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ANALYSIS: Investments in Encore a Call to Action for the Debt Buyer

Major investments this month by private equity funds in Encore Capital Group Inc. give the debt buyer roughly a 12-month window to either grow through acquisitions or find some other way to produce the rates of return its new investors are seeking, says one long-time industry observer.

Private equity funds normally invest in companies expecting rates of return from the high teens to the low-20% range, notes Mark Russell, a director with industry advisory firm Kaulkin Ginsberg.

To produce that type of gain, Encore needs to "either figure out a way to liquidate [the funds'] holdings in Encore in 12 months [with a major gain, perhaps by selling the entire company], or acquire other businesses" and grow the value of the company through those acquisitions, Russell says.

"I think Encore can do one of two things," he continues, "they can sell or they can buy their way out. They've got to grow the company."

Encore contemplated going private last year and also explored other options to raise its stock price but decided against going private.

Monday, it announced a planned purchase of 25.2% of its shares by J.C. Flowers & Co. and FPK Capital, two private funds that have set up a third entity to buy Encore shares.

Earlier this month, Red Mountain Capital Partners bought roughly 15% of Encore's stock.

Encore plans to give each of the three new investors seats on the company's board when three existing board members leave in May.

"We view J.C. Flowers, FPK Capital and Red Mountain as strong partners in building long-term value for Encore and all of its shareholders," Encore President and CEO J. Brandon Black said in a statement Monday.

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