

Tear Sheet: Encore's €300M 2025 Senior Secured Notes

Encore Capital Group, the holding company of U.K. debt collector Cabot, has launched €300 million of senior secured notes due 2025. The proceeds from the bond along with drawings on senior facilities will be used to repay approximately \$203.3M of drawn amounts under the group's senior facilities, repay \$40M of drawn amounts under the Encore senior facilities (which is expected to be terminated soon after the issue date), and prepay \$103.7 million of Encore private placement notes.

Investors meetings will be taking place until Thursday, September 10, with pricing thereafter.

A [capital structure](#) prepared by Reorg can be found at the end of this tearsheet.

Debt Explained's tear sheet below is a synthesized legal and financial tool that quickly provides a concise summary of covenant capacities. In the next few hours the Reorg team will publish a detailed contextual covenant and structural analysis for investors. Please contact questions@reorg.com for an in-depth analysis.

Summary Covenant Facts

- **Significant restricted payments available at issuance:**
 - Generous starter amount of \$150M in restricted payments build-up basket.
 - The provisions permit Encore to pay annual dividends up to 7% of market cap if net leverage is less than 3x and 6% of market cap if net leverage is less than 3.5x. Investors should confirm that "Consolidated EBITDA" used to calculate the net leverage test for this dividend basket does not include "Collections Applied to the Principal Balance". This is important to ascertain, because if the covenant Consolidated EBITDA includes such collections, net leverage drops to 2.5x and this dividend basket will become immediately available.
- **Clarification Required:** The pro forma opening leverage ratio of 2.5x on page 19 of the preliminary OM includes "Collections Applied to Principal Business" as an add back to Adjusted EBITDA significantly lowering the leverage ratio. Per Reorg calculations, the net leverage ratio without adding such collections is approximately 5.7x. **Investors should confirm that net leverage for covenants is calculated without adding back any collections.**
- **Super Senior Debt at Issue:** Approximately \$825.2M of pro forma debt as of June 30, 2020 will receive enforcement proceeds ahead of the Notes along with creditors under any priority hedging obligations (which are capped at \$100 million under the terms of the Intercreditor Agreement).
- **Structurally Senior Debt of Permitted Purchase Obligations SPV/ Cabot Securitization SPV:** The preliminary OM permits secured debt incurrence as of the date of issue of up to 20% of ERC by wholly owned restricted subsidiaries which qualify as Permitted Purchase Obligations SPV under the indenture. Such entities do not provide security or guarantee the Notes. Such debt would effectively be structurally senior to the Notes.

Cabot Securitization UK Limited, a wholly owned restricted subsidiary, which qualifies as a Permitted Purchase Obligations SPV, has a £350 million asset backed facility which will be structurally senior to the Notes.

All grower amounts have been calculated as of the date of issuance. However, as the hard caps are greater than the growers for this issuance, hard cap amounts have been used for the aggregates.

Debt Explained's legal analysts will separately publish a thorough analysis of the covenants, structure and the legal loopholes in the next few hours. For regulatory reasons, this tear sheet contains only key covenant facts and basket capacities. Please email questions@reorg.com to request a copy of the in-depth analysis.

How Much Leverage Can Be Added over Time?

\$3604.5M of headroom excluding headroom under the Fixed Charge Coverage Ratio

Ratio Debt	2.0x Fixed Charge Cover Ratio Senior Secured Debt: 0.725x Loan to Value (“LTV”) Ratio (Headroom of \$1795.2M or 0.261x of ERC as LTV Ratio at 0.464x at issuance)
Minimum Debt Capacity at Issue¹	\$1809.3M (equivalent of 3.23x turns of leverage) <ul style="list-style-type: none"> • CF Basket (Greater of \$1,210M and 17.5% ERC) Headroom - \$3.7M • CLO/PMO - Greater of \$145M and 3% Total Assets • Permitted Purchase Obligations - 20% ERC (\$1375.6M) • General Debt - Greater of \$285M and 6% of Total Assets
Headroom under the Credit Facility Basket at Issue	\$3.7M

Value Extraction through Restricted Payments or Permitted Investments

Build-Up Basket Start Date	01/07/2020
Starter Amount in the Build-Up Basket	Yes - \$150M
Any Accrued Build-Up Basket Capacity	N/A
Ratio-capped baskets	Ratio-capped Restricted Payments: 2.0x Consolidated Net Leverage Ratio (no headroom at issuance as the leverage ratio was at 5.69x not including collections in EBITDA) Ratio-capped Junior debt repayments: N/A Ratio-capped Permitted Investments: N/A
Minimum Restricted Payments (payments to equity)	\$277.5M (equivalent of 0.49x turns of leverage) <ul style="list-style-type: none"> • Free and Clear Amount in build-up basket - \$150M • Equity Repurchases - \$37.5M (\$12.5M plus \$5M/calendar year since the Issue Date) • General Restricted Payments - \$90M

¹ This aggregate does not include any amounts that will be available under the 2x FCCR ratio test mentioned above

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	<p>Also (not included in the above aggregate)</p> <ul style="list-style-type: none"> Dividends based on % of market capitalization of ~\$102.2M (7% of \$1.46B market cap of Encore Capital Group as at 8 September 2020). The provisions permit Encore to pay annual dividends up to 7% of market cap if net leverage is less than 3x and 6% of market cap if net leverage is less than 3.5x.
Minimum Permitted Investments at Issue	<p>\$361.3M (equivalent of 0.64x turns of leverage)</p> <ul style="list-style-type: none"> Management Advances - \$1.25M Investment in Associates or Unrestricted Subsidiaries - Greater of \$145M and 3% Total Assets General Permitted Investments - Greater of \$215M and 4.5% Total Assets
Risk of Value Leakage from Asset Sales proceeds	
Can Asset Sale proceeds create Restricted Payments capacity?	No
Risk of Effectively Senior Debt (Secured on non-Collateral)	
Ratio-capped Permitted Liens	N/A
Minimum Permitted Liens at Issue	<p>\$1570.6M (equivalent of 2.8x turns of leverage)</p> <ul style="list-style-type: none"> CLO/PMO - Greater of \$145M and 3% Total Assets Permitted Purchase Obligations - \$1375.6M (20% ERC) General Permitted Liens - \$50M
Risk of Collateral Dilution	
Ratio-capped Permitted Collateral Liens	<p>0.725x LTV Ratio (Headroom of 0.261x as LTV Ratio at 0.464x at issuance)</p>
Minimum Permitted Collateral Liens at Issue	<p>\$433.7M (equivalent of 0.77x turns of leverage)</p> <ul style="list-style-type: none"> CF Basket Headroom - \$3.7M CLO/PMO - Greater of \$145M and 3% Total Assets General Debt - Greater of \$285M and 6% Total Assets
Minimum Permitted Super Senior Collateral Liens	<p>\$3.7M (equivalent of 0.01x turns of leverage)</p> <ul style="list-style-type: none"> CF Basket Headroom - \$3.7M Certain uncapped priority Hedging Obligations

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Portability	
Portability	No
Portability Ratio test	N/A
Cost Savings/Synergies Adjustments	
Are Cost Savings / Synergies capped?	No
Any time horizon for Cost Savings / Synergies to be realised?	No time limitation
Cost Savings / Synergies limited to certain contexts	Any investment, acquisition, disposition, merger, consolidation or disposed/discontinued operations for pro forma calculations
Credit Support	
Guarantor Coverage on Issue	<p>As of and for 12 months ended June 30, 2020:</p> <ul style="list-style-type: none"> • Approximately 100.7% of Adjusted EBITDA plus Collections Applied to Principal Balance • Approximately 87.9% of Total Assets
Security Coverage	<ul style="list-style-type: none"> • First ranking security interest over (i) all bank accounts of guarantors incorporated in Luxembourg excluding Janus Holdings Luxembourg S.à r.l., Encore Holdings Luxembourg S.à r.l. and Cabot Holdings S.à r.l (ii) all shares of guarantors incorporated in Luxembourg; (iii) substantially all personal property of guarantors incorporated in the US to the extent perfected under the UCC; and (iv) all assets, shares and bank accounts of all other guarantors. • Excludes assets and shares of existing and future Permitted Purchase Obligations SPVs (including Cabot Securitisation UK Ltd and Cabot Securitisation UK Holdings Limited as of the issue date); leasehold interests of Apex Credit Management Ltd and bank accounts containing monies held in trust for third parties. <p>Lenders under the Senior Facilities Agreement, the Encore Private Placement Notes and certain priority hedging obligations will be secured on the Collateral on a super senior basis. They will receive enforcement proceeds ahead of the Noteholders.</p>

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A capital structure, prepared by Reorg's financial analysts, is below:

Cabot Credit Management				
<i>(USD in Millions)</i>	06/30/2020 Amount	Maturity	Rate	EBITDA Multiple Book
£350M Asset Backed Senior Facilities due 2025 ¹	434.0	2025-03-15	S + 3.060%	
Total Asset Backed Facility	434.0			0.8x
\$156.3M Encore Private Placement Notes ²	156.3	2024-08-11	5.625%	
Total Encore Private Placement Notes	156.3			1.1x
€300M SSNs due 2025	337.1	2025		
\$1,050M Revolving Senior Facilities due 2023 ³	669.0	2024	L + 2.500%	
£512.9M Cabot SSNs due 2023	636.0	2023-10-01	7.500%	
€400M Cabot SSNs due 2024 ⁴	449.3	2024-06-14	E + 6.375%	
Total Senior Secured Notes	2,091.3			4.8x
\$161M Convertible Bonds due 2021	161.0	2021-03-15	2.875%	
\$150M Convertible Bonds due 2022	150.0	2022-03-15	3.250%	
\$172.5M Exchangeable Notes due 2023	172.5	2023-09-01	4.500%	
\$100M Convertible Bonds due 2025	100.0	2025-10-01	3.250%	
Total Senior Unsecured Notes	583.5			5.8x
Other Debt	44.0			
Finance Leases	9.0			
Total Other Debt	53.0			5.9x
Total Debt	3,318.1			5.9x
Less: Cash and Equivalents	(148.2)			
Plus: Restricted Cash	21.1			
Net Debt	3,191.0			5.7x
Plus: Market Capitalization	1,460.0			
Enterprise Value	4,651.0			8.3x
Operating Metrics				
LTM Revenue	1,418.8			
LTM Reported EBITDA	560.9			
Liquidity				
RCF Commitments	1,050.0			
Less: Drawn	(669.0)			
Plus: Cash and Equivalents	148.2			
Less: Restricted Cash	(21.1)			
Total Liquidity	508.1			
Credit Metrics				
Gross Leverage	5.9x			
Net Leverage	5.7x			

Notes:

Market data as at 09/08/2020. LTM revenue is total revenue adjusted by net allowances. LTM EBITDA is the LTM Adjusted EBITDA, as reported. Capital structure proforma as adjusted for the issuance of €300M 2025 notes, drawing made under the senior facilities assuming the amended facilities have been effective and use of proceeds. Restricted cash consists of cash held for clients. Spot FX as at June 30 USD/GBP of 0.81; USD/EUR of 0.89.

1. The asset backed senior facilities bear interest of Sonia plus a margin of 3.06% per annum plus a step-up margin ranging from zero to 1.00%.

2. As per the Intercreditor Agreement senior facilities, Encore Private Placement notes and priority hedging that are secured by the collateral of the SSNs will receive priority with respect to any proceeds received upon any enforcement action over any such assets.

3. Or EURIBOR floor of 0.75% per annum, if applicable.

4. Subject to a 0% floor.

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Please contact Reorg at questions@reorg.com if you wish to speak to the legal analyst or credit analyst who prepared the above tear sheet for you. We actively welcome your questions and feedback.

Reorg will also publish an in-depth covenant report and credit analysis tear sheet on this bond. We are happy to share our comprehensive legal and financial analysis with you, just email questions@reorg.com for a copy.

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