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The New America

PORTFOLIO RECOVERY ASSOCIATES INC. Norfolk, Virginia

As Consumer Debt Piles Up, So Does The Business At This Company

BY MARILYN ALVA
INVESTOR'S BUSINESS DAILY

Consumer debt. It's an awesome amount, and it's getting bigger every day.

The figure now stands at \$1.7 trillion in the U.S. - 33% higher than in 1997, according to the Federal Reserve.

No matter how hard they try, credit companies fail to collect all of it. At some point, they just give up.

About \$80 billion of the current total has been charged off altogether, says Dennis Hammond, president of the Debt Marketplace and executive director of the Debt Buyers Association. That's up from \$30 billion in 1996.

From misfortune comes opportunity. Just ask the folks at Portfolio Recovery Associates Inc.

It buys books of charged-off receivables, mostly from credit-card companies, at a fraction of their face value.

Size Does Matter

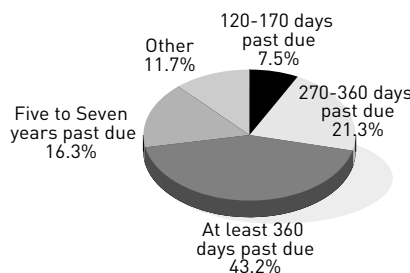
Any money Portfolio subsequently collects is its to keep. The firm aims to collect 2.5 to 3 times the amount it paid.

"There are a number of debt buyers in the market, but there are few buyers who can afford large pools of debt," Hammond said. "Portfolio Recovery is one

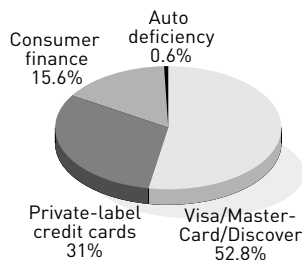
Debt To Go

Uncollected consumer debt, a headache for lenders, is potential revenue for Portfolio Recovery Associates. The company buys pools of debt and makes money when it gets borrowers to pay up

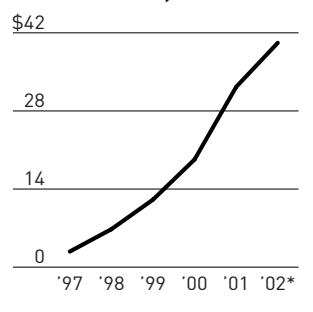
Age of debt when purchased



Asset class of owned debt



Annual revenue, in millions



Source: Company reports

*first nine months

of the handful who can afford to purchase in large volume."

At midyear the firm had 292 portfolios under management with a face value of \$4.2 billion. It paid a total of \$116 million, or 2.8% on the dollar.

"We buy on pennies on the dollar and we collect pennies on the dollar," said Steven Fredrickson, Portfolio's chief executive.

Those pennies add up.

Portfolio's year-over-year revenue has increased at least 51% for eight straight

quarters. Sales gained 75% to \$40.2 million during this year's first nine months.

Successful Debut

The company had its initial public offering on Nov. 8. The IPO raised \$45 million, and Portfolio used \$25 million of that to pay off outstanding debt.

It's one of the few publicly traded companies in the business. Another is NCO Group Inc., which turned \$702 million in revenue last year.

The hard work for Portfolio begins after it buys a

pool of debt and its nearly 600 call center employees swing into action. Their main tool: the telephone.

Portfolio considers the 1.5 million folks who owe money "customers." The company tries to be tactful and fair-minded, officials say. Their motto: "We give debt collection a good name."

But employees are persistent, sometimes calling debtors for as long as seven years in an attempt to collect money.

"Most people we end up getting money from had something bad happen to derail their ability to service their debt," Fredrickson said, putting divorce, illness and job loss at the top of the list. "We will work with them while they are bouncing along the bottom."

The economic downturn has been turning more consumers into customers. The increased number of delinquencies over the last 18 months created a greater supply of what is called "fresh paper," Fredrickson says.

Fresh paper typically trades at higher prices than older debt pools that've been around for at least two years.

Portfolio buys a mix of old and new pools of debt. The

Continued on Next Page

Continued From Previous Page

longer the debt has gone uncollected, the tougher it is to collect, however.

"Portfolio likes buying the two-cent (cheaper) paper and rehabilitating it," said Louis DiPalma, managing director of loan portfolio sales at Keefe Bruyette & Woods.

'Big Investment'

Key to Portfolio's success is a six-week training program for all its call-center employees.

"It's a big investment, but we believe that it helps them be more productive and stay with us longer term," Fredrickson said.

A good collector will squeeze out the balance in full, he says. But callers will often work out payment arrangements or partial settlements.

The market itself isn't that old. Credit issuers first started selling off charged pools of debt in 1989. The practice is now widely used by most major credit issuers.

Portfolio entered the market in

1996. Frederickson and a couple of other associates formed the company with start-up money from Angelo, Gordon & Co., a privately held equity investor.

Angelo, Gordon still retains controlling shares.

Portfolio's executive team previously worked in the debt recovery business for a unit of Household International Inc., which exited the business.

Onlookers say their experience has served the firm well.

"They know the market. They know collections," Hammond said. "Buying and collecting debt is their forte."

About 5% of Portfolio's revenue comes from an 18-month-old business that involves collections made on behalf of credit issuers on a contingency basis.

Portfolio gets an average 35% on what it collects, DiPalma says. He sees that business growing.

"Not everybody will sell their debt,"

he said.

While Portfolio has said it might make acquisitions to leverage its expertise into related areas such as student loans, organic growth will remain the biggest driver, Fredrickson says.

A third call center is expected to open in the first quarter of next year to handle an expected increase in customer volume.

Portfolio Recovery Associates Inc. **portfoliorecovery.com**

Ticker	PRAA
Share price	Near 17
12-month sales	\$42 mil
5-year profit growth rate	99%

IBD SmartSelect Corporate Ratings

Earnings Per Share	99
Relative Price Strength	87
Industry Group Relative Strength	B
Sales+Profit Margins+ROE	A
Accumulation/Distribution	n.a.

See investors.com for more details
