Summary

PRA Group (PRAA) is a business that acquires, collects and processes unpaid and normal-course accounts receivables. These unpaid accounts receivables are owed to credit grantors, governments, retailers, and other institutions. What PRAA does is purchase the accounts receivables from the former entities at a discounted price, then try to collect the accounts receivables for a premium. As a business they provide; fee based services, vehicle location, and skip-tracing and collateral recovery services.

What drives demand for PRAA as a business is individuals who do not pay their debt off. As more and more individuals on a domestic and worldwide basis default or quit paying off money they owe, PRAA's services will increase. In fact, since 2004 cash collections for PRAA have increased from $154.3mm to $1.38bn, a CAGR growth rate of 24.6%. This has translated into very healthy growth, in the top and bottom lines. Revenues and net income have grown at a 22.8% and 20.4% CAGR annualized rate respectively since 2004-2014. We believe that demand for PRAA's services will continue going forward based on the double digit growth (grown >40% from 2007-2014) in overall worldwide debt.

PRAA's strategy is to continue growing the top and bottom line organically, and through strategic acquisitions, with more of their focus on the latter rather the former. PRA Group has been very effective at maintaining its high collection rate, as evidenced by the chart below:

Cash Collections by Geography	**Q3-2015**	**Q2-2015**	**Q1-2015**	**Q4-2014**	**Q3-2014**	**Q2-2014**	**Q1-2014**	**Q4-2013**

and Type(amounts in thousands)								
Americas-Core	210,72 $5	218,83 $8	219,37 $1	185,92 $1	189,02 $7	190,22 $9	187,81 $8	158,82 $8
Americas-Insolvency	81,865	92,974	95,533	103,104	110,544	124,101	120,702	114,384
Europe-Core	85,635	76,602	83,876	84,398	73,172	4,944	4,847	5,714
Europe-Insolvency	2,528	1,210	967	5	—	—	—	—
Total Cash Collections	380,75 $3	389,62 $4	399,74 $7	373,42 $8	372,74 $3	319,27 $4	313,36 $7	278,92 $6

Income recognized on finance receivables, net was $208.2 million for the three months ended September 30, 2015, a decrease of $16.1 million, or 7.2%, compared to income recognized on finance receivables, net, of $224.3 million for the three months ended September 30, 2014. The decrease was primarily the result of an increase in net allowance charges and an increase in our amortization rate. During the three months ended September 30, 2015, we incurred $11.3 million in net allowance charges, compared with $1.7 million of net allowance reversals in the three months ended September 30, 2014. Our finance receivables amortization rate, including net allowance charges/reversals, was 45.3% for the three months ended September 30, 2015 compared to 39.8% for the three months ended September 30, 2014. Our finance receivables amortization rate, excluding net allowance charges/reversals, was 42.3% for the three months ended September 30, 2015 compared to 40.3% for the three months endedSeptember 30, 2014. Cash collections, which drive our finance receivable income, were $380.8 million in the three months ended September 30, 2015, up 2.2%, or $8.1 million, as compared to the three months ended September 30, 2014.

In fact, PRAA expanded their international business in 2014 by acquiring Pamplona Capital Management's Individual Voluntary Arrangement's Master Service Platform, located in the United Kingdom. This important acquisition allows the company a strategic route of debt buying solutions on a global basis.

Going further, we can see that PRAA also acquired all of the equity of Aktiv, a Norwegian based company that specializes in acquiring and servicing non-performing consumer debt in Europe and Canada. What this acquisition did was allow the company to immediately grow the topline, provided the company access to sellers of defaulted receivables and an instant expansion into new markets. Because of the Aktiv acquisition, PRAA is now one of the larges acquirers of defaulted debt on a global basis.

Finally, on August 3rd, 2015, PRAA acquired 55% of the equity interest in RCB Investimentos S.A. RCB owns a master service platform for non-performing loans based in Brazil. The founders of RCB own the other 45% interest in RCB and signed a long-term employment agreement with PRAA, by continuing to manage the business in Brazil. PRAA has the right to purchase the rest of the shares in RCB starting in August 3rd, 2019. PRAA paid $55.2mm in borrowed cash to pay for this acquisition. In our opinion, this was a very good deal given the fact that PRAA has now expanded their operations in South America, for a relatively low cost compared to TTM FCF.

Recent Headwinds have created a Buying Opportunity

In the most recent quarters, PRAA has gotten hit with one-time charges which in turn, made the company miss analyst expectations (revenues fell 4% while analysts were expecting 9% growth YOY). Per the picture below, you can see how the stock price has fared.

Headwinds are the result of; a strong dollar (rising 2%/absolute yet increasing 5% on a constant currency basis), decreasing demand in the insolvency/bankruptcy market, and one-time charges related to the Consumer Financial Protection Bureau (this hit the bottom line by $0.45/share).

In September, the Consumer Financial Protection Bureau brought charges against PRAA that proved to be somewhat costly and more importantly influenced negative investor reaction. The Consumer Financial Protection Bureau stated the following…

"The company collected payments by pressuring consumers with false statement and churning out lawsuits using robo-signed court documents."

PRAA group will pay $19mm in consumer refunds, an $8mm penalty and will be forced to stop collecting $3mm in debt. To restore investor confidence, PRAA enacted a $125mm stock repurchase program. If the company buys back $125mm worth of shares at ~$40/share, they could effectively retire 3,125,000 shares or 6.48% of the shares outstanding.

The company has a history of buying back shares. For an example from 2012-2014, the company purchased $100,000,000 worth of shares. Then on December 10th, 2014, the company issued an additional $100,000,000 repurchase program.

However, there is a potential legal risk associated with the IRS that may weight down PRAA's shares in the near-term. Recently, the IRS audited PRAA for the years of 2005-2012. Worst case scenario, PRAA pays the related deferred taxes ($246.9mm and $91.1mm). The trial is on September 19th, 2016. We believe that this impending trial with the IRS will hold back PRAA's stock in the near-term. We also believe that if the company has to pay this lump sum, there will be further price declines.

Despite Headwinds, PRAA is a Great Long-Term Play

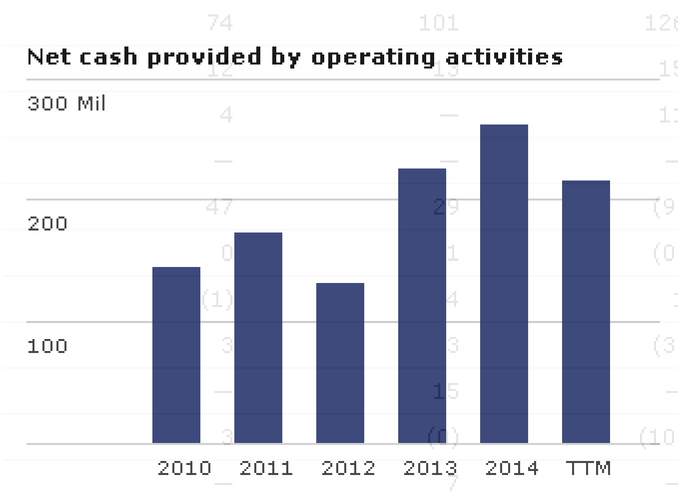
PRAA may be taking a lot of heat lately, however we believe that the current decline in the share price gives investors a great time to buy a quality company. Thus, we believe that PRAA is a great buy today due to the fact that the reason for the decline is mainly due to one-time charges that are non-recurring in nature. The paragraphs below explain our reasoning on why we believe PRAA makes a great long-term play today.

First, PRAA is very good at generating cash.

	TTM	**2014**	**2013**	**2012**	**2011**	**2010**
FCF	197	238	209	124	163	134

In millions

With a TTM FCF per share of $4.02 and the current stock price of $40/share, PRAA has a FCF yield of 10.05%. In the TTM FCF has fallen to $197mm from $238mm in 2014. The main reason for the fall in FCF in the TTM was due to lower operating cash flow.



Source: Morningstar

As you know the reason for the lower operating cash flow is derived from one-time charges that are non-recurring. Thus, we believe that in 12-36 months, OCF will revert back into a growth trajectory which in turn will grow FCF.

By now you may be thinking of the IRS case which has potential to hinder FCF in the near-term. We believe that this may be a possibility. However, we believe that if PRAA is liable, they will not have to pay the entire amount owed. Also, the reason why we put the 12-36 months on the reversion back to growth is due to the IRS liability. Thus, if they do not have to pay the liability, OCF and FCF have a high chance of reverting back to growth. On the flipside, if they have to pay it, it may take an additional 24-36 months to see normalized growth.

Not only do we believe that PRAA has the full ability to recover in 12-36 months, but we believe that they have a valuable business model with low competition and high barriers to entry. To prove the former, take a look at PRAA's historical margins.

	TTM	**2014**	**2013**	**2012**	**2011**	**2010**
Operating Margins	36.26	38.83	40.47	36.45	38.79	34.84
EBT Margins	30.63	34.17	38.51	34.92	36.49	32.43
Net Income Margins	18.07	20.04	23.85	21.36	21.96	19.71

The main barriers to entry are derived from the high regulations surrounding the industry. Regulations such as FDCPA, FCRA, Dodd-Frank Act, Telephone Consumer Protection and other similar acts, protect firms such as PRAA. Also many debt owners have become hesitant on selling their debt to new entrants in the industry for regulatory reasons. Because of this, many debt owners prefer to only sell to established firms such as PRAA, for liability reasons. Low competition and barriers to entry are the reasons why PRAA can operate with such high margins.

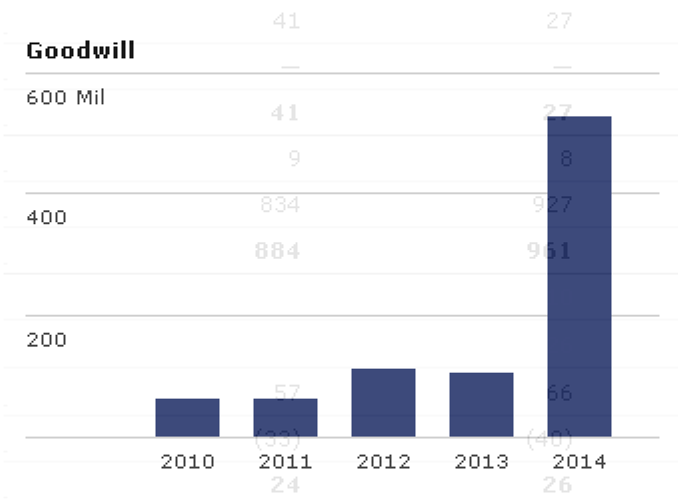
Now you may be thinking why have margins been getting squeezed in the past few years? The main reason for the squeeze (excluding one-time charges) is due to several large sellers of debt, primarily in the US, that have been remaining out of the market. This in turn has limited the amount of supply of debt available for companies like PRAA and its peers. When supply is limited, the price goes up, thus squeezing margins. In the long-term we believe that these players will return to the market giving PRAA a boost to its bottom line.

With an EV/EBITDA and EV/Revenue multiples of 8.42 and 3.62 coupled with high margins, we believe that PRAA is an excellent company at a fair price. Yes, PRAA is not a deep value play. However, the company has high barriers to entry, high cash generating abilities, is well run and is currently sitting near a 52/week low. PRAA is a quality business and demand for their services will not go away anytime in the near future. Long-term investors will do well holding this name.

Risks

The biggest risk in the near-term is the threat that PRAA will lose the dispute with the IRS and be forced to fork out ~$338mm. We believe that if the former happens, PRAA will see its stock price decline in the near-term. A $338mm one-time charge looks to be very significant. However, with FCF of $200mm, it would take ~17 months for the company to pay it off. Because we believe that the company will not have to pay the full amount designated (due to management’s discussion in the 10-K and their intent on fighting the charge), this monetary amount may be reduced to a much lower sum. Only time will tell what exactly will happen.

Another notable risk derives itself from acquisitions. Currently, PRAA is growing its business internationally via acquisitions. We believe that this is a good strategy for it will not only help with top and bottom line growth but provide PRAA with a more diversified set of revenues. However, if PRAA pays too high of price for an acquisition, this has potential to harm shareholder value. Take the below picture for an example.



Source: Morningstar

In 2014, goodwill increased dramatically due to the acquisitions the company made. If PRAA overvalued the goodwill in their recent acquisitions, this could be bad news for shareholders. Thus, if PRAA has to write-off goodwill in the near future, the share price may drop, substantially. Again, only time will tell if PRAA overpaid for the acquisitions they recently accomplished.

Conclusion…

PRAA is a well ran company, with very little competition and significant cash generating abilities. Recent headwinds have punished the stock, thus allowing contrarian investors a great entry point to a solid company. We are not the only ones who believe that PRAA is a great buy at the current price either. Robert David, a Director of PRAA recently purchased a significant amount of shares (a bullish indicator).

Insider Transaction History

Date	Name-Position	Transaction	Shares	Price Range ($)	Shares Held	Mkt Value
11/16/15	Roberts David N Director	Purchase	10,000	33.84 – 33.84	66,775	$338.4 K

Source: NASDAQ

Investors interesting in buying PRAA are recommended to do their own due diligence and hold for the long-term. There may be more price swings due to near-term headwinds, however, investors should use these price swings to their advantage. Buying in small increments is the investors best bet. However, one must not be afraid to take action if there are future price declines.