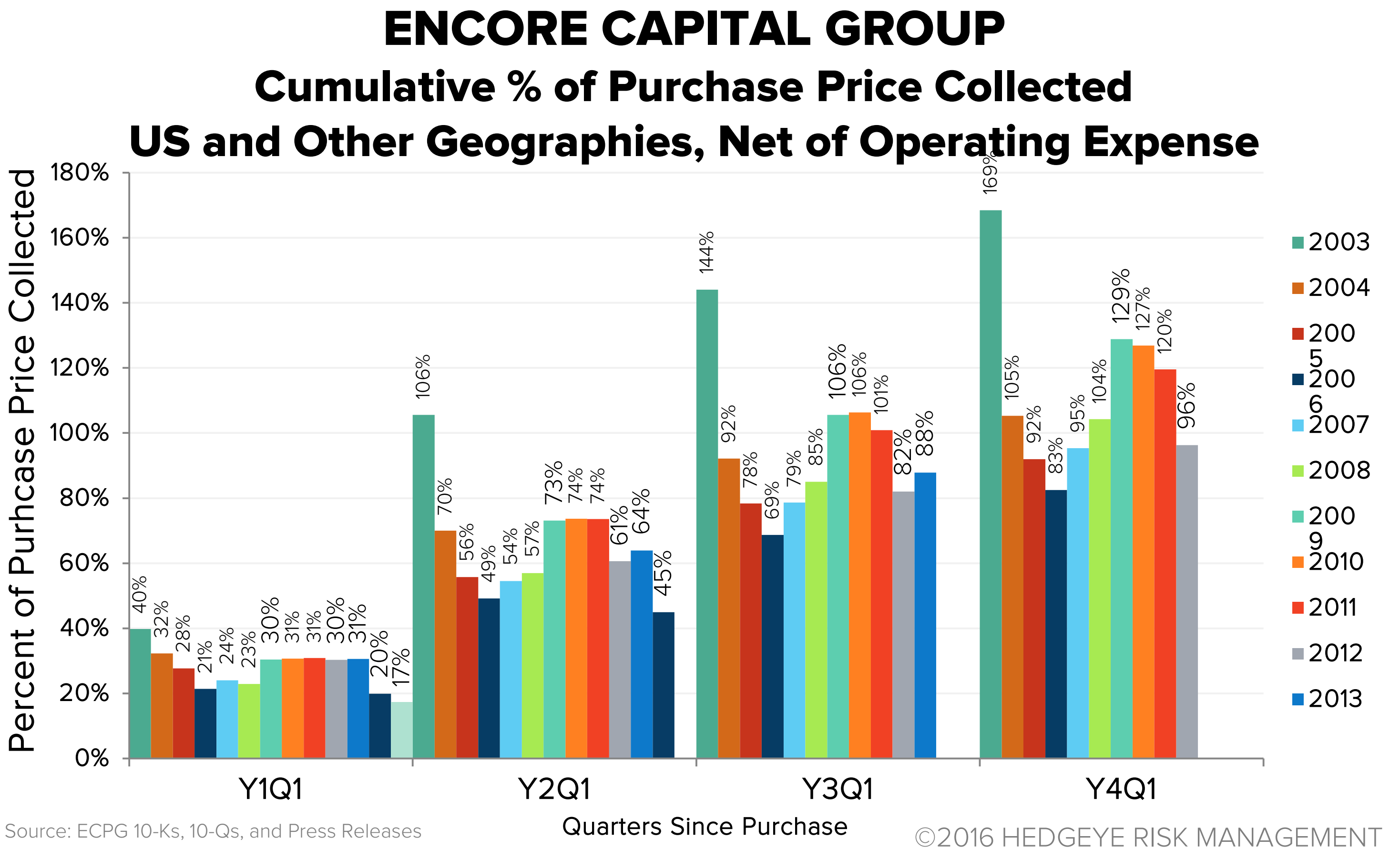


Source: ECPG SEC Filings and Press Releases, Hedgeye Estimates

This slide explains just how bad returns have become at the vintage level. These are cumulative collections net of actual costs (Opex/Collections).

Again, start from the right and work left. By Y4Q1, the 2012 vintage (96%) was on par with the 2005/2007 vintages (92%/95%). By Y3Q1, 2013 (77%) was tracking just below 2005/2007 (78%/79%). By Y2Q1, 2014 was the worst performing vintage on record (41%) vs 2005/06/07 (56%/49%/54%). And as of Y1Q1, 2015 eclipsed 2014 as the worst on record at 16% vs 19% for 2014.

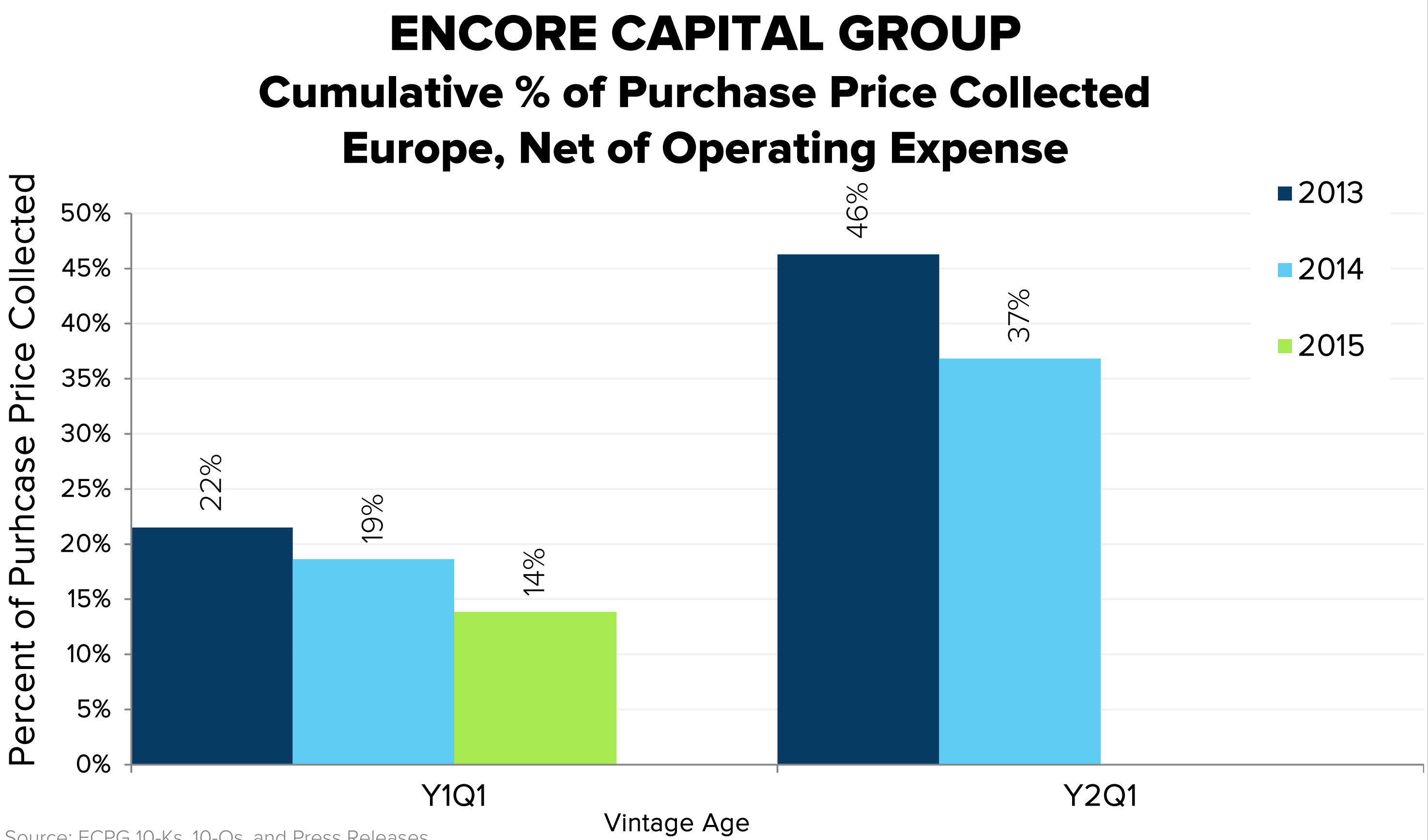
US: NET RECOVERIES USING OPEX/COLLECTIONS



Source: ECPG 10-Ks, 10-Qs, and Press Releases

This chart is identical to the previous chart, but looks at net recoveries on **US pools**. The conclusions are largely the same: 2015 is the worst vintage on record, followed by 2014. 2013 looks a bit better, but this is a timing illusion that we'll explain momentarily.

EU: NET RECOVERIES USING OPEX/COLLECTIONS



Source: ECPG 10-Ks, 10-Qs, and Press Releases

Europe is both interesting and important, as it now accounts for half of Encore's Estimated Remaining Collections (ERC).

Recall that Encore bought its way into the UK market through its purchases of Cabot and Marlin in 2013 and 2014, respectively.

As the Y2Q1 data shows, 2014 net collections (37%) were down notably from 2013 (46%). Meanwhile, as Y1Q1 shows, 2015 (14%) is down from 2014 (19%), which is down from 2013 (22%).

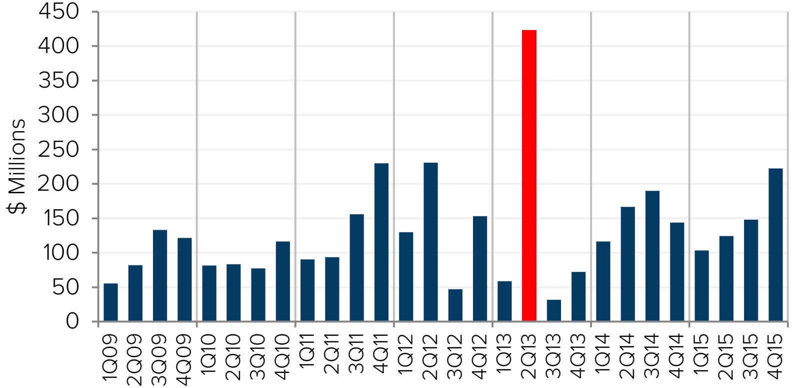
THE TIME FACTOR: U.S.

1 If Vintage *x*'s dollar-weighted average purchase date is earlier in the year than Vintage *y*'s, by the 5th quarter of age (Y1Q1), *x* will have had more time to collect than *y*.

2 This is the case with the 2013 vintage. The massive 2Q13 purchase pushes the average purchase date into the first half of the year.

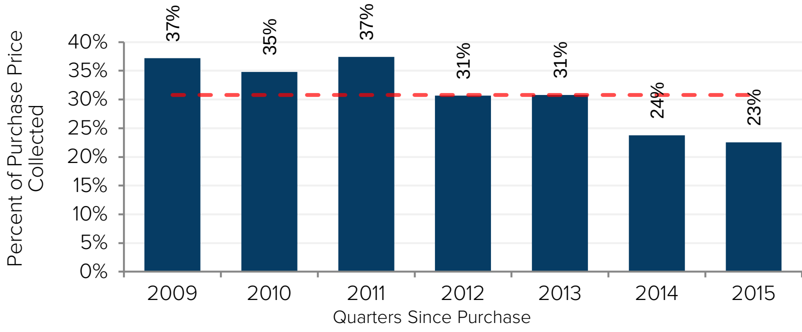
3 Adjusting down 2013's Y1Q1 recovery to factor in its age advantage and using the same adjustment method on other vintages, 2013 is no better than 2012 and far worse than 2009-2011.

ECPG QUARTERLY AMERICAN PURCHASES



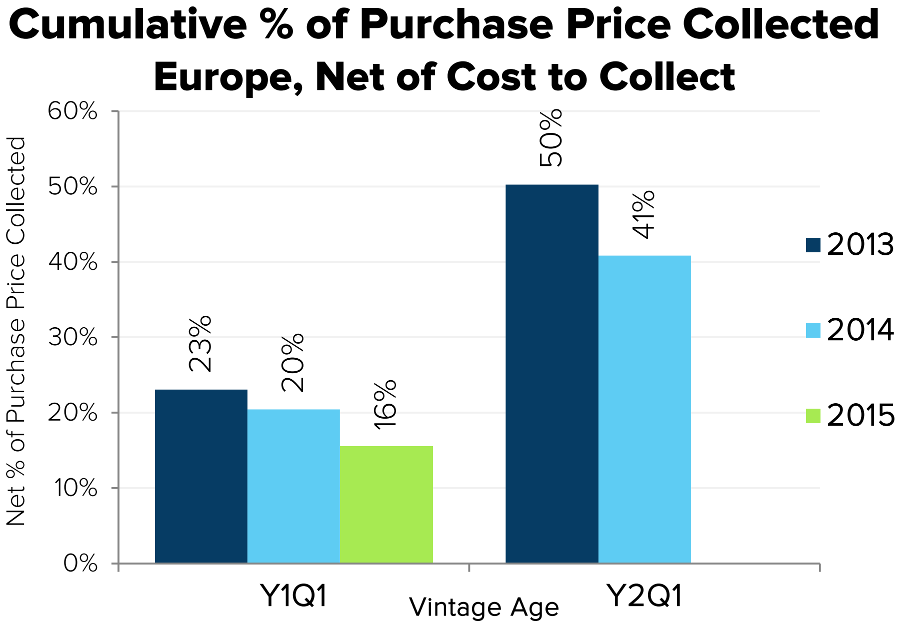
Source: Encore Capital Group, Hedgeye Analysis

ECPG ADJUSTED AMERICAN Y1Q1 RECOVERIES

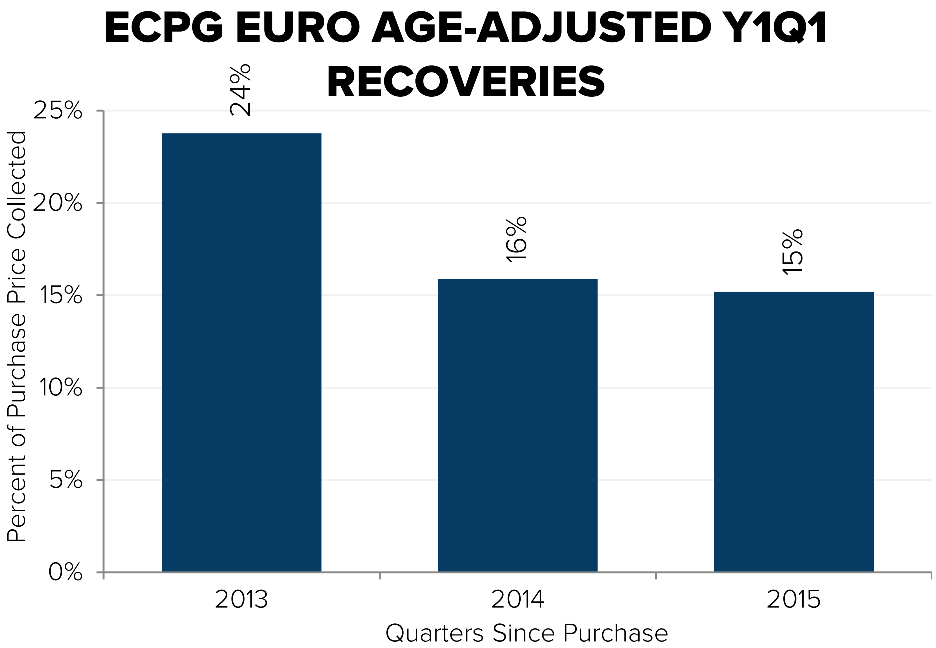


Source: Encore Capital Group, Hedgeye Analysis

THE TIME FACTOR: EUROPE



*E.g. 1QY1 for 2013V represents 1Q14. 1QY2 for 2013V represents 1Q15.
Source: ECPG 10-Ks, 10-Qs, and Press Releases



Source: Encore Capital Group, Hedgeye Analysis

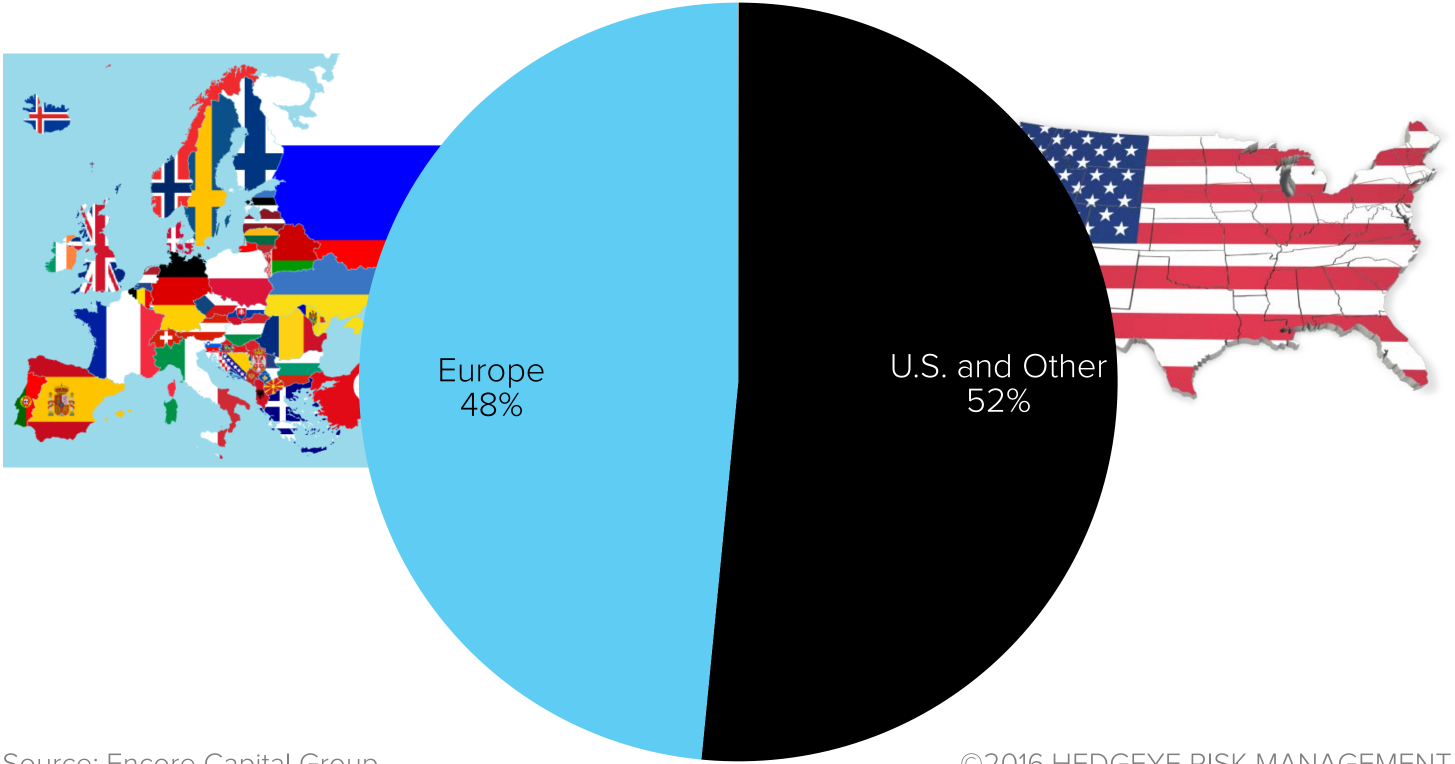
EVERY SUCCESSIVE EUROPEAN VINTAGE ENCORE HAS BROUGHT ON IS PERFORMING WORSE THAN THE PRIOR VINTAGE.

Performing the same age adjustment for Europe shows that 2014 is actually much worse than it first appears. The average purchase date for 2013 and 2015 is right around the middle of the year, so the original recovery rates are fairly representative.

AN ~EVEN GEOGRAPHIC SPLIT

ESTIMATED REMAINING COLLECTIONS, GEOGRAPHIC EXPOSURE

As of 1Q 2016

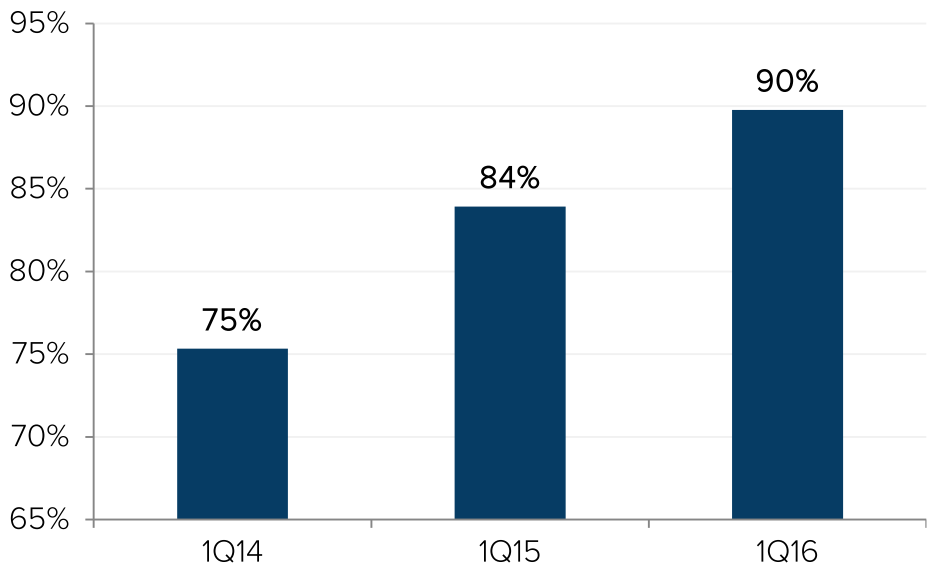


Source: Encore Capital Group

In terms of future collections, Europe and America have a fairly even share.

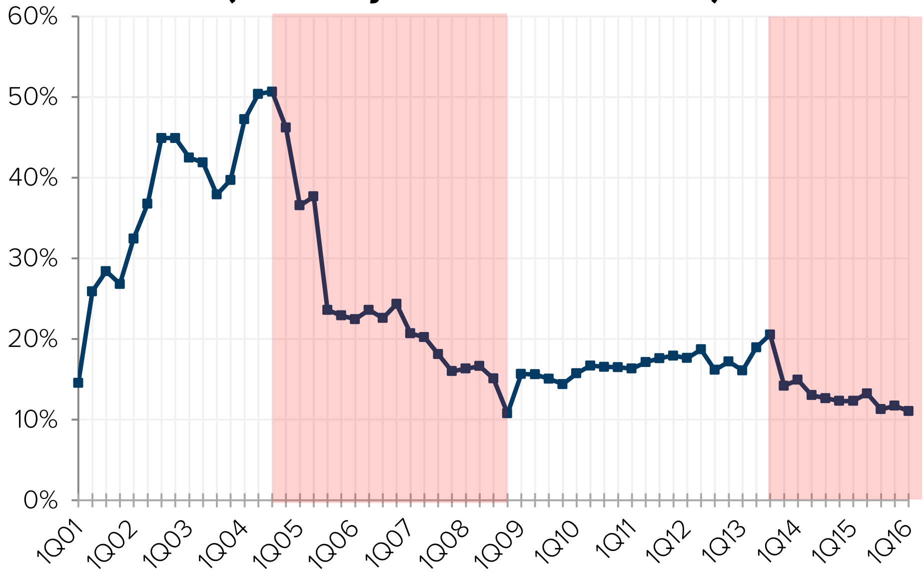
THE EFFECTS: FALLING RETURNS

ECPG % OF ERC IN POST-2012 VINTAGES



Source: Encore Capital Group

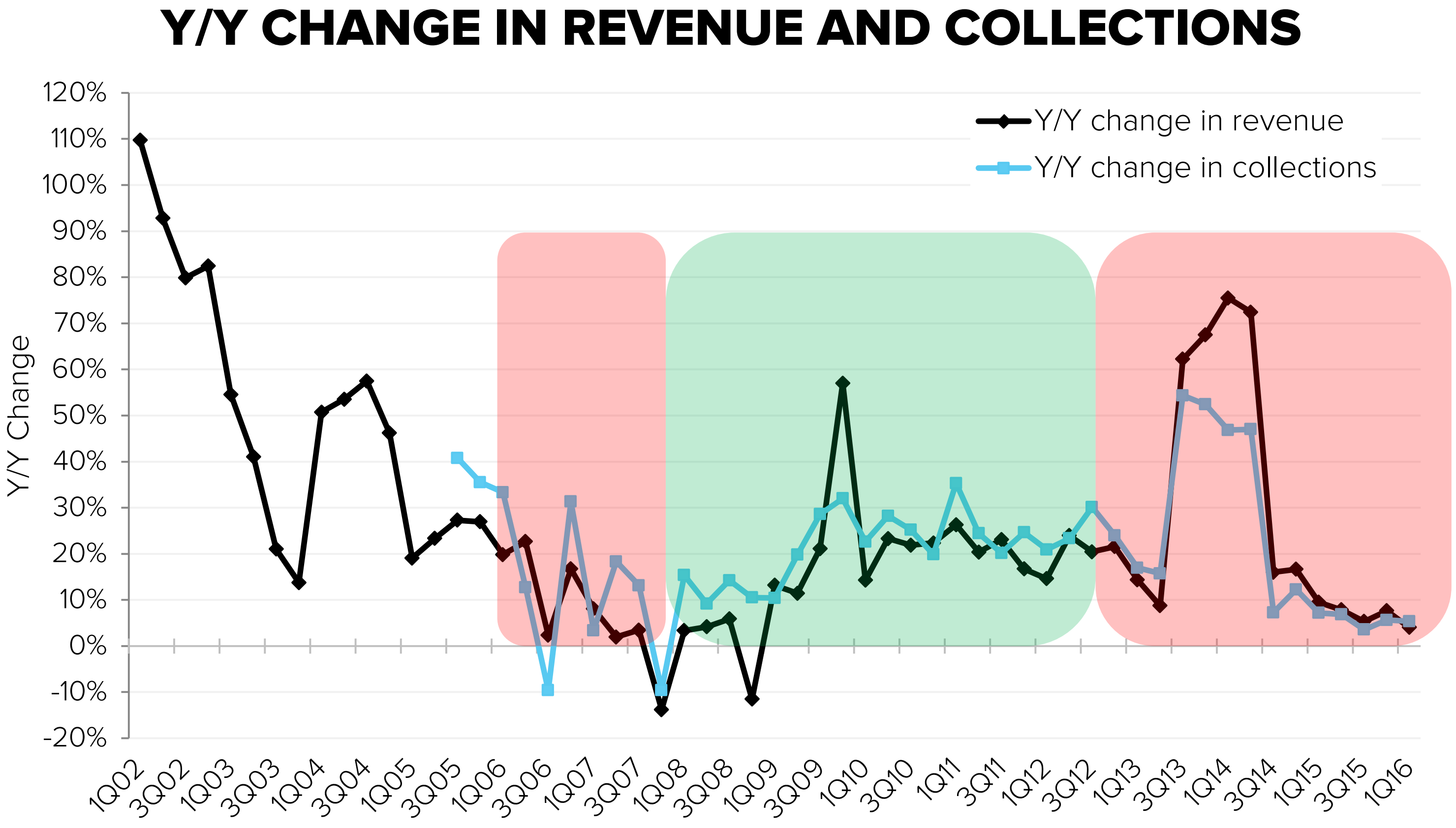
FIRM-LEVEL REALIZED QTRLY COLLECTIONS IRR (Quarterly Rev / Prev. Qtr UAB)



Source: Encore Capital Group

AS POST-2012 VINTAGES TAKE UP A LARGER PORTION OF ERC, ENCORE'S FIRM-LEVEL IRR IS FALLING.

THE EFFECTS: DECLINING GROWTH



Source: Encore Capital Group

Declining collections performance is making its way into revenue growth, which has fallen from 20-30% Y/Y in 2010-2012 to a fresh, post-crisis low of 4% in 1Q16.

2. EBIT BY VINTAGE

ECPG VINTAGE-LEVEL EBIT

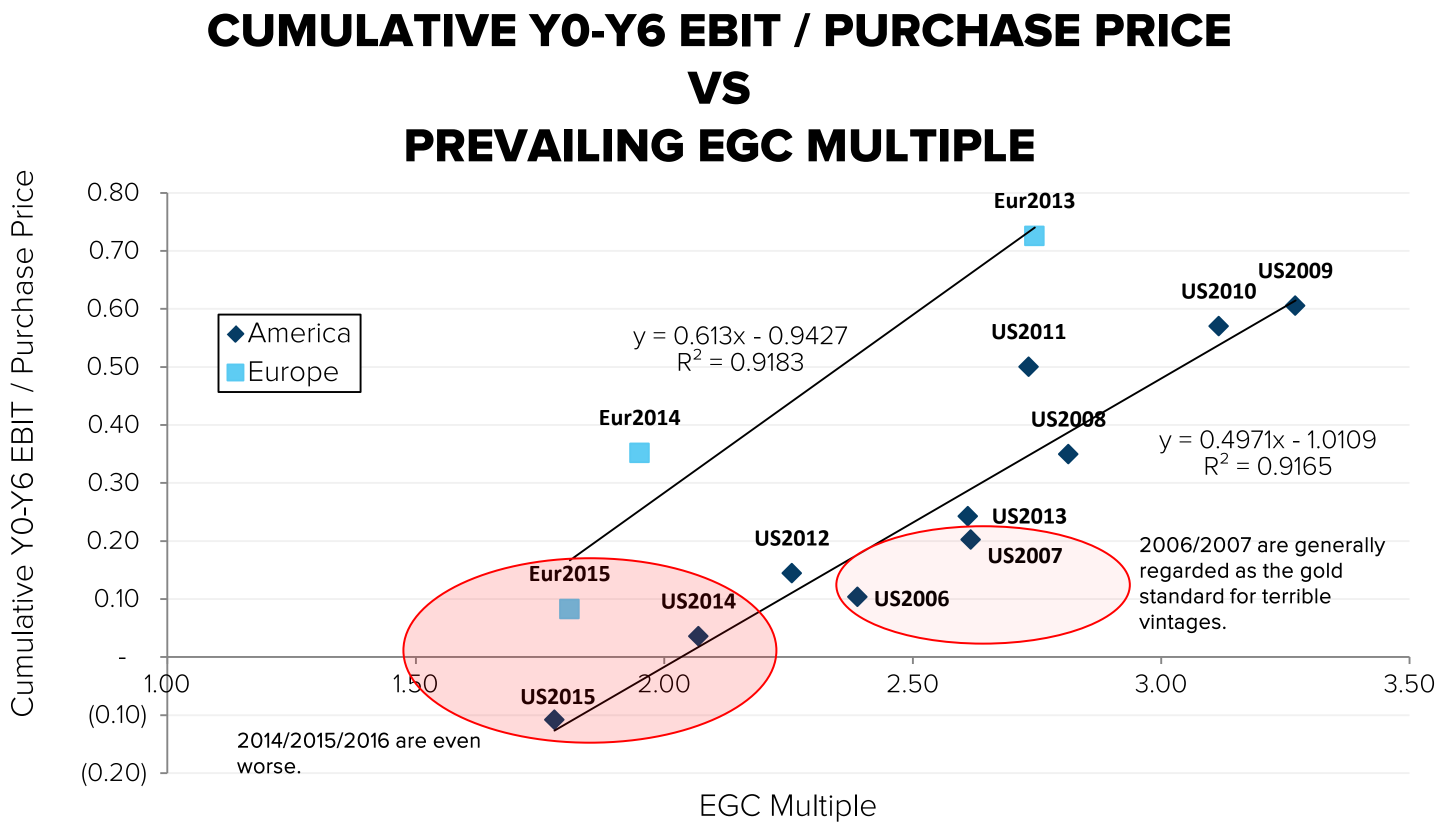
	Operating Income							Regression Data			
	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Y0-Y6 Sum	Purchase Price	Y0-Y6 Op Inc / Purch Price	EGC Multiple
U.S. and Other Geographies											
2006	5,855	9,527	(1,753)	4,426	(299)	(1,397)	(1,738)	14,621	141,026	0.10	2.39
2007	4,750	8,581	637	7,044	4,668	9,131	6,456	41,269	204,064	0.20	2.62
2008	17,310	23,396	9,840	6,967	10,569	5,974	5,580	79,636	227,755	0.35	2.81
2009	12,935	38,343	31,546	23,372	17,402	15,917	13,620	153,135	253,004	0.61	3.27
2010	17,590	40,018	41,886	30,767	26,962	24,581	22,000	203,805	357,394	0.57	3.12
2011	16,205	36,499	30,792	30,384	28,743	26,000	24,000	192,624	385,298	0.50	2.73
2012	16,239	1,274	6,390	20,301	16,000	12,000	8,000	80,204	556,336	0.14	2.26
2013	27,029	14,098	26,125	23,000	20,000	17,000	14,000	141,252	582,694	0.24	2.61
2014	3,244	3,492	3,000	3,000	3,000	3,000	3,000	21,736	607,656	0.04	2.07
2015	(9,206)	(9,206)	(9,206)	(9,206)	(9,206)	(9,206)	(9,206)	(64,443)	594,753	(0.11)	1.78
Europe											
2013	42,811	71,120	87,267	77,000	67,000	57,000	47,000	449,198	619,079	0.73	2.75
2014	53,199	43,667	33,000	29,000	25,000	21,000	17,000	221,866	630,347	0.35	1.95
2015	11,108	9,000	7,000	5,000	3,000	1,000	(1,000)	35,108	423,451	0.08	1.81

Source: Company Documents, Hedgeye Estimates

- **In America, Inception-year (Y0) operating income has fallen from \$27M for 2013 to \$3M for 2014 to -\$9M for 2015!**
- **In Europe, the 2015 vintage showed enormous deterioration in Y0 operating income, falling to \$11M from \$53M for 2014.**

**Dark blue figures represent Hedgeye future estimates.*
**Please see the appendix for details on our methodology.*

CUMULATIVE EBIT BY VINTAGE



Source: Encore Capital Group

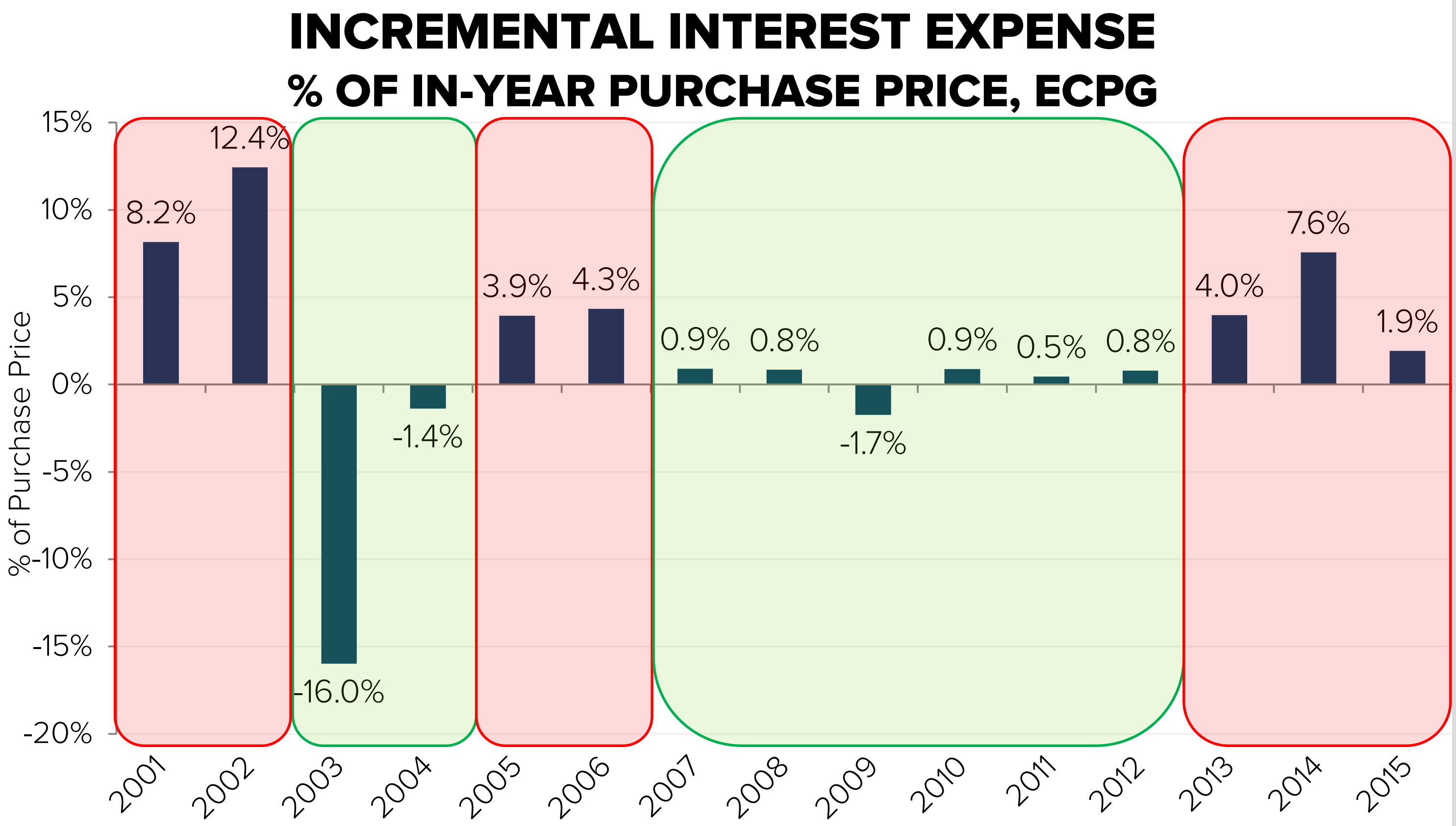
This chart shows the relationship between a vintage's EGC/purchase price multiple and its cumulative operating income from Y0-Y5.

The first takeaway here is that the Mendoza line of zero is in play for the following vintages: US2015, US2014, US2012, EUR2015. Remember that this is EBIT, so factoring in interest expenses further lowers these vintage-level returns. Also, compare US2014/US2015 with US2006/US2007 for perspective on how much worse this cycle is progressing than the last cycle.

The second takeaway is just how much worse Eur2015 and 2014 are than Eur2013. This is **a telltale sign of ECPG's goodwill manipulation** with the 2013 Cabot purchase. An artificially low purchase price makes for an artificially high multiples and recovery rates.

**Note that cumulative operating income in this chart includes Hedgeye forward estimates.*

THE WRONG TIME FOR A DEBT BINGE



Source: ECPG, Hedgeye Analysis

We assume that change in interest expense in the purchase year approximates the degree to which the company is resorting to debt to make in-year purchases.

While the analysis thus far has evaluted EBIT, incremental interest expense is real and adds insult to the existing EBIT injury.

Encore consistently ramps up debt use at the worst times – another telltale sign of challenging the environment has become.

BREAKEVEN: FIRM LEVEL

ECPG FIRM LEVEL BREAKEVEN

Purchase price	100
Expected collections	244
Multiple	2.44

Cost to Collect:	47.5%
Int exp:	6.6%
Tax rate:	32.5%

Year		Y0	Y1	Y2	Y3	Y4	Y5	Y6	Total
Investment flows	(100)	36	73	55	35	22	14	9	**144**
Annual IRR	39%								
Revenue		39	40	28	17	10	6	3	**144**
Cost to collect		17	34	26	17	11	7	4	**116**
Interest expense		7	6	5	4	3	2	1	**28**
Pretax income		16	0	(3)	(3)	(3)	(3)	(3)	**(0)**
Net income		11	0	(2)	(2)	(2)	(2)	(2)	**(0)**

Source: Company Documents, Hedgeye Estimates

AT THE FIRM LEVEL, ENCORE BREAKS EVEN ON A VINTAGE AT 2.44X

Encore needs to collect 2.44x of the purchase price paid in order to breakeven on a given vintage. This is based on a TTM actual opex/collections (our CTC) of 47.5%, TTM interest expense of 6.6% and a tax rate of 32.5%.

BREAKEVEN: U.S. & “OTHER”

ECPG U.S. AND OTHER GEOGRAPHIES BREAKEVEN

Purchase price	100
Expected collections	258
Multiple	2.58

Cost to Collect:	50.4%
Int exp:	6.6%
Tax rate:	32.5%

Year		Y0	Y1	Y2	Y3	Y4	Y5	Y6	Total
Investment flows	(100)	38	77	58	37	24	15	10	**158**
Annual IRR	42%								

	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Total
Revenue	42	44	31	19	12	7	3	**158**
Cost to collect	19	39	29	19	12	8	5	**130**
Interest expense	7	6	5	4	3	2	1	**28**
Pretax income	17	(0)	(3)	(4)	(3)	(3)	(3)	**(0)**
Net income	11	(0)	(2)	(2)	(2)	(2)	(2)	**(0)**

Source: Company Documents, Hedgeye Estimates

U.S. VINTAGES NEED A 2.58x MULTIPLE TO BREAKEVEN OVER THEIR LIFE

The 2012, 2014, 2015, and 2015 U.S. vintages are all below that level (shown on the table two slides down). Meanwhile, the 2011 and 2013 vintages are just barely above it (2.7x). Note the slightly higher opex/collections cost (50.4%). * “Other” geographies includes select South American countries such as Colombia and Peru and does not include Europe.

BREAKEVEN: EUROPE

ECPG EUROPEAN BREAKEVEN

Purchase price	100
Expected collections	215
Multiple	2.15

Cost to Collect:	40.4%
Int exp:	6.6%
Tax rate:	32.5%

Year		Y0	Y1	Y2	Y3	Y4	Y5	Y6	Total
Investment flows	(100)	31	64	48	31	20	13	8	**115**
Annual IRR	32%								

Revenue	32	32	22	14	8	5	2	**115**
Cost to collect	13	26	19	13	8	5	3	**87**
Interest expense	7	6	5	4	3	2	1	**28**
Pretax income	13	1	(2)	(3)	(3)	(3)	(2)	**0**
Net income	9	0	(2)	(2)	(2)	(2)	(2)	**0**

Source: Company Documents, Hedgeye Estimates

EUROPEAN VINTAGES NEED A 2.15x MULTIPLE TO BREAKEVEN OVER THEIR LIFE

This is a lower hurdle than in the U.S. given the lower Opex/Collections (40.4%). However, the 2015 and 2016 European vintages are both below this level, and we suspect 2014 is only above due to the aggressive employment of Goodwill.

ECPG: EGC VERSUS PURCHASE PRICE

	Purchase Price[1]	Historical Collections[2]	Estimated Remaining Collections[3]	Total Estimated Gross Collections	Total Estimated Gross Collections to Purchase Price
Purchased consumer receivables:					
United States:					
<2006	$ 578,055	$ 1,867,745	$ 8,019	$ 1,875,764	3.2
2006	141,026	330,512	6,395	336,907	2.4
2007	204,064	518,292	15,762	534,054	2.6
2008	227,755	609,004	31,813	640,817	2.8
2009	253,004	769,692	57,696	827,388	3.3
2010	345,423	977,847	109,355	1,087,202	3.1
2011	383,656	937,958	110,752	1,048,710	2.7
2012	466,608	924,743	221,917	1,146,660	2.5
2013	513,293	923,693	485,088	1,408,781	2.7
2014	519,429	518,718	573,526	1,092,244	2.1
2015	479,091	175,427	660,424	835,851	1.7
2016	131,286	5,806	218,731	224,537	1.7
Subtotal	4,242,690	8,559,437	2,499,478	11,058,915	2.6
Europe:					
2013	619,079	641,238	1,058,486	1,699,724	2.7
2014	630,347	376,821	852,806	1,229,627	2.0
2015	423,451	99,416	666,972	766,388	1.8
2016	93,499	4,900	166,134	171,034	1.8
Subtotal	1,766,376	1,122,375	2,744,398	3,866,773	2.2
Other geographies:					
2012	6,569	7,825	2,243	10,068	1.5
2013	29,568	35,638	7,676	43,314	1.5
2014	88,227	30,111	134,849	164,960	1.9
2015	91,290	30,145	163,837	193,982	2.1
2016	20,784	2,797	50,006	52,803	2.5
Subtotal	236,438	106,516	358,611	465,127	2.0
Purchased U.S. bankruptcy receivables:					
2010	11,971	26,192	233	26,425	2.2
2011	1,642	4,500	52	4,552	2.8
2012	83,159	83,903	15,217	99,120	1.2
2013	39,833	63,365	6,175	69,540	1.7
2014	—	—	—	—	—
2015	24,372	408	27,904	28,312	1.2
2016	11,075	9	12,890	12,899	1.2
Subtotal	172,052	178,377	62,471	240,848	1.4
Total	$ 6,417,556	$ 9,966,705	$ 5,664,958	$ 15,631,663	2.4

91% of US ERC

61% of EU ERC

Encore loses money on US vintages at multiples below 2.58x.

Encore loses money on EU vintages at multiples below 2.15x.

Source: SEC Filings

We estimate that 67% of US ERC is currently being carried below break-even multiples of 2.6x (2012, 2014, 2015, 2016). Meanwhile, a further 24% of US ERC is just barely (2.7x) above break-even (2011, 2013). That's 91% in total.

61% of EU ERC is currently being carried below break-even (2014-2016).

This equates to ~70% of the total book that is generating breakeven or near-breakeven returns.

3. EARNINGS → THE ABYSS

IT'S ALWAYS SUNNY IN PHILADELPHIA

RECONCILIATION TO NON-GAAP

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
GAAP NI attributable to Encore	23,180	23,561	30,335	28,262	27,545	27,657	(10,959)	(988)	28,876
Convertible non-cash interest and issuance cost amort	1,291	1,694	1,773	1,655	1,666	1,685	1,755	1,790	1,804
Acquisition and integration related expenses, net of tax	4,358	3,836	1,001	703	1,348	3,833	1,125	1,753	1,329
Net effect of non-recurring tax adjustments	-	-	(2,291)	-	-	-	-	-	-
Goodwill impairment, net of tax	-	-	-	-	-	-	-	31,187	-
Settlement fees & related admin, net of tax	-	-	-	-	-	-	-	-	1,853
CFPB/regulatory one-time charges, net of tax	-	-	-	-	-	-	42,554	-	-
Adjusted income from continuing ops attributable to Encore	28,829	29,091	30,818	30,620	30,559	33,175	34,475	33,742	33,862
Increase from GAAP to Non-GAAP	5,649	5,530	483	2,358	3,014	5,518	45,434	34,730	4,986
% change to GAAP	24%	23%	2%	8%	11%	20%	-415%	-3515%	17%
GAAP EPS from Continuing Ops, Diluted	0.82	0.86	1.11	1.04	1.01	1.03	(0.43)	(0.04)	1.12
Non-GAAP Econonic EPS From Continuing Ops, Diluted	1.08	1.10	1.17	1.17	1.16	1.27	1.34	1.31	1.31
EPS increase from GAAP to Non-GAAP	0.26	0.24	0.06	0.13	0.15	0.24	1.77	1.35	0.19

*Only 1Q15 and 1Q16 exclude Propel from results from continuing ops.

Source: Company Documents, Hedgeye Estimates

AT WHAT POINT IS A REOCCURRING ONE-TIME ITEM NOT A ONE-TIME ITEM?

- Given that certain items such as convertible interest and acquisition expenses occur every quarter, they should NOT be excluded from results, but management continually does so, increasing the perception of ECPG's earnings.
- Adjustments have averaged $12M/Q since 1Q14. Even excluding 3Q15 and 4Q15, the two quarters with large outlier adjustments, the average is $4 million.
- Meanwhile, in 1Q16 management found it unnecessary to adjust revenue downwards for the $7 million gain from currency hedges that it booked in other income but which will likely be negated in the future.

A CLOSER LOOK AT THE MOST RECENT QTR

HEDGEYE ADJUSTMENT TO ECPG'S GAAP EPS

1Q16 GAAP EPS			**1.12**
ADJUSTMENT FOR OTHER INCOME			
Other income		7,124	
1Q16 tax rate		25.4%	
Other income, net of taxes		5,314	
Fully diluted shares outstanding		25,868	
Other income per share, net of taxes			**0.21**
ADJUSTMENT FOR NON-NORMAL TAX RATE			
GAAP income from continuing ops attributable to shareholders	28,876		
ex other income	7,124		
		21,752	
Normalized tax rate assumption	32.0%		
1Q16 tax rate	25.4%		
Tax rate adjustment		6.6%	
$ tax adjustment		1,433	
Fully diluted shares outstanding		25,868	
Tax rate adjustment per share			**0.06**
Adjusted 1Q16 EPS			**0.86**

Source: Company Documents, Hedgeye Estimates

For the most recent quarter, if we exclude the $7 M FX hedge gain and assume the company's normal 32% tax rate, earnings should actually be **-26 CENTS LOWER than the $1.12 in GAAP earnings reported, or roughly $0.86.**

Moreover, when excluding only appropriate items, ECPG's earnings show a **steady decline**:

3Q15 ex-CFPB: **$1.21**
4Q15 ex-goodwill impairment: **$1.16**
1Q16, Hedgeye adjusted: **$0.86-$1.02***

**Even giving ECPG the benefit of the doubt for its FX hedge gain only brings EPS up to $1.02.*

OUR REVENUE FRAMEWORK

REVENUE MODULE

	Purchase Price	EGC Multiple	Expected Gross Collections	Expected Lifetime Revenue	Revenue			
					2015	2016e	2017e	2018e
2010V	357,394	3.12	1,113,627	756,233	66,592	37,479	19,522	5,333
2011V	385,298	2.73	1,053,262	667,964	85,456	48,234	27,991	17,243
2012V	556,336	2.26	1,255,848	699,512	109,705	71,963	48,420	29,313
2013V	1,201,773	2.68	3,221,359	2,019,586	352,774	247,012	159,095	106,513
2014V	1,238,003	2.01	2,486,831	1,248,828	288,983	231,443	154,586	98,378
2015V	1,018,204	1.79	1,824,533	806,329	91,268	198,770	153,220	99,811
2016Ve	850,000	2.07	1,760,019	910,019	-	110,146	196,850	157,516
2017Ve	850,000	2.07	1,760,019	910,019	-	-	110,530	196,850
2018Ve	850,000	2.07	1,760,019	910,019	-	-	-	110,530
Total					**994,778**	**945,047**	**870,214**	**821,486**

Source: Company Documents, Hedgeye Estimates

***** THIS IS ONLY A PORTION OF OUR TOTAL REVENUE EXPECTATION (EXCLUDES PRE-2010 VINTAGES)**

This module applies historic vintage-level revenue progression rates based on EGC multiples to current and recent vintages to illustrate how revenue can (and, we think, will) decline going forward.

ECPG INCOME STATEMENT → SCENARIO 1

INCOME STATEMENT

SCENARIO 1: FIXED % VARIABLE COSTS

	2012	2013	2014	2015*	2016e	2017e	2018e
Revenue	556,777	773,364	1,072,789	1,153,691	1,075,782	990,595	935,125
G&A (Fixed Costs)	61,798	109,713	146,286	140,715	140,715	140,715	140,715
Op Exp ex-G&A (Variable Costs)	339,898	465,292	607,059	666,849	613,196	564,639	533,021
Op Exp	401,696	575,005	753,345	807,564	753,911	705,354	673,736
EBIT	155,081	198,359	319,444	346,127	321,871	285,241	261,389
Interest and Other Expense	24,756	77,491	166,829	184,321	199,804	208,821	223,416
Pretax Income	130,325	120,868	152,615	161,806	122,068	76,420	37,973
Taxes	51,754	45,388	52,725	62,774	39,672	24,837	12,341
Net Income	78,571	75,480	99,890	99,032	82,396	51,584	25,632
Net Income to Noncontrolling	-	(1,559)	(5,448)	2,249	1,871	1,171	582
Shareholder Net Income from Cont. Ops	**78,571**	**77,039**	**105,338**	**96,783**	**80,524**	**50,412**	**25,049**
Avg Diluted Shares	25,836	26,204	27,495	26,647	26,647	26,647	26,647
Diluted EPS from Cont. Ops	3.04	2.94	3.83	3.63	3.02	1.89	0.94
Consensus GAAP EPS Estimate					4.65	5.32	5.98
Hedgeye Deviation from Consensus					-35%	-64%	-84%

*3Q15 figures exclude the CFPB expense and the tax benefit thereof.
*4Q15 figures exclude the Propel goodwill impairment and the tax benefit thereof

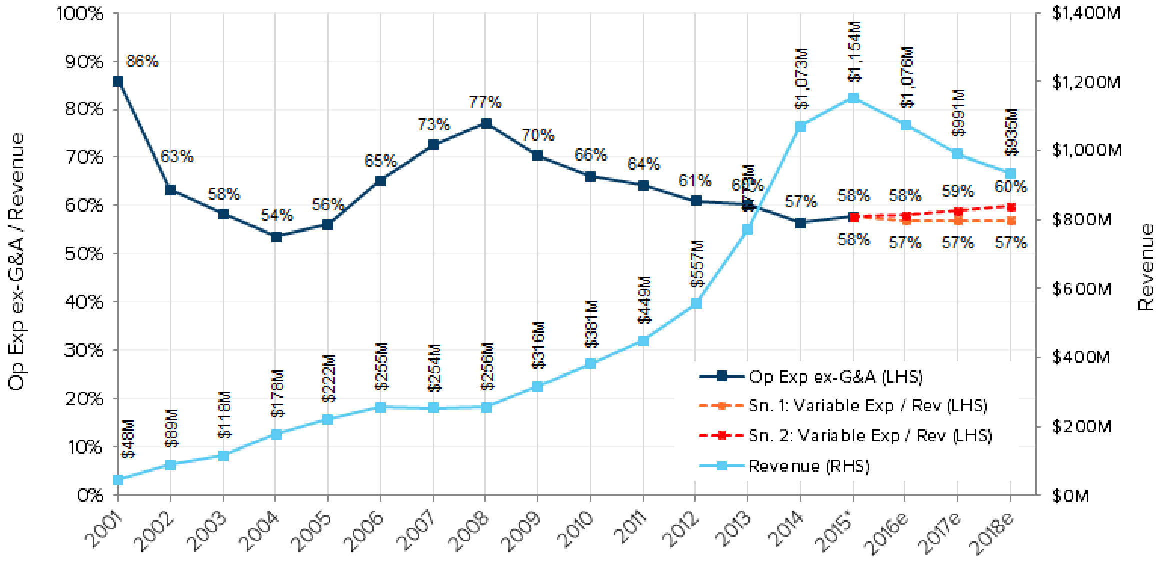
Source: Company Documents, Hedgeye Estimates

OUR “BASE CASE” SCENARIO HAS EPS OF $1.89 FOR 2017 AND $0.94 FOR 2018

We’re 35% below the Street for 2016, 64% below for 2017 and 84% below for 2018.

ECPG INCOME STATEMENT → SCENARIO 2

VARIABLE COSTS VERSUS REVENUE



*3Q15 figures exclude the CFPB expense and the tax benefit thereof.

Source: Encore Capital Group, Hedgeye analysis

OUR "BEAR CASE" ASSUMES RISING VARIABLE COSTS, WHICH IS WHAT'S HAPPENED HISTORICALLY

As the chart above shows, our forecast for rising variable costs as a percentage of revenue (58% rising to 60%) is modest by comparison to what actually happened in the 2004-2008 period when costs rose fro 54% to 77% of revenue.

ECPG INCOME STATEMENT → SCENARIO 2

INCOME STATEMENT

SCENARIO 2: RISING VARIABLE COSTS

	2012	2013	2014	2015*	2016e	2017e	2018e
Revenue	556,777	773,364	1,072,789	1,153,691	1,075,782	990,595	935,125
G&A (Fixed Costs)	61,798	109,713	146,286	140,715	140,715	140,715	140,715
Op Exp ex-G&A (Variable Costs)	339,898	465,292	607,059	666,849	623,954	584,451	561,075
Op Exp	401,696	575,005	753,345	807,564	764,669	725,166	701,790
EBIT	155,081	198,359	319,444	346,127	311,114	265,429	233,335
Interest and Other Expense	24,756	77,491	166,829	184,321	199,804	209,291	224,775
Pretax Income	130,325	120,868	152,615	161,806	111,310	56,138	8,560
Taxes	51,754	45,388	52,725	62,774	36,176	18,245	2,782
Net Income	78,571	75,480	99,890	99,032	75,134	37,893	5,778
Net Income to Noncontrolling	-	(1,559)	(5,448)	2,249	1,706	861	131
Shareholder Net Income from Cont. Ops	**78,571**	**77,039**	**105,338**	**96,783**	**73,428**	**37,033**	**5,647**
Avg Diluted Shares	25,836	26,204	27,495	26,647	26,647	26,647	26,647
Diluted EPS from Cont. Ops	3.04	2.94	3.83	3.63	2.76	1.39	0.21
Consensus GAAP EPS Estimate					4.65	5.32	5.98
Hedgeye Deviation from Consensus					-41%	-74%	-96%

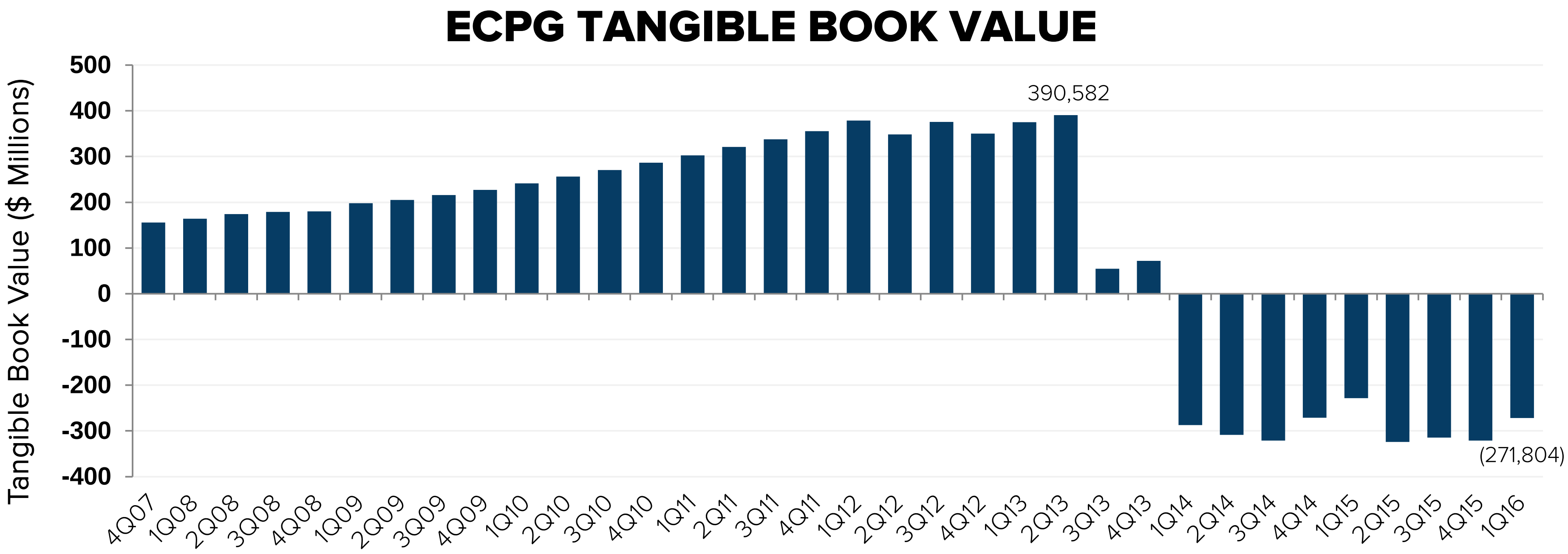
*3Q15 figures exclude the CFPB expense and the tax benefit thereof.
*4Q15 figures exclude the Propel goodwill impairment and the tax benefit thereof

Source: Company Documents, Hedgeye Estimates

OUR “BEAR CASE” SCENARIO ASSUMES 2017 EPS OF $1.39 AND 2018 EPS OF $0.21

We’re 96% below the Street for 2018 in our Bear Case scenario. Essentially we have the company earnings no money.

ECPG TANGIBLE NET WORTH



Source: Company Data, Hedgeye Analysis

WHEN EARNINGS POWER EVAPORATES, INVESTORS CAN'T FALL BACK ON TBV.

Encore's tangible net worth is **negative** $271.8 Million.

MADDEN V. MIDLAND – A POTENTIAL POSITIVE

The Supreme Court has not decided whether to hear this appeal.

As it stands, **debt collectors must reduce interest rates below usurious levels** on debt they buy from national banks, which are actually exempt from state-specific usury laws.

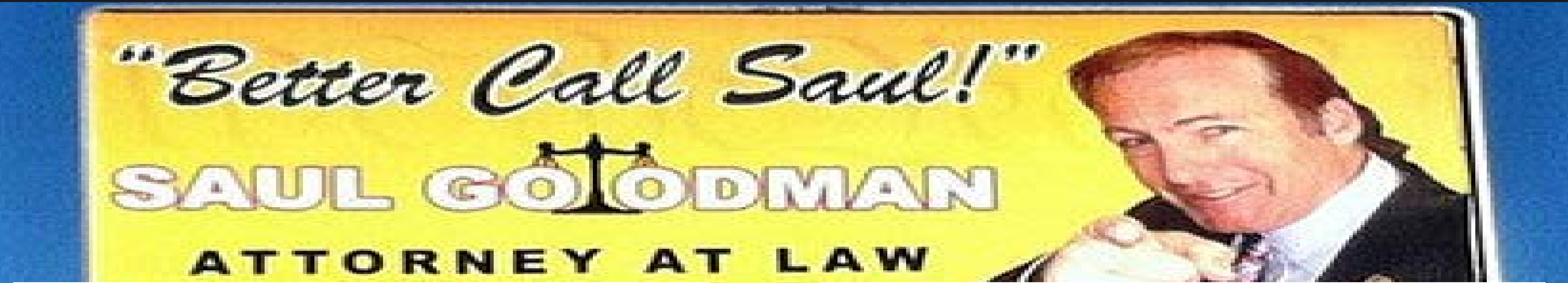
Why it matters: The Court deciding to hear the case would be a ray of hope for collectors. However, the Solicitor General recommended that the Supreme Court decline to review the case.

June 23: the Court will discuss whether to hear the case or postpone the decision until September 23.

USURY RESTRICTIONS

In 2015, the Second Circuit Court of Appeals ruled in Madden v. Midland Funding LLC (the same Encore subsidiary named above) that while national banks are, in certain circumstances, exempted from state-specific usury laws by the National Bank Act, third party debt collectors such as Encore are not; therefore, when Encore buys a debt from a bank that was charging an interest rate considered usurious by home state standards, it would need to reduce the interest rate charged upon collection. Midland has appealed the ruling to the United States Supreme Court, which has not yet decided whether it will hear the case. While it's unclear whether the Court will hear the case, and what the ruling would be, this poses further risk to the industry. An interesting twist here is the recent passing of Justice Scalia, who would likely have ruled in favor of Midland. We think this is just another example of what's happening to the debt collection industry: ***The Bigger You Are, The More High-Powered the Microscope You Fall Under***.

YOU DON'T NEED A CRIMINAL LAWYER …



In our February note, Encore Capital (ECPG) | The Pressures Are Both Cyclical and Secular, we pointed out the case of **Psaros v. Green Tree** which exemplifies the heightened liability placed on law firms litigating to collect debts. Lawyers are now responsible for verifying the legality, accuracy and legitimacy of the debts they attempt to collect on behalf of clients, and they can be sued for damages caused by attempting to collect illegitimate debts. In the 1Q16 conference call excerpt below, while discussing the resulting slowdown in legal collections, Encore management commented that internal legal is being stringently evaluated versus external, and if internal can't perform, areas of that operation would be shut down. This struck us as a fairly aggressive comment and seems to be a strange reversal from the company beefing up its internal legal collection capabilities. Our understanding was that Encore developed an internal legal channel because it is cheaper and therefore more profitable than external. Now all of a sudden it's not, and Encore is borderline threatening to fire its in-house lawyers? Something is strange here. What we think is happening is that due to the heightened liability Encore's internal lawyers now face, those lawyers are acting more cautiously and the resulting slowdown in litigation is causing the company to essentially threaten their own employees, by dangling the prospect of finding outside counsel who'll "get it done". We consider this type of comment from management a big red flag on the state of the health of the industry.

Analyst Question

And what percentage of legal collections were performed internally this quarter? Just to give us a sense where we're in that evolution.

Ashish Masih

It's a question that's not come up recently, so we didn't have it memorized.

Ken Vecchione

David, out of total U.S. collections, it represents 10% in Q1 of 2016. And when you go back to Q1 of 2015, it was about 9%. And one of the things that Ashish does here - and this is important as we talk about how we continue to manage our expense base in the Company as well. If the internal legal guys cannot perform like the external legal guys, we move volume away from them or we may even shut down areas. So internal legal has got to hold their own to how the other outside legal firms are performing. And Ashish is pretty strict about that.

DO AS I JAY, NOT AS I SIDHU

payment portal that enhances

- Sale. We do not resell accounts to third parties in the ordinary course of our business.

-ECPG 2015 10-K, Page 6.

John Oliver's Debt Buyer Segment ➔
In case you missed it:
https://www.youtube.com/watch?v=hxUAntt1z2c

Encore:
"We do not resell accounts to third parties in the ordinary course of our business." (10-K)

…

Except when we sell them to John Oliver.

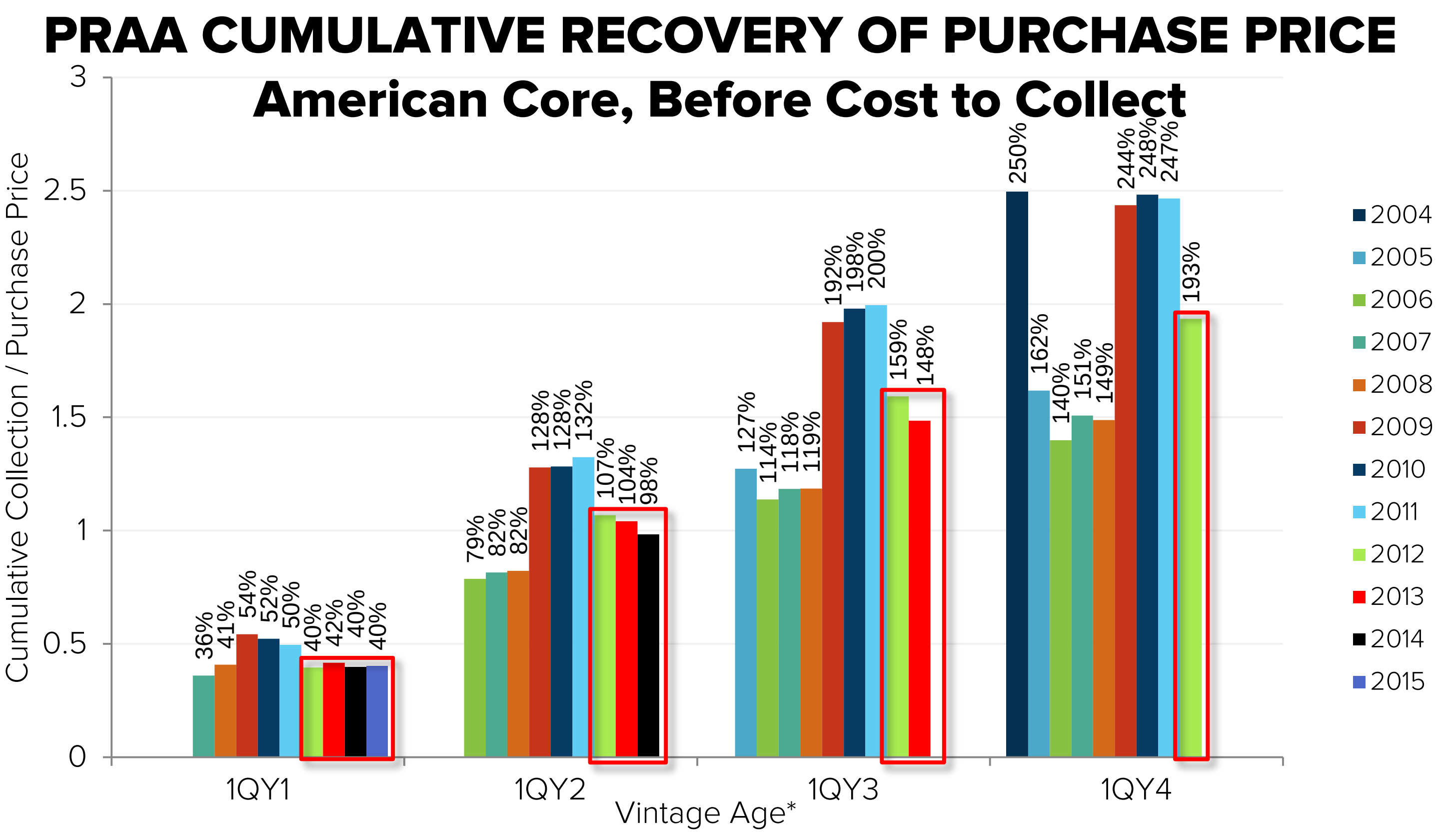
ECPG PROGNOSIS?

We think earnings power at Encore will be cut to the bone over the next two years.

As the company has negative tangible net worth, the only thing supporting the stock's valuation is the multiple on current earnings.

PRA GROUP

NEW VINTAGES DETERIORATING FROM THE PEAK



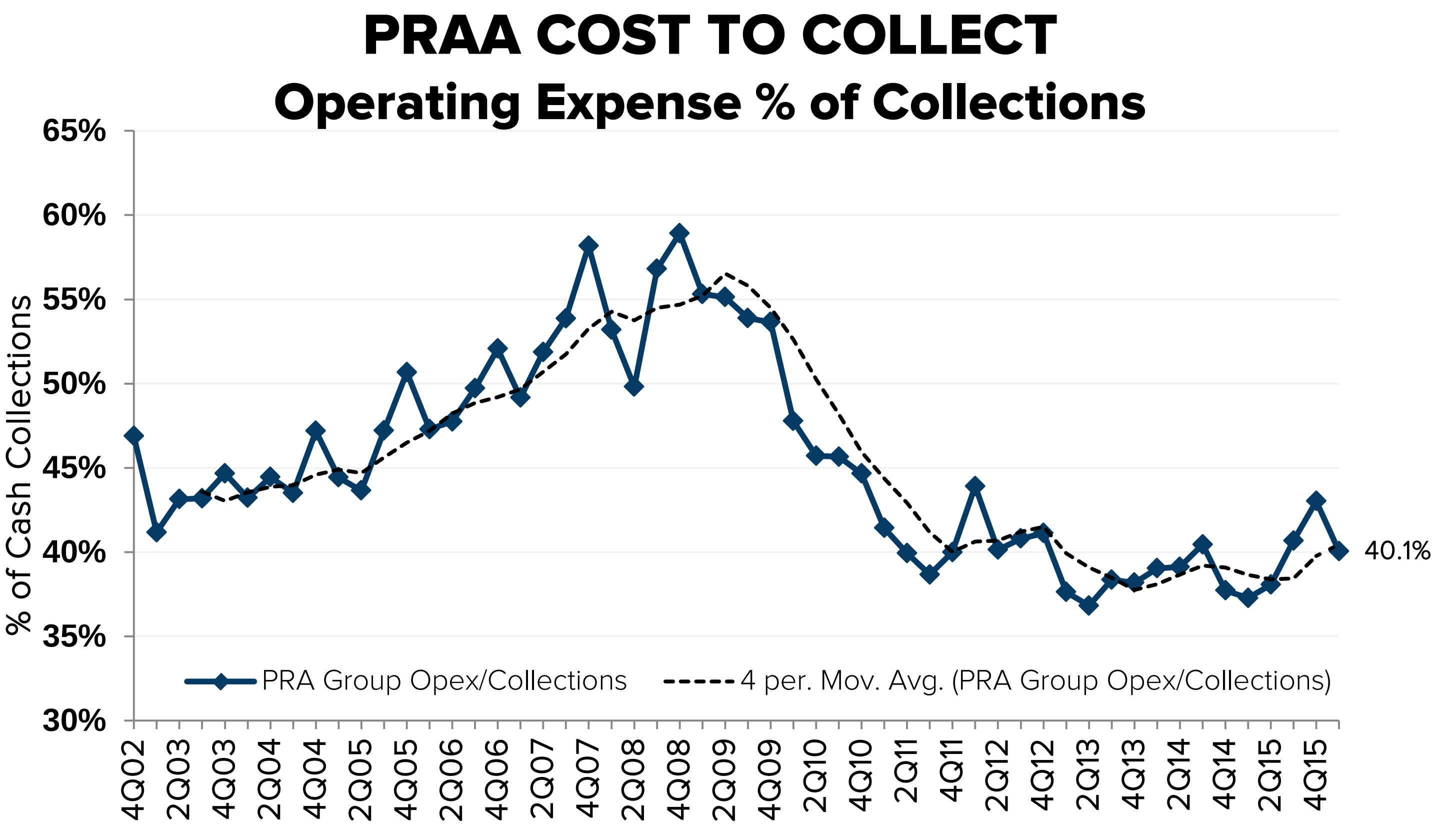
*E.g. 1QY1 for 2013V represents 1Q14. 1QY2 for 2013V represents 1Q15.

Source: PRA Group, Hedgeye Analysis

The 2012-2015 vintages are showing clear deterioration vs the 2009-2011 vintages.

Interestingly, while 2012-2015 look better than 2005-2008, that's only because PRA performed exceptionally badly in that period. PRA's collections/purchase price are actually almost identical to Encore's for 2012-2015.

PRAA'S COST TO COLLECT OVER TIME

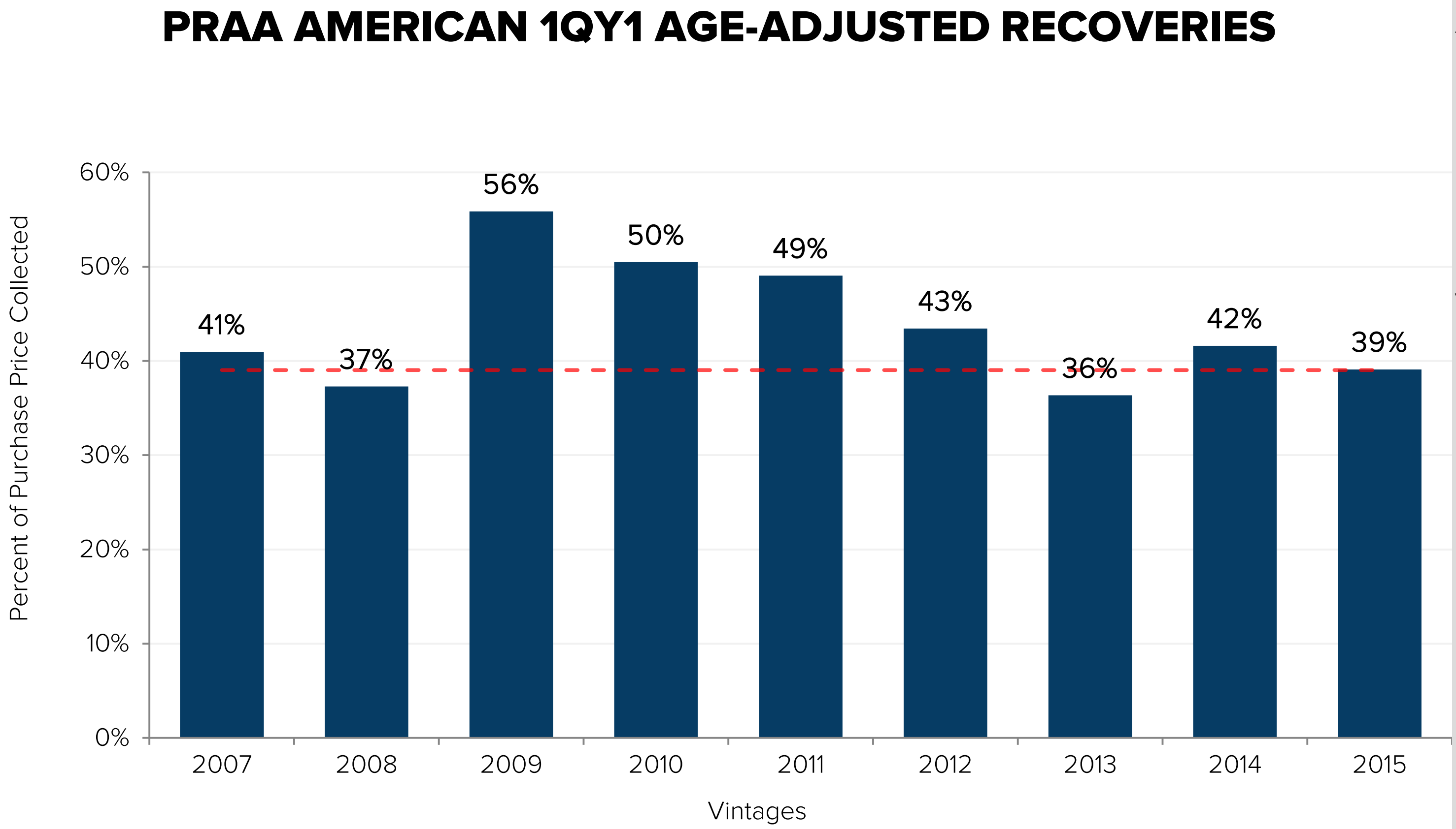


Source: PRAA, Hedgeye Analysis

PRA Group's real cost to collect, i.e. Opex / Collections, fell notably from 2008-2012, but has been flat to slightly higher since then.

The most recent 4-Qtr rolling average had firm-level Opex at 40.1%.

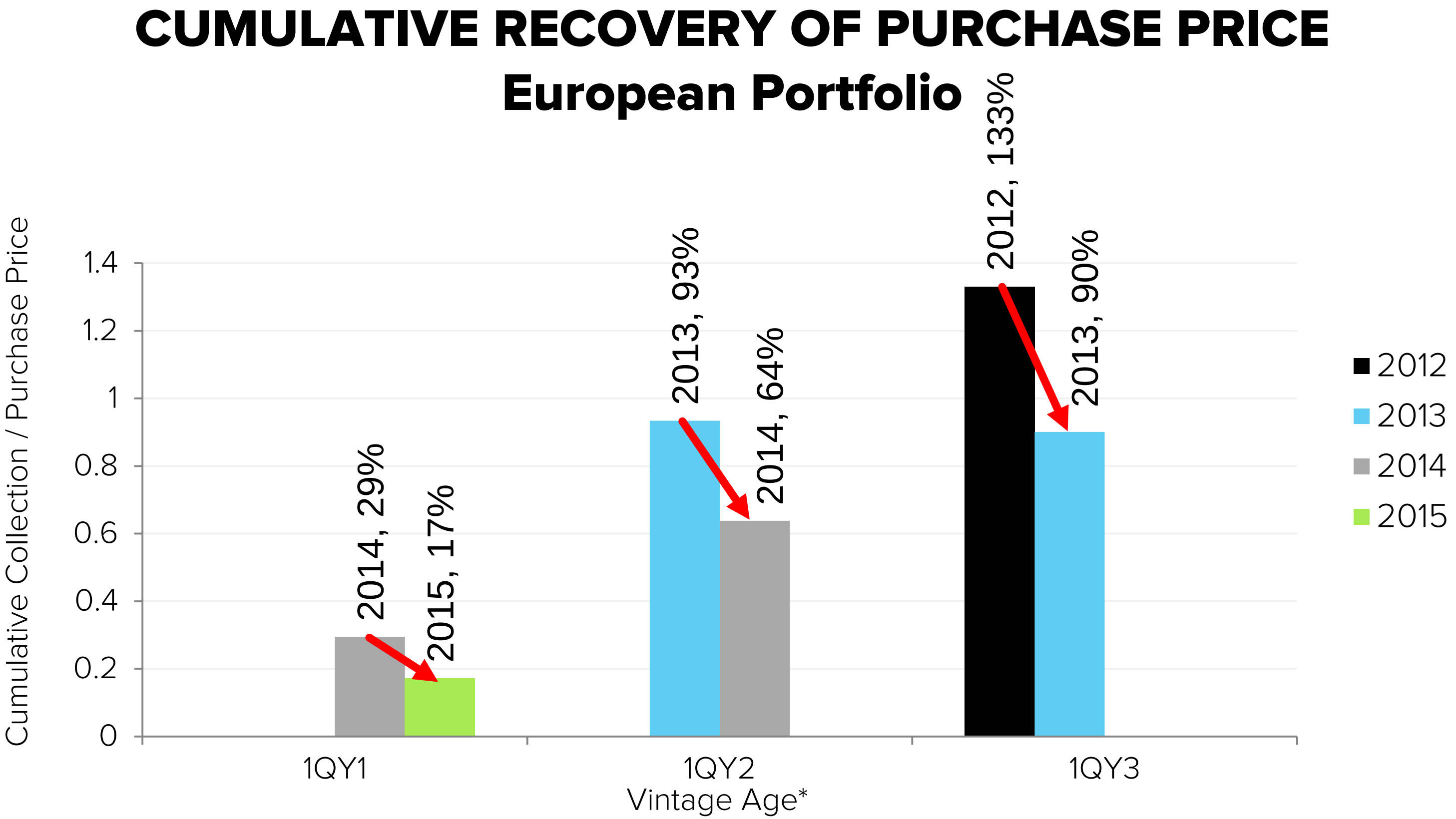
PRAA'S TIME FACTOR



Adjusting the 1QY1 recovery rates based on the average date of purchase for each vintage, the average recovery rates for 2013/14/15 are right in-line with 2007 and 2008.

Source: PRAA, Hedgeye Analysis

EXTRAORDINARY EUROPE



*E.g. 1QY1 for 2013V represents 1Q14. 1QY2 for 2013V represents 1Q15.

Source: PRA Group, Hedgeye Analysis

Each vintage in the European portfolio, which is 42% of PRA's ERC, is performing worse than the preceding vintage.

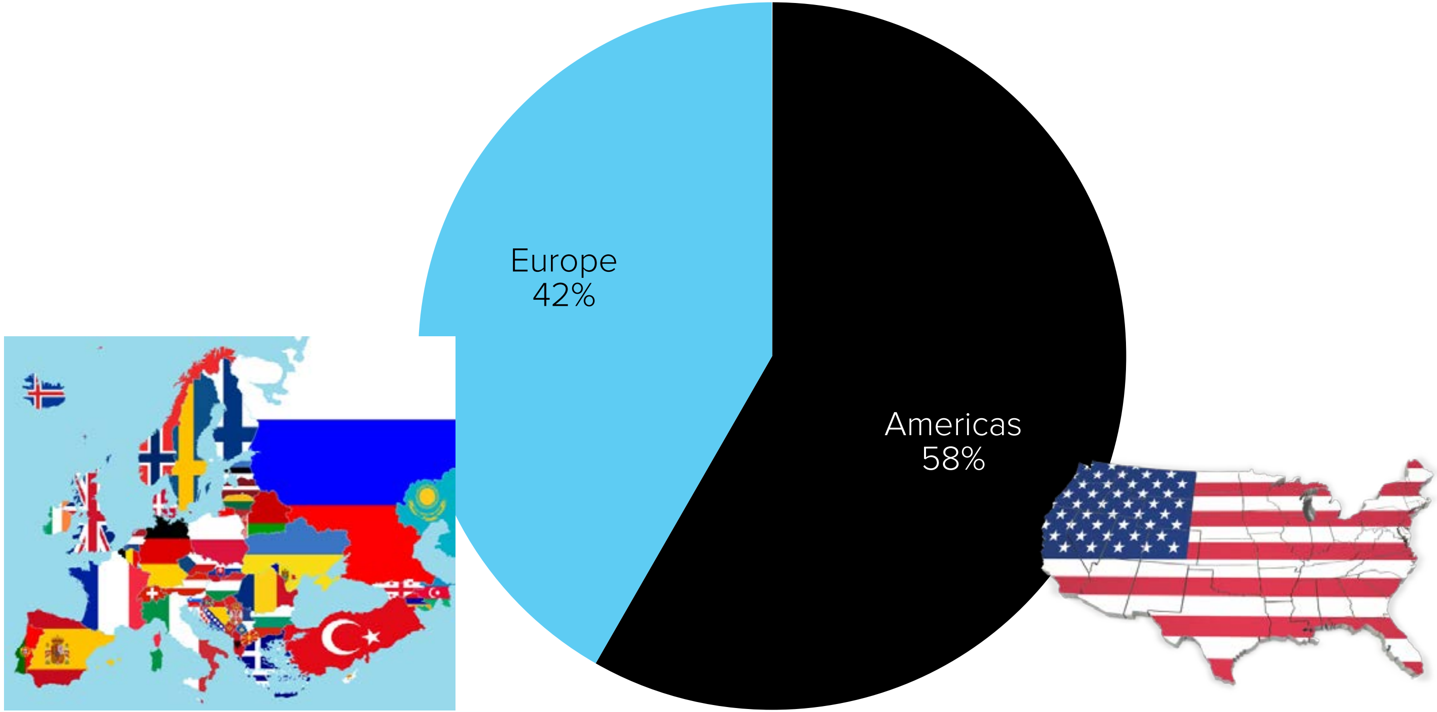
To be fair, the 2012/2013 vintages were essentially an expedition into the jungle, as the company was just establishing its presence there. 2014/2015, however, reflect the Aktiv (2014) and post-Aktiv periods and are legit comps.

We think the same point we made earlier about Encore's positive distortion effects from Cabot/Marlin goodwill apply here. Note just how much performance degraded in 2015 vs 2014 without the Goodwill factor.

EUROPE IS A MAJOR FACTOR FOR PRA

ESTIMATED REMAINING COLLECTIONS, GEOGRAPHIC EXPOSURE

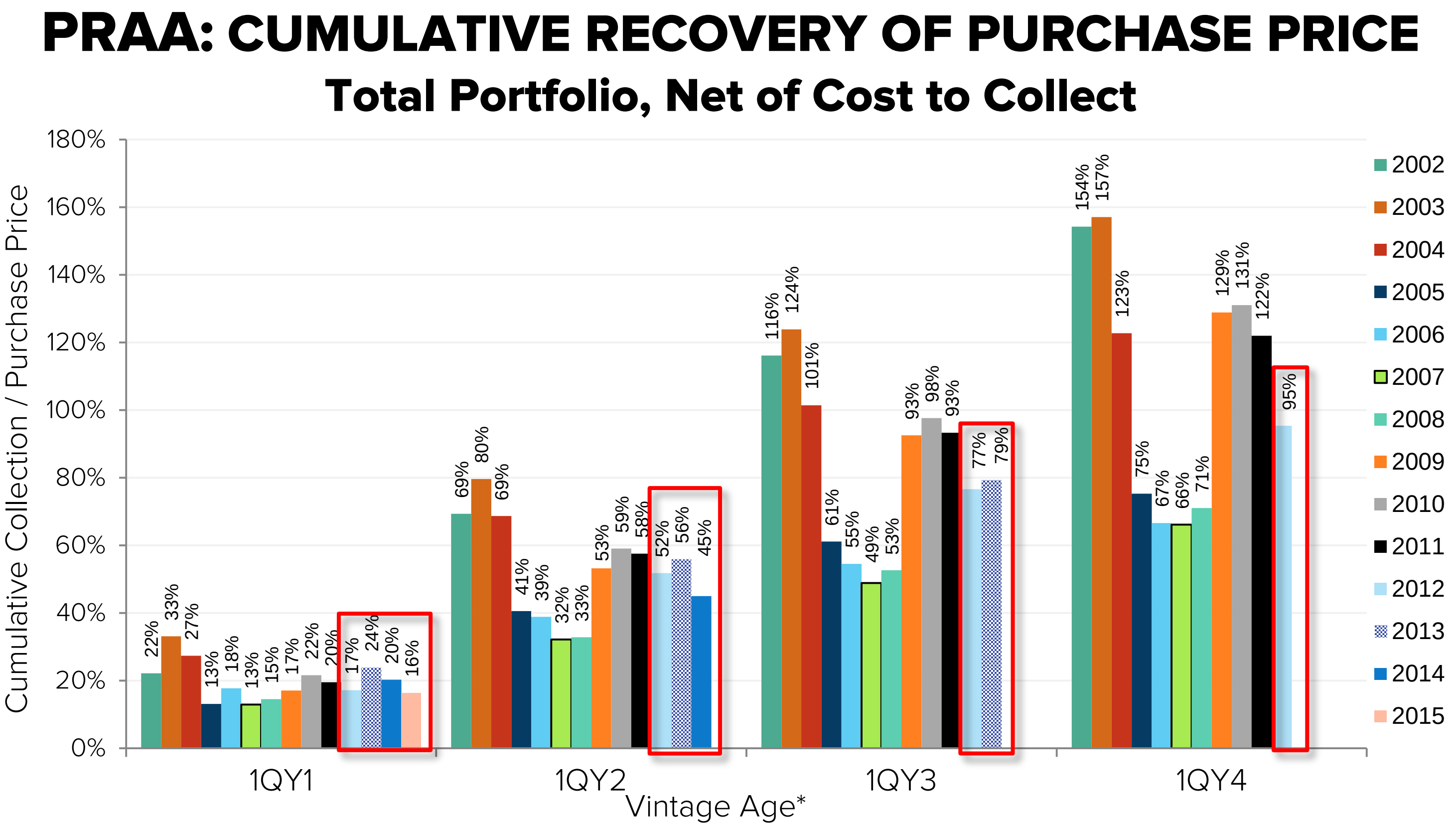
As of 1Q 2016



Aktiv transformed the company's geographic footprint, raising its EU exposure from virtually nothing to almost half the company overnight.

Source: PRA Group

PRAA RECOVERY RATES, NET OF COST



*E.g. 1QY1 for 2013V represents 1Q14. 1QY2 for 2013V represents 1Q15.

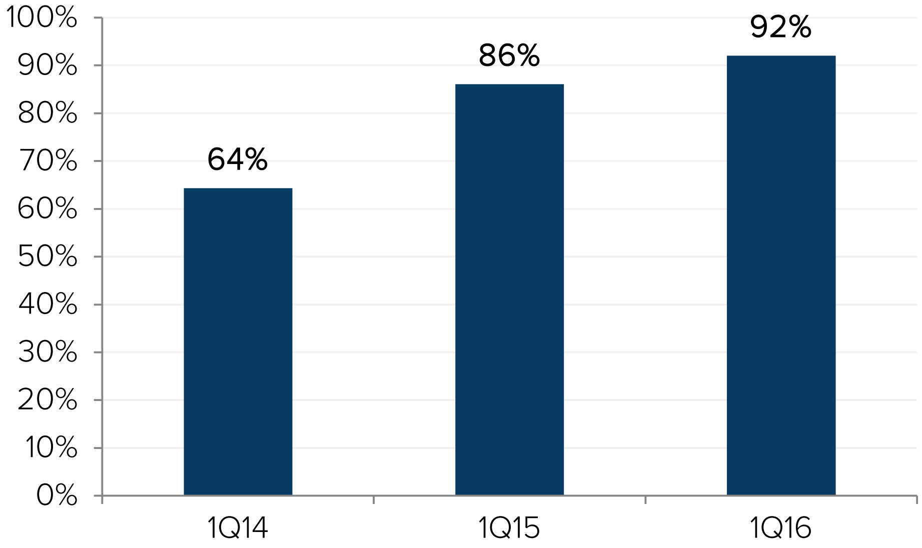
Source: PRA Group, Hedgeye Analysis

The previous charts do not deduct cost. Therefore, we also provide the following net recovery chart on a firm-wide basis.

By this measure, 2012, 2013, 2014, and 2015 are underperforming the 2009-2011 vintages materially.

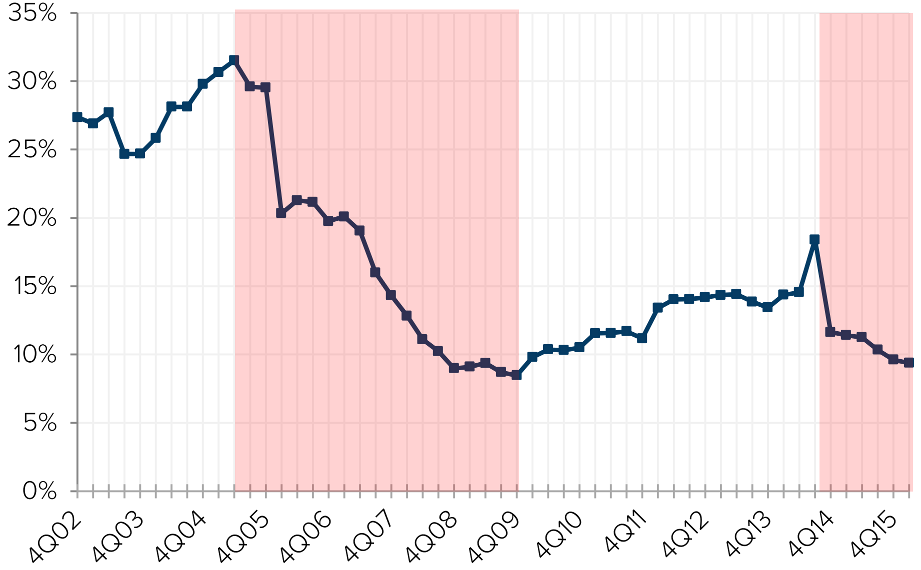
DRIVING DOWN RETURNS

PRAA % OF ERC IN POST-2011 VINTAGES



Source: PRA Group

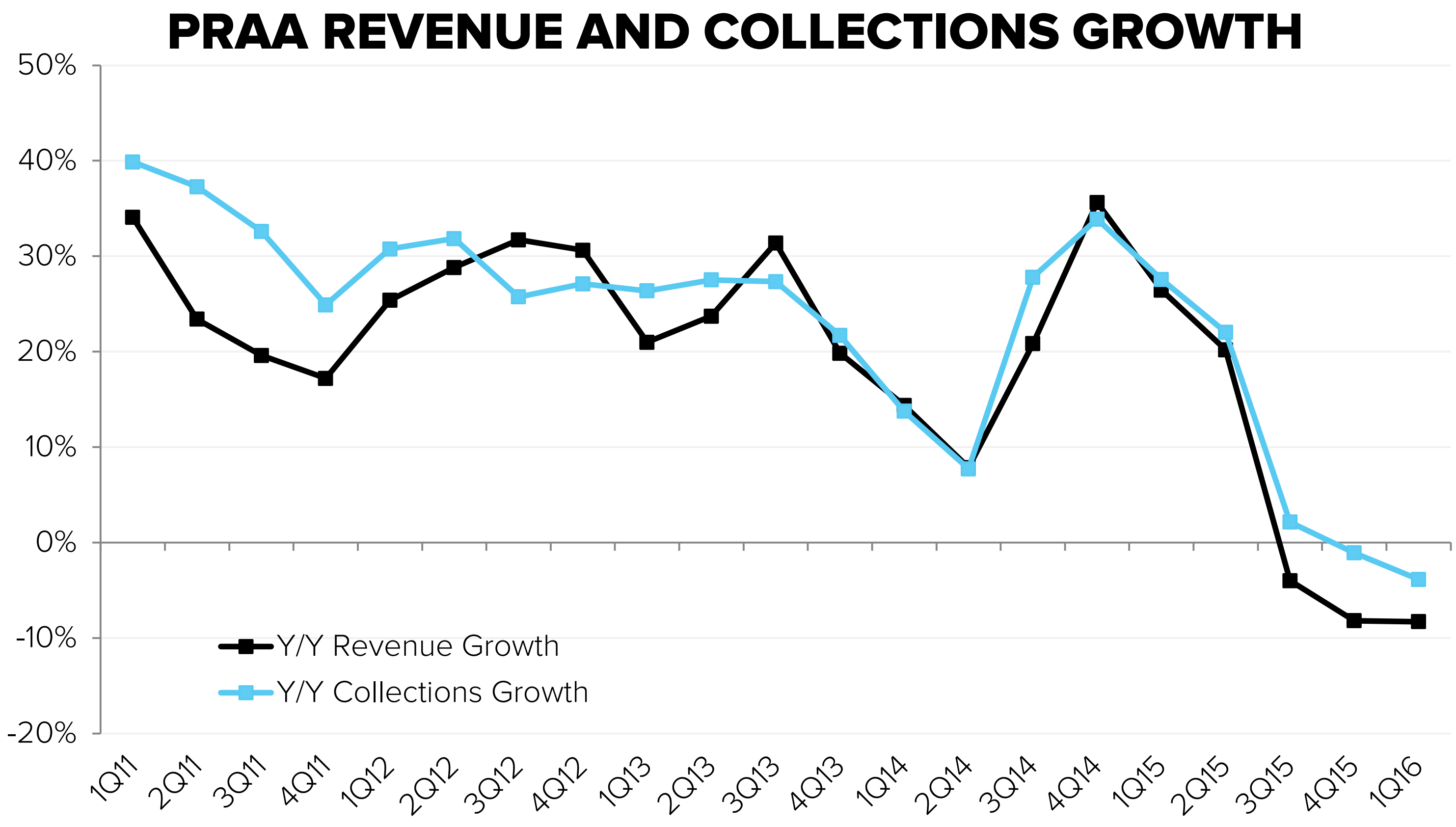
FIRM-LEVEL REALIZED QTRLY COLLECTIONS IRR (Quarterly Rev / Prev. Qtr UAB)



Source: PRA Group

SIMILAR TO ENCORE, AS NEWER VINTAGES BECOME A HIGHER PORTION OF PRA'S PORTFOLIO, RETURNS SUFFER. IRR'S FIRM-WIDE ARE NOW BACK DOWN TO THE LOWS OF THE LAST CYCLE.

GROWTH IS SLOWING RAPIDLY



Source: PRA Group

PRA's revenue and collections growth have both turned negative on a Y/Y basis. This is a sharp deterioration from the +20-30% growth rates throughout 2011-2014.

Aktiv spiked growth in 2H14/1H15, but the real growth rate is now clear.

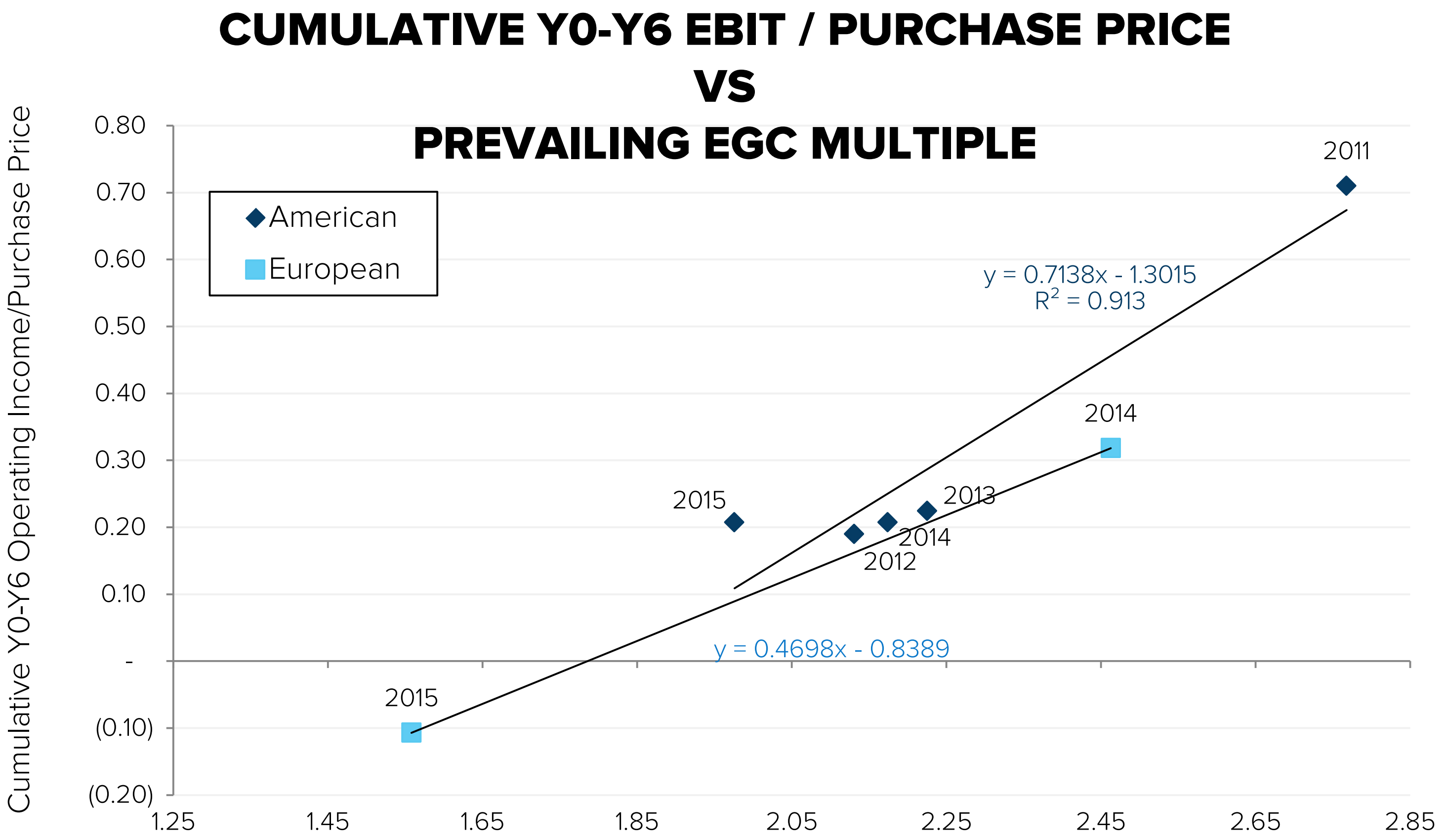
PRAA VINTAGE-LEVEL EBIT

	OPERATING INCOME							REGRESSION DATA			
	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Y0-Y6 Sum	Purchase Price	Y0-Y6 Op Inc / Purch Price	EGC Multiple
America											
2005							876		143,166		2.34
2006						1,433	(983)		107,665		2.14
2007					(459)	(1,395)	6,488		258,359		2.15
2008				(8,683)	(6,458)	(1,535)	6,814		275,085		2.00
2009			(3,330)	45,423	48,268	35,859	12,726		281,176		3.32
2010		42,420	46,042	69,478	50,545	30,827	10,900		357,372		3.04
2011	58,615	33,580	52,784	52,203	44,182	26,900	9,500	277,765	391,090	0.71	2.77
2012	17,528	23,518	31,326	9,328	7,900	4,800	1,700	96,100	506,725	0.19	2.13
2013	23,866	27,977	49,607	14,800	12,500	7,600	2,700	139,051	619,892	0.22	2.23
2014	11,954	24,796	26,900	20,800	17,000	10,300	3,600	115,350	555,695	0.21	2.17
2015	18,089	21,200	23,000	17,800	14,500	8,800	3,100	106,489	513,174	0.21	1.98
Europe											
2012			832	1,431	1,200	800	300		20,459		1.54
2013		(2,145)	(1,506)	(1,506)	(1,506)	(1,506)	(1,506)		20,371		1.09
2014	29,912	54,579	59,200	45,800	37,400	22,700	7,900	257,491	809,277	0.32	2.46
2015	(6,776)	(6,776)	(6,776)	(6,776)	(6,776)	(6,776)	(6,776)	(47,431)	443,650	(0.11)	1.56

Source: Company Documents, Hedgeye Estimates

- We're more limited here in our ability to analyze the data because PRA's historical disclosures about vintage level revenue didn't begin until 2011. that said, 2012-2015 American vintages are exhibiting much lower operating income vs 2011.
- More worrisome is the European portfolio. The 2015 vintage is below breakeven. Second, notice that 2014 is the only European vintage that seems to be doing well; it has a **2.46x EGC multiple** versus 1.54x and 1.09x for 2012 and 2013, and **1.56x for 2015**. To be clear, we believe the 2014 vintage appears to be superior only because of the goodwill that suppressed the 2014 Aktiv purchase price.

CUMULATIVE EBIT BY VINTAGE



The scatter plot shows clearly how poor the 2012-2015 US vintages are relative to the 2011 vintage, while the 2015 EU vintage is below breakeven.

Source: PRAA, Hedgeye Analysis

GEOGRAPHIC ALLOWANCES

PRAA ALLOWANCES BY VINTAGE

	2013	2014	2015	1Q15	2Q15	3Q15	4Q15	1Q16
American Vintages								
1996-2005	(2,933)	(2,665)	150	(15)	(25)	-	190	125
2006	(1,800)	(2,900)	(190)	(190)	-	-	-	(20)
2007	(2,195)	(3,160)	(400)	(250)	-	-	(150)	25
2008	2,800	(3,800)	(1,200)	(600)	50	-	(650)	-
2009	-	-	-	-	-	-	-	-
2010	325	2,540	455	620	150	350	(665)	450
2011	-	3,050	4,275	1,915	110	1,550	700	400
2012	-	400	15,400	150	3,900	6,500	4,850	600
2013	-	-	3,250	-	-	450	2,800	5,850
2014	-	1,104	-	-	-	-	-	188
2015	-	-	-	-	-	-	-	98
2016	-	-	-	-	-	-	-	-
Total Americas	**(3,803)**	**(5,431)**	**21,740**	**1,630**	**4,185**	**8,850**	**7,075**	**7,716**
European Vintages								
2012	-	496	-	-	-	-	-	-
2013	-	-	1,712	-	700	934	78	122
2014	-	-	5,917	-	-	1,551	4,366	1,701
2015	-	-	-	-	-	-	-	359
2016	-	-	-	-	-	-	-	-
Total Europe	**-**	**496**	**7,629**	**-**	**700**	**2,485**	**4,444**	**2,182**

Source: PRA Group

PRA's other big issue their use of allowances. Allowance use has been ramping up meaningfully in the last year across both US and European vintages.

TOTAL FIRM ALLOWANCES

PRAA ALLOWANCES BY VINTAGE

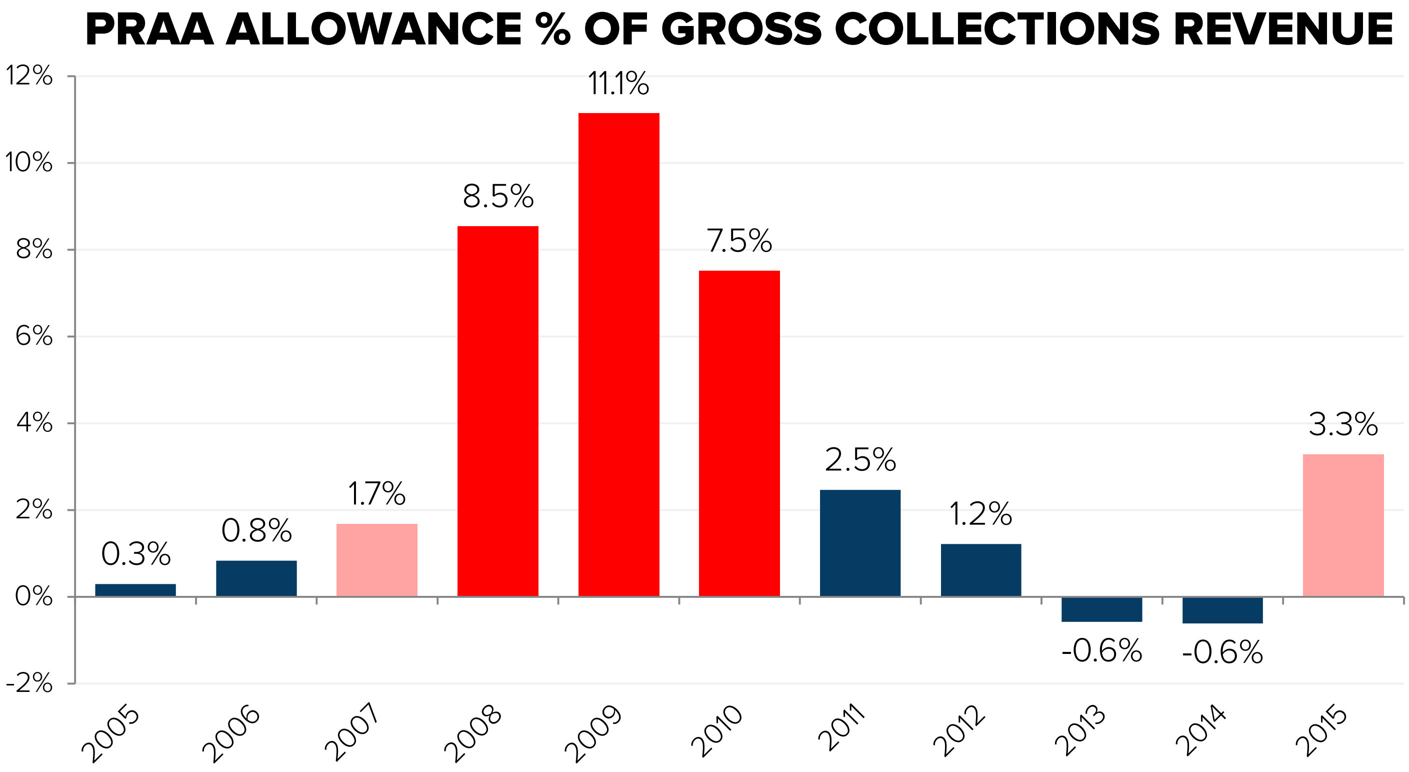
	2013	2014	2015	1Q15	2Q15	3Q15	4Q15	1Q16
PRA Aggregate Vintages								
1996-2005	(2,933)	(2,665)	150	(15)	(25)	-	190	125
2006	(1,800)	(2,900)	(190)	(190)	-	-	-	(20)
2007	(2,195)	(3,160)	(400)	(250)	-	-	(150)	25
2008	2,800	(3,800)	(1,200)	(600)	50	-	(650)	-
2009	-	-	-	-	-	-	-	-
2010	325	2,540	455	620	150	350	(665)	450
2011	-	3,050	4,275	1,915	110	1,550	700	400
2012	-	896	15,400	150	3,900	6,500	4,850	600
2013	-	-	4,962	-	700	1,384	2,878	5,972
2014	-	1,104	5,917	-	-	1,551	4,366	1,889
2015	-	-	-	-	-	-	-	457
2016	-	-	-	-	-	-	-	-
Total PRA Group	**(3,803)**	**(4,935)**	**29,369**	**1,630**	**4,885**	**11,335**	**11,519**	**9,898**

Source: PRA Group

In 1Q15, the US 2012 vintage was carried at 2.10x and in 1Q16 it's carried at 2.76x.

This is in spite of taking 2012 US vintage allowance charges of $16mn against gross revenue over that same time period.

HISTORICAL ALLOWANCE CHART



The recording of allowance charges generally corresponds with the cycle. Notice the uptick in the 2007-2010 period, which resumed again in 2015.

This chart shows allowance as a percentage of gross revenues.

Source: PRA Group, Hedgeye Analysis

PRAA FIRM LEVEL BREAKEVEN

PRAA FIRM LEVEL BREAKEVEN

Purchase price	100
Expected collections	199
Multiple	1.99

Cost to Collect:	40.5%
Int exp:	4.4%
Tax rate:	32.3%

Year		Y0	Y1	Y2	Y3	Y4	Y5	Y6	Total
Investment flows	(100)	29	59	45	29	18	12	8	**99**
Annual IRR	28%								
Revenue		28	28	19	12	7	4	2	**99**
Cost to collect		12	24	18	12	7	5	3	**81**
Interest expense		4	4	3	3	2	1	1	**18**
Pretax income		12	(0)	(2)	(3)	(2)	(2)	(2)	**0**
Net income		8	(0)	(2)	(2)	(2)	(2)	(1)	**0**

*The 40.5% cost to collect is the trailing twelve month operating expenses (excluding impairment of goodwill and expenses related to the CFPB) versus cash collections

Source: Company Documents, Hedgeye Estimates

PRAA BREAKEVEN IS 2.0X

The breakeven is lower than ECPG because of PRAA's lower cost structure (40.5% vs. 47.5%).

PRAA CORE BUSINESS BREAKEVEN

PRAA CORE BREAKEVEN

Purchase price	100
Expected collections	211
Multiple	2.11

Cost to Collect:	43.8%
Int exp:	4.4%
Tax rate:	32.3%

Year		Y0	Y1	Y2	Y3	Y4	Y5	Y6	Total
Investment flows	(100)	31	63	47	31	19	12	8	**111**
Annual IRR	31%								

	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Total
Revenue	31	31	21	13	8	4	2	**111**
Cost to collect	13	27	21	13	8	5	3	**92**
Interest expense	4	4	3	3	2	1	1	**18**
Pretax income	13	(0)	(3)	(3)	(3)	(2)	(2)	**(0)**
Net income	9	(0)	(2)	(2)	(2)	(2)	(2)	**(0)**

Source: Company Documents, Hedgeye Estimates

PRAA'S CORE BUSINESS BREAKS EVEN AT 2.11X

PRAA INSOLVENCY BIZ BREAKEVEN

PRAA INSOLVENCY BREAKEVEN

Purchase price	100
Expected collections	126
Multiple	1.26

Cost to Collect:	6.3%
Int exp:	4.4%
Tax rate:	32.3%

Year		Y0	Y1	Y2	Y3	Y4	Y5	Y6	Total
Investment flows	(100)	18	38	28	18	12	7	5	26
Annual IRR	8%								
Revenue		8	7	5	3	2	1	0	26
Cost to collect		1	2	2	1	1	0	0	8
Interest expense		4	4	3	3	2	1	1	18
Pretax income		3	1	(0)	(1)	(1)	(1)	(1)	0
Net income		2	1	(0)	(1)	(1)	(1)	(0)	0

Source: Company Documents, Hedgeye Estimates

PRAA'S INSOLVENCY BUSINESS BREAKS EVEN AT 1.26X

PRAA: EGC VERSUS PURCHASE-PRICE

Multiples Tables
Amounts in thousands

Purchase Period	Purchase Price [3]	Net Finance Receivables [4]	ERC-Historical Period Exchange Rates [5]	Total Estimated Collections [6]	ERC-Current Period Exchange Rates [7]	Current Purchase Price Multiple
Americas-Core						
1996 - 2005	$ 368,600	$ 3,514	$ 20,648	$ 1,407,506	$ 20,648	382%
2006	90,038	4,229	10,856	198,310	10,856	220%
2007	179,835	11,315	38,486	449,949	38,486	250%
2008	166,506	12,301	32,961	380,049	32,961	228%
2009	125,175	4,436	51,659	458,205	51,659	366%
2010	148,265	12,172	81,944	536,167	81,944	362%
2011	209,815	27,378	130,665	717,248	130,665	342%
2012	254,750	65,907	211,192	703,907	211,192	276%
2013	391,734	159,717	459,598	1,041,168	459,598	266%
2014 [1]	406,542	219,935	601,140	1,004,928	594,785	247%
2015	448,100	364,544	752,867	933,419	754,232	208%
2016 YTD	139,312	135,961	256,384	265,039	256,384	190%
Subtotal	2,928,672	1,021,409	2,648,400	8,095,895	2,643,410	
Americas-Insolvency						
2004 - 2005	36,770	4	202	58,626	202	159%
2006	17,627	38	389	32,458	389	184%
2007	78,524	248	1,064	106,493	1,064	136%
2008	108,579	1,016	2,190	169,509	2,190	156%
2009	156,001	—	8,964	474,280	8,964	304%
2010	209,107	243	13,324	551,490	13,324	264%
2011	181,275	8,865	23,650	365,181	23,650	201%
2012	251,975	37,166	63,567	375,690	63,567	149%
2013	228,158	71,083	104,160	338,278	104,160	148%
2014	149,153	75,570	103,325	203,132	103,175	136%
2015	65,074	60,821	73,149	80,534	73,149	124%
2016 YTD	24,194	23,208	28,032	29,201	28,032	121%
Subtotal	1,506,437	278,262	422,016	2,784,872	421,866	
Total Americas	4,435,109	1,299,671	3,070,416	10,880,767	3,065,276	
Europe-Core						
2012	20,459	115	659	31,537	582	154%
2013	20,371	1,749	3,236	22,248	2,805	109%
2014 [1]	798,397	508,614	1,417,932	1,976,007	1,276,871	247%
2015	424,056	364,378	590,674	663,675	580,461	157%
2016 YTD	176,053	175,599	291,684	292,499	291,684	166%
Subtotal	1,439,336	1,050,455	2,304,185	2,985,966	2,152,403	
Europe-Insolvency						
2014	10,880	5,900	11,335	17,047	10,564	157%
2015	19,594	15,826	23,592	27,534	22,635	141%
2016 YTD	5,233	5,225	7,739	7,800	7,739	149%
Subtotal	35,707	26,951	42,666	52,381	40,938	
Total Europe	1,475,043	1,077,406	2,346,851	3,038,347	2,193,341	
Total PRA Group	$ 5,910,152	$ 2,377,077	$ 5,417,267	$ 13,919,114	$ 5,258,617	

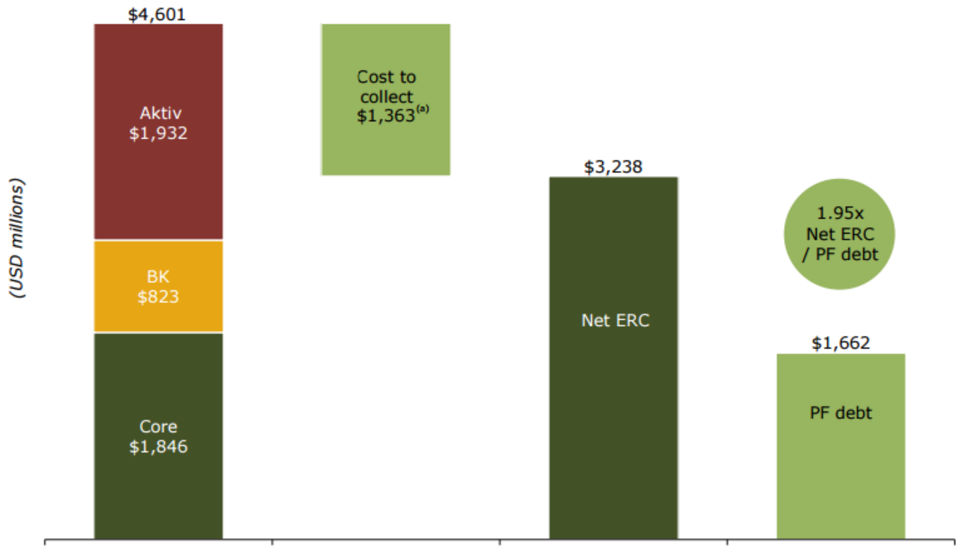
Like Encore, PRAA also has multiple vintages at or below the breakeven line.

Source: SEC Filings

PRAA'S COST DATA POINT

Expected Net Cash Collections are Conservatively at 1.95x Pro Forma Debt

Gross ERC – Cost to Collect = Net ERC



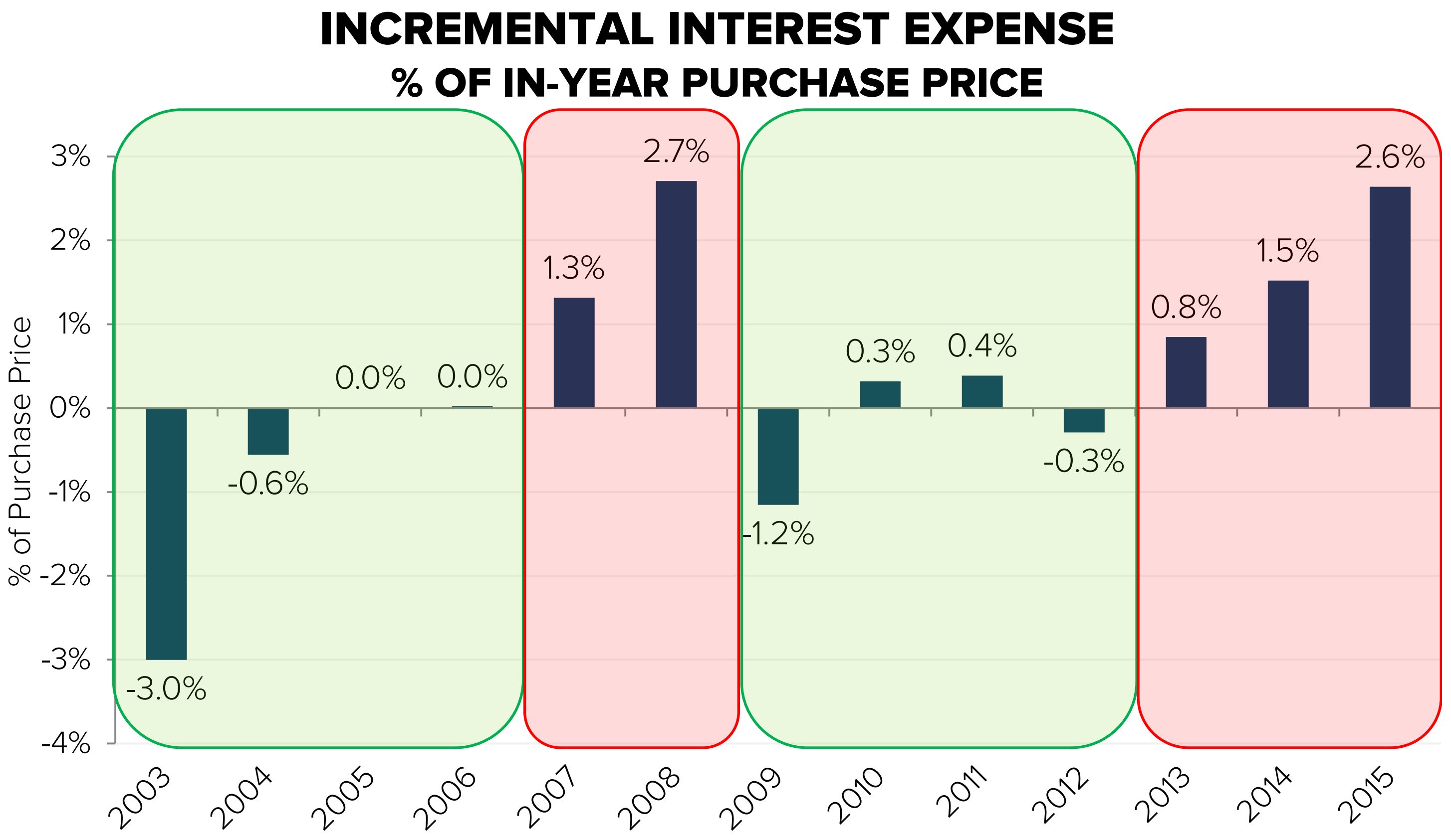
Note: ERC and pro forma debt as of December 31, 2013.
Exchange rate of NOK/USD 0.1648 on December 31, 2013.
(a) Assumes cost to collect of 35% on core portfolio and 5% on bankruptcy portfolio over time for PRAA and 35% for Aktiv.

Portfolio Recovery Associates, Inc. 9

PRAA disclosed in a presentation that its US and Aktiv core collections costs were identical.

- As of Feb, 2014

RED LIGHT, GREEN LIGHT



Source: PRAA, Hedgeye Analysis

Just like Encore, PRAA's proclivity towards debt financing surges late in the cycle.

OUR PRAA REVENUE FRAMEWORK

PRAA REVENUE MODULE

	Purchase Price	1Q16 Mult (Or Initial Mult for New Purch's)	4Q18 Pro Forma EGC Multiple	4Q18 Pro Forma Expected Gross Collections	4Q18 Pro Forma Expected Lifetime Revenue	Revenue 2015	2016e	2017e	2018e
2009V	281,180	3.32	3.32	932,498	651,318	24,806	21,699	21,517	17,665
2010V	357,392	3.04	3.04	1,087,718	730,326	63,220	26,263	26,757	24,128
2011V	391,148	2.77	2.77	1,082,590	691,442	108,068	66,638	26,466	25,332
2012V	527,265	2.11	2.11	1,111,307	584,042	97,477	67,976	45,318	31,514
2013V	640,336	2.19	2.19	1,401,855	761,519	162,735	125,897	87,184	59,537
2014V	1,365,403	2.35	2.35	3,202,130	1,836,727	323,450	288,394	217,834	148,769
2015V	958,907	1.78	1.89	1,814,252	855,345	80,722	175,414	155,556	118,834
2016Ve	815,071	1.73	1.84	1,502,332	687,261	-	66,042	147,267	125,106
2017Ve	815,071	1.73	1.80	1,469,729	654,658	-	-	65,022	147,267
2018Ve	815,071	1.73	1.76	1,437,126	622,055	-	-	-	65,022
Gross Collections Revenue						**860,478**	**838,323**	**792,921**	**763,173**
Allowance Charge						**31,009**	**71,591**	**88,345**	**57,328**
Net Collections Revenue						**829,469**	**766,732**	**704,576**	**705,845**

Source: Company Documents, Hedgeye Estimates

***** THIS IS ONLY A PORTION OF OUR TOTAL REVENUE EXPECTATION (EXCLUDES PRE-2009 VINTAGES)**

As with Encore, this module applies historic vintage-level revenue progression rates based on EGC multiples to current and recent vintages to illustrate how revenue can (and, we think, will) decline going forward.

PRAA INCOME STATEMENT → SCENARIO 1

PRAA INCOME STATEMENT
SCENARIO 1: FIXED % VARIABLE COSTS

	2012	2013	2014	2015*	2016e	2017e	2018e
Gross Collections Revenue	537,187	659,743	802,539	894,491	871,460	824,263	793,340
Allowance	6,552	(3,803)	(4,935)	29,369	74,421	91,837	59,594
Net Collections Revenue	530,635	663,546	807,474	865,122	797,039	732,426	733,745
Other revenue	62,166	71,589	73,495	76,896	74,916	70,859	68,200
Total Revenue	592,801	735,135	880,969	942,018	871,955	803,285	801,946
Occupancy & Other (Fixed Costs)	24,083	33,533	41,206	63,902	63,902	63,902	63,902
Variable Costs	352,654	404,077	497,687	548,131	522,279	481,147	480,345
Op Exp	376,737	437,610	538,893	612,033	586,181	545,049	544,247
EBIT	216,064	297,525	342,076	329,985	285,775	258,236	257,699
Interest and Other Expense	9,031	14,460	41,063	52,822	76,017	80,675	85,646
Pretax Income	207,033	283,065	301,013	277,163	209,758	177,562	172,053
Taxes	80,934	106,146	124,508	89,391	70,269	59,483	57,638
Net Income	**126,099**	**176,919**	**176,505**	**187,772**	**139,489**	**118,078**	**114,415**
Adj for Net Income to Noncontrolling	494	(1,605)	-	(205)	(152)	(129)	(125)
Shareholder Net Income	126,593	175,314	176,505	187,567	139,337	117,950	114,291
Non-GAAP Adjustments	-	-	15,231	20,367	-	-	-
Adjusted NI to Shareholders	**126,593**	**175,314**	**191,736**	**207,934**	**139,337**	**117,950**	**114,291**
Avg Diluted Shares	51,369	50,873	50,421	48,405	46,372	46,372	46,372
Diluted Adj EPS	**2.46**	**3.45**	**3.80**	**4.30**	**3.00**	**2.54**	**2.46**
Consensus Non-GAAP EPS Estimate					3.32	3.82	4.29
Hedgeye Deviation from Consensus					-10%	-33%	-43%

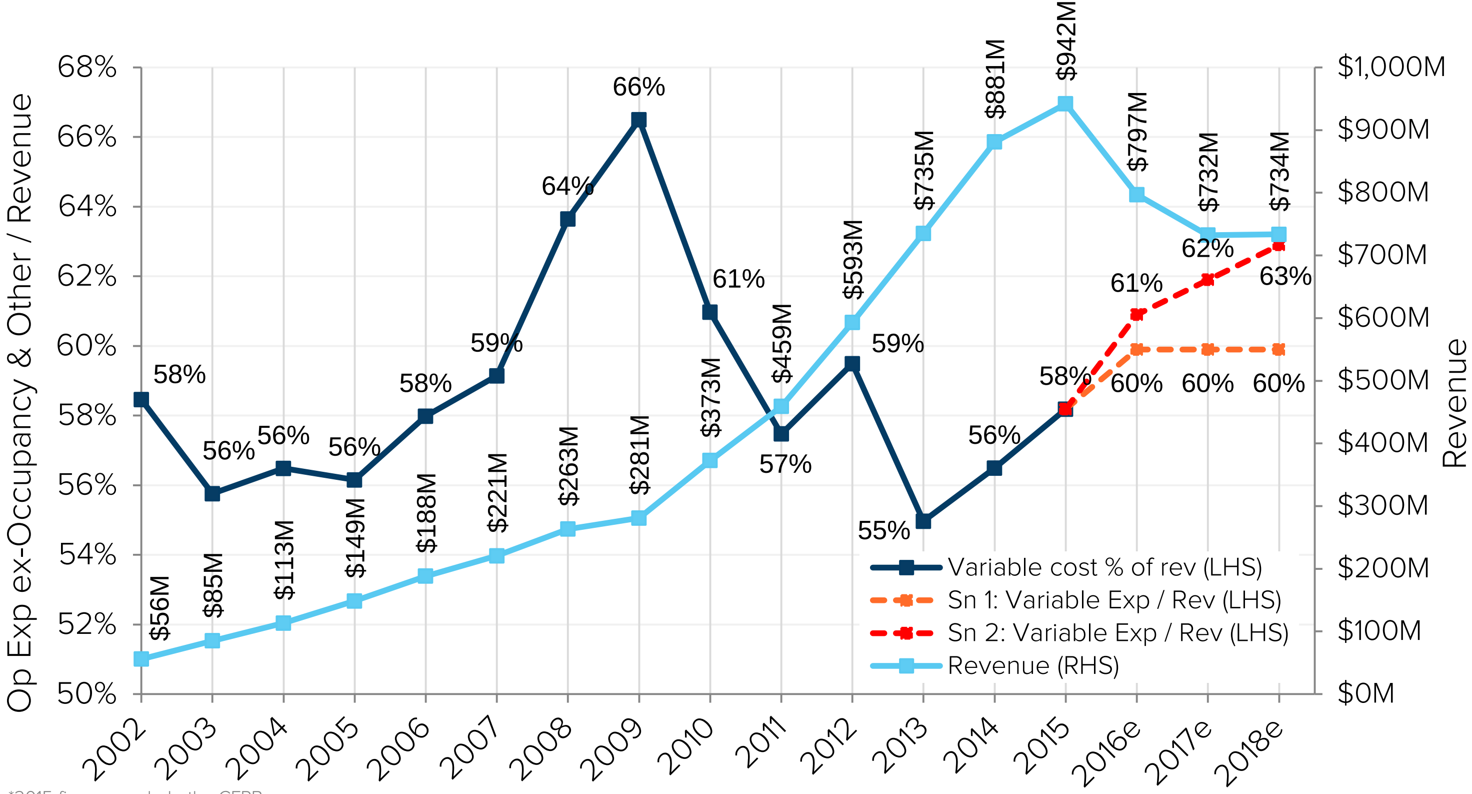
*2015 figures exclude the CFPB expense.

We're 33% below the Street for 2017, and 43% below for 2018.

Source: Company Documents, Hedgeye Estimates

PRAA: FIXED COSTS AREN'T THE ONLY PROBLEM

VARIABLE COSTS VERSUS REVENUE



*2015 figures exclude the CFPB expense
Source: PRA Group, Hedgeye analysis

PRAA, like Encore, exhibits negative operating leverage in late cycle periods.

PRAA INCOME STATEMENT → SCENARIO 2

PRAA INCOME STATEMENT
SCENARIO 2: RISING VARIABLE COSTS

	2012	2013	2014	2015*	2016e	2017e	2018e
Gross Collections Revenue	537,187	659,743	802,539	894,491	871,460	824,263	793,340
Allowance	6,552	(3,803)	(4,935)	29,369	74,421	91,837	59,594
Net Collections Revenue	530,635	663,546	807,474	865,122	797,039	732,426	733,745
Other revenue	62,166	71,589	73,495	76,896	74,916	70,859	68,200
Total Revenue	592,801	735,135	880,969	942,018	871,955	803,285	801,946
Occupancy & Other (Fixed Costs)	24,083	33,533	41,206	63,902	63,902	63,902	63,902
Variable Costs	352,654	404,077	497,687	548,131	530,998	497,213	504,403
Op Exp	376,737	437,610	538,893	612,033	594,900	561,115	568,305
EBIT	216,064	297,525	342,076	329,985	277,055	242,170	233,641
Interest and Other Expense	9,031	14,460	41,063	52,822	76,017	80,928	86,373
Pretax Income	207,033	283,065	301,013	277,163	201,038	161,243	147,268
Taxes	80,934	106,146	124,508	89,391	67,348	54,016	49,335
Net Income	**126,099**	**176,919**	**176,505**	**187,772**	**133,690**	**107,227**	**97,933**
Adj for Net Income to Noncontrolling	494	(1,605)	-	(205)	(146)	(117)	(107)
Shareholder Net Income	126,593	175,314	176,505	187,567	133,544	107,109	97,826
Non-GAAP Adjustments	-	-	15,231	20,367	-	-	-
Adjusted NI to Shareholders	**126,593**	**175,314**	**191,736**	**207,934**	**133,544**	**107,109**	**97,826**
Avg Diluted Shares	51,369	50,873	50,421	48,405	46,372	46,372	46,372
Diluted Adj EPS	**2.46**	**3.45**	**3.80**	**4.30**	**2.88**	**2.31**	**2.11**
Consensus Non-GAAP EPS Estimate					3.32	3.82	4.29
Hedgeye Deviation from Consensus					-13%	-40%	-51%

*2015 figures exclude the CFPB expense.

Source: Company Documents, Hedgeye Estimates

In our bear case for PRAA, we get to 51% downside vs expectations for 2018 and 40% downside for 2017.

NEAL STERN: WHY DID HE LEAVE?

EVP, Chief Investment, Analytics and Operations Strategy Officer

- Chief Global Investment Officer since 2015
- EVP, COO of Owned Portfolios 2011-2015
- SVP, Operations from 2008-2011
- Joined in 2007

Leadership roll in portfolio segmentation and ROI-based collections

- Presumably involved in the recently announced decision to decrease focus on purchase volume to support ROI/IRRs
- On conference calls, he answered questions related to collection performance and was likely one of the company's most knowledgeable about vintage level performance.

Now he's gone.

DEATH AND TAXES—MAYBE BOTH SOON

TAX TROUBLE SWEPT UNDER THE RUG

Although it's seldom discussed, hidden away in the 10-k is a disclosure that the IRS reviewed the company's tax revenue recognition methods and determined that PRA is alleged to have shorted the tax man by $252 million. Also, as of 12/31/15, that tax bill carried an estimated $91 million in interest. **PRA is set to stand trial for this tax liability on September 19, 2016.** If it loses the case, the $300+ million tax charge would likely significantly affect PRAA's liquidity.

D-Day: September 19, 2016

A possible $300+ million charge

This company has only $308 million in tangible equity.

As described in Note 15, the IRS has issued Notices of Deficiency to us for the tax years ended December 31, 2005 through 2012 related to our use of the cost recovery method of tax revenue recognition on our finance receivables. The Tax Court set this matter for trial, to begin on September 19, 2016.

We believe we have sufficient support for the technical merits of our position. However, if we are unsuccessful in the Tax Court and any potential appeals, we may ultimately be required to pay the related deferred taxes, and possibly interest and penalties. Deferred tax liabilities related to this item were $251.7 million at December 31, 2015 . Any adverse determination on this matter could result in our amending state tax returns for prior years, increasing our taxable income in those states. Our estimate of the potential federal and state interest is $91.0 million as of December 31, 2015 . Accordingly, an adverse determination on this matter could have a material adverse effect on our liquidity.

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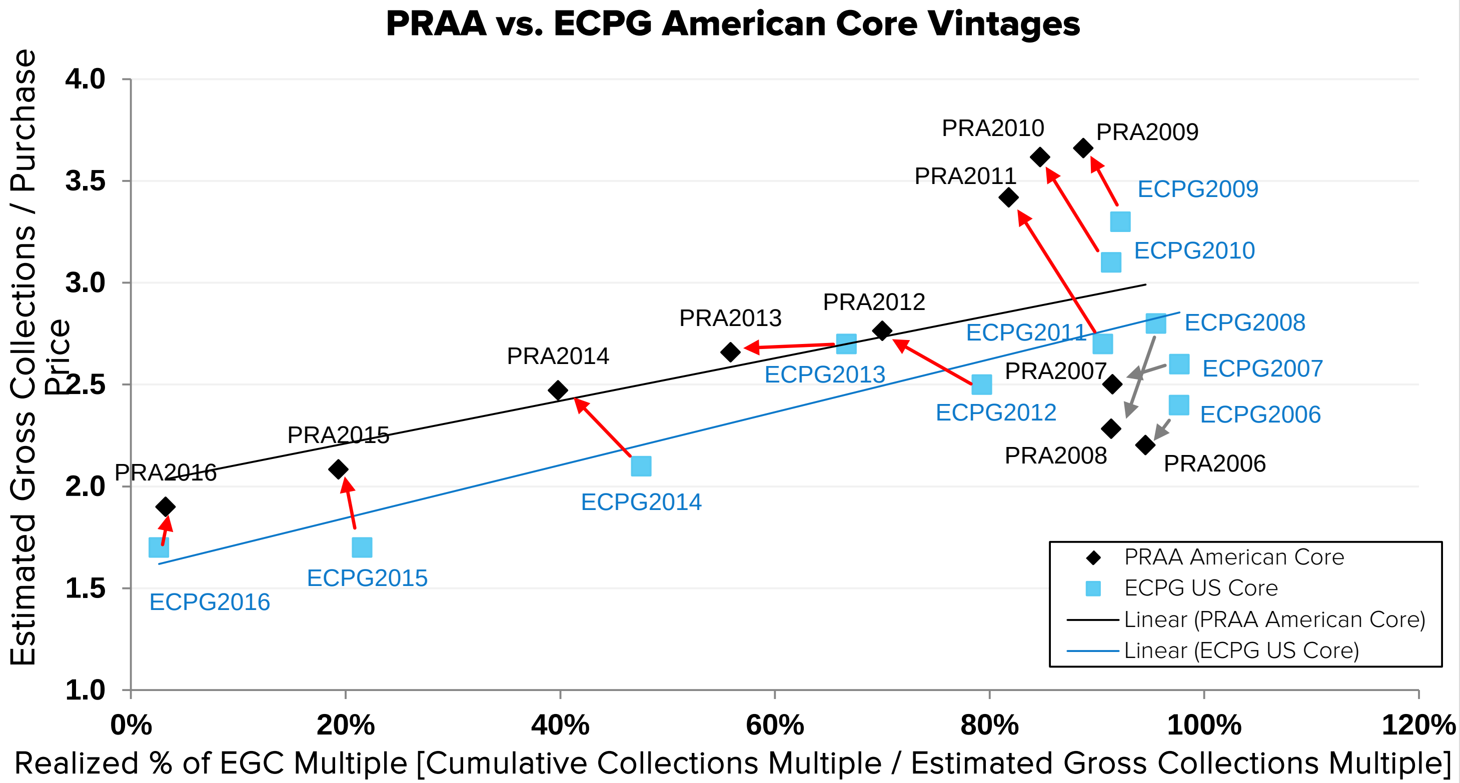
ECPG VS PRAA – US PORTFOLIO COMPARISON

ACTUAL PERFORMANCE VERSUS HOPES AND WISHES: A DIVERGENCE



Source: PRAA, ECPG, Hedgeye Analysis

PRA consistently claims that it will achieve more collections for every dollar spent than Encore while achieving lower performance as measured by **actual progress towards the EGC multiple**.

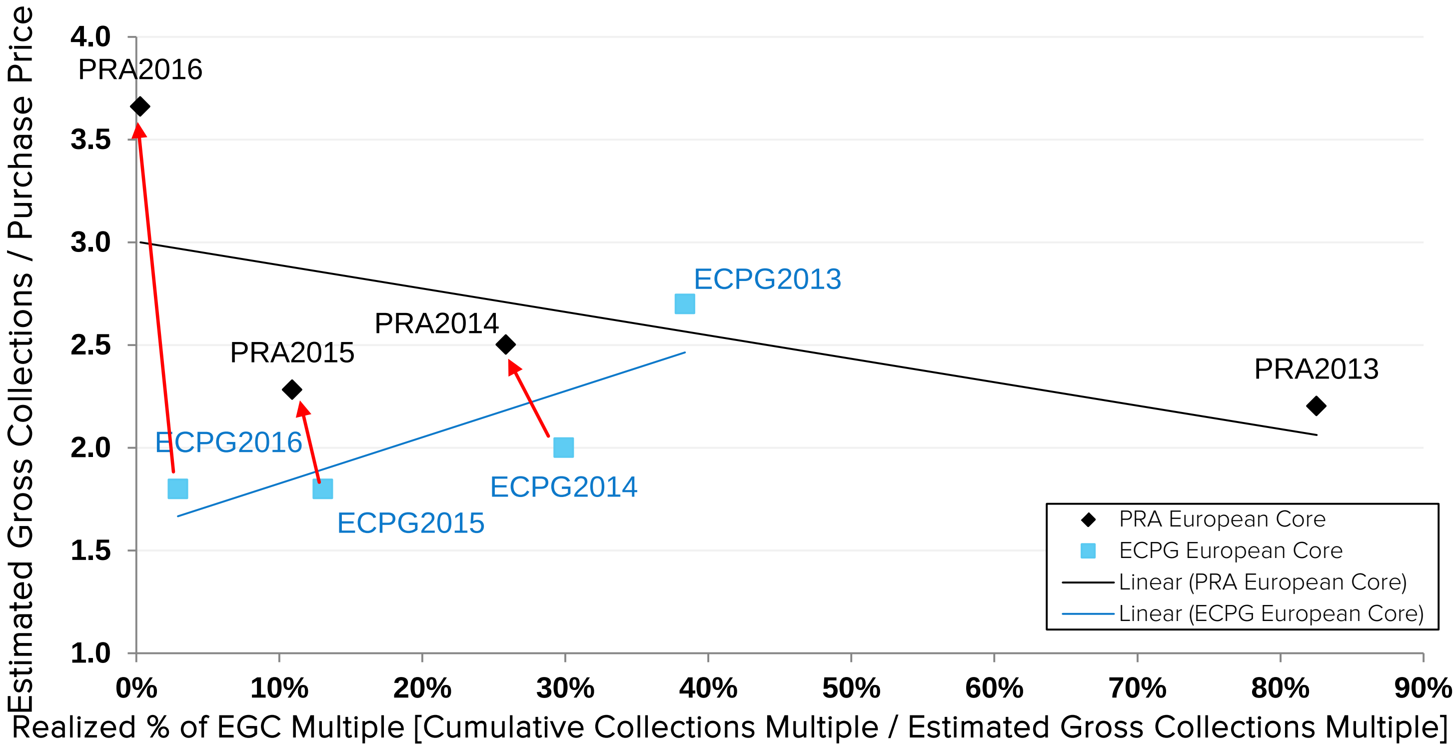
With the EGC multiple on the y-axis and the **progress towards that EGC multiple** on the x-axis, a **completely horizontal jump** to the left represents expectations for **the same EGC multiple** while having achieved **lower collections performance**. **The 2013 vintages** are a good example of this. An even more egregious jump is one **to the left** and **up**. This implies not only **lower collections performance** but also a **higher estimate for the EGC multiple**. This is actually more commonplace.

This is why we take little comfort in the fact that PRAA carries paper at higher multiples than ECPG.

ECPG VS PRAA – EU PORTFOLIO COMPARISON

ACTUAL PERFORMANCE VERSUS HOPES AND WISHES: A DIVERGENCE

PRAA vs. ECPG European Core Vintages



Source: PRAA, ECPG, Hedgeye Analysis

The same relationship holds for European Vintages.

Note that PRA's 2013 vintage is an odd duck. It has achieved negative cumulative revenue since its inception and is likely near 100% realization because expectations are low.

APPENDIX

VINTAGE-LEVEL OPERATING INCOME METHOD

The vintage-level operating income table takes the revenue that Encore discloses for each vintage and subtracts out its pro forma cost, which is a Hedgeye calculation. The cost figures we use are not actual results reported by Encore since they don't provide them at the vintage level. However, we apply Encore's overall actual operating expense (excluding CFPB expenses and goodwill impairment) on a pro forma basis to the two major geographies (U.S. and Europe) based on their share of the overall "adjusted cost per dollar collected" which Encore ***does*** directly report. We then apply the geographic operating expense to each underlying vintage based on share of cash collections within each geography. (**Note that the dark blue figures in the table are Hedgeye future estimates.**) We believe this is a fair representation.

PLEASE SUBMIT QUESTIONS* TO

QA@HEDGEYE.COM

*ANSWERED AT THE END OF THE CALL

FOR MORE INFORMATION, CONTACT US AT:

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(203) 562-6500