

ENCORE CAPITAL GROUP INC

Form 10-Q

August 08, 2018

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

COMMISSION FILE NUMBER: 000-26489

ENCORE CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware 48-1090909

(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

3111 Camino Del Rio North, Suite 103 92108  
San Diego, California

(Address of principal executive offices) (Zip code)

(877) 445 - 4581

(Registrant's telephone number, including area code)

(Not Applicable)

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer   
Accelerated filer  Non-accelerated filer  Smaller reporting company  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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 1, 2018
Common Stock, \$0.01 par value	30,837,746 shares

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## PART I – FINANCIAL INFORMATION

## Item 1—Condensed Consolidated Financial Statements (Unaudited)

## ENCORE CAPITAL GROUP, INC.

## Condensed Consolidated Statements of Financial Condition

(In Thousands, Except Par Value Amounts)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 181,657	\$ 212,139
Investment in receivable portfolios, net	3,084,621	2,890,613
Deferred court costs, net	90,872	79,963
Property and equipment, net	89,071	76,276
Other assets	250,923	302,728
Goodwill	909,063	928,993
Total assets	\$4,606,207	\$4,490,712
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 286,386	\$ 284,774
Debt, net	3,530,415	3,446,876
Other liabilities	37,732	35,151
Total liabilities	3,854,533	3,766,801
Commitments and contingencies		
Redeemable noncontrolling interest	136,188	151,978
Equity:		
Convertible preferred stock, \$.01 par value, 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$.01 par value, 50,000 shares authorized, 25,931 shares and 25,801 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	259	258
Additional paid-in capital	68,820	42,646
Accumulated earnings	652,428	616,314
Accumulated other comprehensive loss	(96,900)	(77,356)
Total Encore Capital Group, Inc. stockholders' equity	624,607	581,862
Noncontrolling interest	(9,121)	(9,929)
Total equity	615,486	571,933
Total liabilities, redeemable equity and equity	\$4,606,207	\$4,490,712

The following table includes assets that can only be used to settle the liabilities of the Company's consolidated variable interest entities ("VIEs") and the creditors of the VIEs have no recourse to the Company. These assets and liabilities are included in the consolidated statements of financial condition above. See Note 9, "Variable Interest Entities" for additional information on the Company's VIEs.

	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 79,732	\$ 88,902
Investment in receivable portfolios, net	1,438,379	1,342,300
Deferred court costs, net	29,164	26,482
Property and equipment, net	22,152	23,138
Other assets	119,254	122,263
Goodwill	705,381	724,054

Liabilities

Accounts payable and accrued liabilities	\$ 137,308	\$ 151,208
Debt, net	2,055,766	2,014,202
Other liabilities	—	1,494

See accompanying notes to condensed consolidated financial statements

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ENCORE CAPITAL GROUP, INC.  
Condensed Consolidated Statements of Operations  
(In Thousands, Except Per Share Amounts)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Revenue from receivable portfolios	\$292,662	\$263,407	\$573,671	\$513,245
Other revenues	39,453	18,681	75,421	38,652
Total revenues	332,115	282,088	649,092	551,897
Allowance reversals on receivable portfolios, net	17,632	8,829	27,443	10,961
Total revenues, adjusted by net allowances	349,747	290,917	676,535	562,858
Operating expenses				
Salaries and employee benefits	90,960	75,786	180,219	144,064
Cost of legal collections	51,255	53,409	105,110	101,366
Other operating expenses	39,039	24,030	72,787	50,390
Collection agency commissions	12,151	11,494	23,905	23,056
General and administrative expenses	41,986	36,932	81,270	70,250
Depreciation and amortization	10,923	8,672	21,359	17,297
Total operating expenses	246,314	210,323	484,650	406,423
Income from operations	103,433	80,594	191,885	156,435
Other (expense) income				
Interest expense	(60,536 )	(50,516 )	(117,998 )	(99,714 )
Other (expense) income	(4,615 )	2,529	(2,422 )	3,131
Total other expense	(65,151 )	(47,987 )	(120,420 )	(96,583 )
Income from continuing operations before income taxes	38,282	32,607	71,465	59,852
Provision for income taxes	(11,308 )	(13,531 )	(20,778 )	(25,598 )
Income from continuing operations	26,974	19,076	50,687	34,254
Loss from discontinued operations, net of tax	—	—	—	(199 )
Net income	26,974	19,076	50,687	34,055
Net (income) loss attributable to noncontrolling interest	(676 )	1,179	(2,562 )	8,298
Net income attributable to Encore Capital Group, Inc. stockholders	\$26,298	\$20,255	\$48,125	\$42,353
Amounts attributable to Encore Capital Group, Inc.:				
Income from continuing operations	\$26,298	\$20,255	\$48,125	\$42,552
Loss from discontinued operations, net of tax	—	—	—	(199 )
Net income	\$26,298	\$20,255	\$48,125	\$42,353
Earnings (loss) per share attributable to Encore Capital Group, Inc.:				
Basic earnings (loss) per share from:				
Continuing operations	\$1.01	\$0.78	\$1.84	\$1.64
Discontinued operations	\$—	\$—	\$—	\$(0.01 )
Net basic earnings per share	\$1.01	\$0.78	\$1.84	\$1.63
Diluted earnings (loss) per share from:				
Continuing operations	\$1.00	\$0.77	\$1.82	\$1.62
Discontinued operations	\$—	\$—	\$—	\$(0.01 )
Net diluted earnings per share	\$1.00	\$0.77	\$1.82	\$1.61

Weighted average shares outstanding:

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Basic	26,150	25,983	26,103	25,930
Diluted	26,409	26,391	26,413	26,240

See accompanying notes to condensed consolidated financial statements

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## ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Comprehensive (Loss) Income  
(Unaudited, In Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$26,974	\$19,076	\$50,687	\$34,055
Other comprehensive (loss) income, net of tax:				
Change in unrealized gains/losses on derivative instruments:				
Unrealized (loss) gain on derivative instruments	(1,485 )	963	(2,154 )	1,434
Income tax effect	699	35	539	(512 )
Unrealized (loss) gain on derivative instruments, net of tax	(786 )	998	(1,615 )	922
Change in foreign currency translation:				
Unrealized (loss) gain on foreign currency translation	(35,022 )	7,824	(16,517 )	22,288
Other comprehensive (loss) income, net of tax	(35,808 )	8,822	(18,132 )	23,210
Comprehensive (loss) income	(8,834 )	27,898	32,555	57,265
Comprehensive (income) loss attributable to noncontrolling interest:				
Net (income) loss	(676 )	1,179	(2,562 )	8,298
Unrealized loss (gain) on foreign currency translation	371	1,841	(1,412 )	(1,409 )
Comprehensive (income) loss attributable to noncontrolling interest	(305 )	3,020		