

EZCORP, Inc. (Q1 2025)
February 6th, 2025

Corporate Speakers

- Sean Mansouri; Elevate IR; Investor Relations Adviser
- Lachlan Given; EZCORP, Inc.; Chief Executive Officer
- Timothy Jugmans; EZCORP, Inc.; Chief Financial Officer

Participants

- Brian McNamara; Canaccord; Analyst
- John Hecht; Jefferies; Analyst
- Kyle Joseph; Stephens; Analyst

PRESENTATION

Operator^ Good morning, ladies and gentlemen. Welcome to the EZCORP First Quarter Fiscal 2025 Earnings Call. (Operator Instructions) As a reminder, this call may be recorded.

I'd now like to turn the conference over to Sean Mansouri, the company's Investor Relations Adviser with Elevate IR. Please go ahead, Sean.

Sean Mansouri^ Thank you. And good morning, everyone. During our prepared remarks, we will refer to slides which are available for viewing or download from our website at investors.ezcorp.com. Before we begin, I'd like to remind everyone that this conference call as well as the presentation slides contain certain forward-looking statements regarding the company's expected operating and financial performance for future periods.

These statements are based on the company's current expectations. Actual results for future periods may differ materially from those expressed due to a number of risks or other factors that are discussed in our annual, quarterly and other reports filed with the Securities and Exchange Commission. And as noted in our presentation materials and unless otherwise identified, results are presented on an adjusted basis to remove the effect of foreign currency fluctuations and other discrete items.

Joining us on the call today are EZCORP's Chief Executive Officer, Lachie Given, and Tim Jugmans, Chief Financial Officer.

Now I'll turn the call over to Lachie.

Lachlan Given^ Thanks, Sean. And good morning, everyone. We kicked off fiscal 2025 with another strong set of operating and financial results, driven by sustained demand for fast cash solutions and affordable, high-quality secondhand goods. Building on our momentum from last year, we generated another quarter of record revenue in PLO.

In Q1, we achieved total revenue of \$329.7 million, marking a 10% year-over-year increase, while PLO grew 16% to \$282.9 million. Our strong bottom-line performance included a 12% increase in EBITDA to \$53 million and diluted EPS up 17% to \$0.42. These results highlight our continued commitment to delivering enhanced value for our stakeholders through relentless operational execution.

Beginning on Slide 3, we continue to be a global leader in pawnbroking and pre-owned retail. We operate 1,283 stores in the U.S. and Latin America including four de novo stores added this quarter. With the rising cost of living and limited access to credit options for many consumers, the demand for our pawn broking services continues to grow significantly. At the same time more consumers are seeking affordable, sustainable pre-owned goods, driven by a heightened focus on value-conscious shopping. Our commitment to innovation and exceptional service ensures we can effectively meet these evolving customer needs.

Moving on to Slide 4. As I mentioned, we opened four de novo stores in Latin America this quarter. Our earning assets grew 20% year-over-year, supporting a record PLO balance and leading to a 13% increase in PSC. Our cash balance increased to \$174.5 million, up \$4 million from last quarter, driven primarily by cash from operating activities. This was partially offset by higher earning assets, capital expenditures, tax payments for net share settlements of equity awards and share repurchases. We maintained strong liquidity to support PLO growth, de novo store expansion, strategic acquisitions, near-term debt maturities and ongoing share repurchases.

Slide 5 highlights the strong financial performance in the quarter, showcasing the continued growth of our business across key metrics. Q1 revenues and gross profit grew 10% year-over-year. Merchandise sales increased 8%, and our EBITDA was up double digits for the third consecutive quarter. As noted earlier, strong consumer demand, operational execution and exceptional customer service continue to fuel our growth.

Now turning to our key business strategy highlights for the quarter on Slide 6. I'm pleased to highlight the significant progress we have made in strengthening our core pawn operations. This achievement is a testament to the dedication and expertise of our team, whose efforts have driven meaningful improvements across the business. As a result, we have delivered strong loan growth fueled by larger average loan sizes, operational improvements and robust customer demand. To enhance the customer experience by providing accessible and flexible financing solutions for our customers, we have expanded the third-party buy now pay later program into all of our U.S. stores.

Additionally, in July, we launched a longer-term layaway option, which drove a 13% increase in new layaways during the quarter. Since layaway sales are recognized upon final payments and customers now have more time to complete their payments, this adjustment has shifted from sales into future quarters, reflecting the flexibility we've provided to better meet our customers' financing needs, especially for the jewelry category.

To complement these efforts, we've seen strong engagement with our EZ+ Rewards program, which continues to drive customer loyalty and enhance our overall performance. In fact, our EZ+ Rewards members accounted for 77% of all transactions for the quarter. We also captured a 5% increase in traffic to our core pawn websites. These metrics reflect deepening connections with our customer base and engagement across multiple platforms. We are equally focused on investing in our team members who are the backbone of our success.

We enhanced field compensation plans to more effectively drive expected behaviors, reward performance and increase retention. Additionally, we announced an assistant manager certification program for the U.S. stores to grow internal talent and strengthen operations support. To celebrate excellence across the business, we held Easy Elite celebrations in each of our regions, recognizing our top store managers with a consistent global message centered on growth mindset and exceeding expectations.

Turning to innovation and growth, U.S. online payment collections increased more than 30% to \$27.2 million for the quarter. Similarly, in Mexico, digital adoption continued to rise with 15% of extensions and layaways now handled through online payments. Demand for affordable luxury remains strong with Max Pawn's luxury ecommerce sales increasing 50%, largely fueled by eBay sales. As we continue to test buy online, pick up in store, we also launched a new pilot program for view online, buy in store. Additionally, we are testing new SMS marketing campaigns in the U.S. to increase engagement with EZ+ members.

Slide 7 highlights our continued dedication to sustainability and community impact. In Q1, we sold over 1.5 million pre-owned items to extend their useful life and provided critical financial services to customers in the communities we serve. We also advanced inclusivity through affinity groups and belonging initiatives, enhanced team operations and supported communities with charity donations and 461 hours of company paid volunteer time going toward nonprofits and community organizations.

With that, I'll hand the call over to Tim Jugmans, our CFO, who will provide a deeper look at our financial results. Tim?

Timothy Jugmans^ Thanks, Lachie. Slide 9 provides a detailed look at our consolidated financial results for the first fiscal quarter. As Lachie mentioned, we closed the quarter with record PLO of \$282.9 million, a 16% increase year-over-year and up 15% on a same-store basis. PSC revenues rose 13% year-over-year, primarily fueled by same-store PLO growth. Our inventory turnover rate was 2.7x compared to 3x with aged GM inventory, excluding our three luxury stores at 1.2%.

Some of the lower inventory can be attributed to the expansion of our layaway program in the U.S. as well as a greater composition of jewelry inventory in Latin America, which typically has a longer sales cycle. While these factors contribute to the trend, we are focused on improving inventory turns and are prioritizing efforts to optimize sales velocity and inventory management. Merchandise sales increased by 8% to \$192.9

million, while merchandise gross profit grew by 4% from the prior year. We also posted another strong quarter of EBITDA margin expansion, which increased 35 basis points to 16.1% as we continue to drive operating leverage in our business.

Moving to our U.S. Pawn segment on Slide 10. U.S. revenue for the quarter was up 7% to a record \$232.2 million. Earning assets grew by 16%, driven by increase in PLO and inventory.

Slide 11 includes a map of the U.S. states in which we operate, highlighting our robust footprint of 542 stores across 19 states. Our first quarter average U.S. loan size increased by 14%, supported by a 60 basis points rise in PLO jewelry composition as well as growing gold and GM prices.

Slide 12 offers an in-depth look at U.S. financial performance, highlighting the 15% increase in PLO, both on total and same-store basis. This was driven by higher average loan size, enhanced operational performance and sustained growing demand for pawn services. On the U.S. retail side, merchandise sales increased by 3% and were up 1% on a same-store basis, while merchandise gross margin decreased 61 basis points. The decrease in sales margin reflects an increase in promotional activity and customer negotiation at the counter. U.S. pawn EBITDA for the quarter was \$55.6 million, up 11%, primarily due to higher PSC with EBITDA margin once again expanding to 24%, underscoring our focus on profitability.

Turning to our Latin American segment on Slide 13. Total revenues increased 18% to \$97.5 million, which was a record high for the fiscal first quarter. Earning assets increased 35%, driven by a very strong PLO increase of 19% and inventory increase of 57% from the prior year, which was at a historically low level. As PLO has grown significantly in recent quarters, we continue to focus on driving more sales at comparable pace. We are implementing actions both systemically and operationally that were successful in the U.S. that aim to drive improvements going forward.

On Slide 14, you can see that we have expanded our presence in Latin America and now have 741 stores, opening one store in Mexico and three stores in Guatemala during the quarter. PLO jewelry composition increased by 400 basis points, reflecting our continued focus on growing this category, particularly in Mexico. As mentioned, our Latin American region saw significant PLO growth of 19%, as highlighted on Slide 15, primarily fueled by our team's strong operational performance and increased pawn demand in the area. PSC rose by 17%, driven by same-store PLO growth.

On the retail side, merchandise sales grew by 19% and up 16% on a same-store basis. Merchandise gross profit increased by 11%, which was partially offset by a decrease in margin of 223 basis points. EBITDA climbed an impressive 20% to \$14.6 million with EBITDA margin increasing by 14 basis points to 15%.

A quick word on our balance sheet and allocation priorities. We continue to have a robust liquidity position with \$175 million of cash and \$333 million of gross convertible notes

on our balance sheet as at December 31, 2024. We believe the most effective use of the cash to drive shareholder value is to use a balanced approach, which includes reinvestment in our business to drive organic growth, acquisitions, share buybacks and debt repayments. We have \$103 million of convertible notes that come due in May 2025, and we continue to explore several options to retire or refinance that note including the use of existing cash, traditional debt, high-yield debt or other equity-linked instruments.

Looking ahead, we remain focused on driving organic growth across both revenue and earnings through a combination of higher PLO, PSC and merchandise sales growth. On a consolidated basis, margin is expected to remain at the low end of our target range of 35% to 38%, reflecting our commitment to optimizing inventory turnover and minimizing aged general merchandise.

As stated last quarter, with inflation rates declining comparable to a year ago, we anticipate a moderation in some same-store expense growth. However, in January, we saw a minimum wage increase of 6.5% to 12% enacted across Latin America. These adjustments, along with compression effects that extended wage increases beyond minimum wage earners resulted in salary increases for 63% of our team members in the region. That said, we will continue investing in our team, technology and store network to enhance operational efficiencies.

From a strategic standpoint, our M&A pipeline remains strong, and we have consistently executed on our inorganic growth strategy. We expect to continue expanding both within our existing markets and internationally. Collectively, these initiatives will be key drivers of our financial and operational performance in the years ahead. Regarding our Auto Dinero acquisition announced last year, the transaction remains pending as we continue through the due diligence process.

Now I would like to turn it over to Lachie for a few closing remarks.

Lachlan Given^ Thanks, Tim. I want to thank our EZCORP team for delivering an outstanding quarter of operating and financial results for our shareholders. We achieved another record quarter for total revenue and PLO while continuing to drive operating leverage to expand the bottom line. Our strong foundation rooted in core values of people, pawn and passion positions us for continued growth, both organically and through strategic M&A.

And with that, we will open the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question comes from Brian McNamara with Canaccord.

Brian McNamara^ Congratulations on the strong results. A few for me. So first off, on the merchandise margin, I think it dipped below 35% for the first time in a few years, I

think since 2020. Our pre-quarter work suggested loans would be stronger than retail sales, and I think that appears to have played out. Is it just that? Is there anything else to read into there, particularly in LatAm, given the 200 basis point drop year-over-year?

Timothy Jugmans^ That's correct. It's definitely a very strong loan growth quarter. We're definitely seeing the demand for cash in our stores from our consumers. We did have to negotiate a lot more in the stores and provide further discounts because we do see this customer having less cash to spend.

Brian McNamara^ Got it. Second, a question we've gotten a lot recently is the company's exposure to undocumented immigrants and how potential deportation could impact your business. Is there any way to measure that? I know that anything pawned needs to be kind of ID'd and checked by local police and things like that, given regulations to ensure it's not stolen. Just any color there would be helpful.

Lachlan Given^ Look, I think -- Brian, thanks for the questions. I think look, we certainly had these similar questions too. We haven't seen any impact to this point, certainly. I think you've seen in this quarter's results as Tim mentioned, some incredibly strong lending results and across many regions, some strong sales results.

So look, we haven't seen any impact yet. We can't comment on policy or what we think is going to happen with the new administration. I think what we're focused on is what we can do to maximize the earnings in the business. And look, I think we're very, very well set up to do that in the future. I think the best way to sort of to deal with this is to concentrate on what we can do, as I said, in the stores. To this point, we've seen no impact as yet.

Brian McNamara^ Great. Then maybe one for Tim. How is the company planning for tax refund season this year? And how should investors think of PLO seasonality? I mean obviously you have a really great PLO balance to finish off the calendar '24. We haven't had -- obviously we haven't had a normal tax season in a while. So I'm curious if there's any puts or takes there that investors should be aware of.

Timothy Jugmans^ Yes. If we look back in the last few years, even though they hadn't been normal compared to the prior years, they may be the new normal, which is a shorter period of time where people are receiving tax refunds and the dollars of refund have not moved. Those are -- what I've been reading from analysts is that is what people are assuming it's going to happen, especially in the states we operate.

Brian McNamara^ Got it. Then you guys announced an acquisition, I think in September. It doesn't look like it has closed yet, Auto Dinero. Anything to read into there?

Lachlan Given^ No. I think -- I mean Tim said it in his remarks. I think we are -- it's an acquisition in Mexico. It's in the auto pawn business, which is a relatively new thing for EZCORP. We've got a very, very small amount of auto loans in our book down in Mexico. So it's -- look, it's the leading platform down there, and we are just in diligence

making sure that we completely understand the business and that it's the right path forward. But we're doing the work. And as soon as we're finished, we'll come back to the market and let you know.

Brian McNamara^ Got it. Then finally, I know you guys mentioned in your prepared remarks the refinancing options for your converts in May. It remains a key topic for most investors we speak with. Are you leaning in a certain direction? Any color on maybe when you'll make a decision on this?

Lachlan Given^ Look, I think the color is -- the color hasn't changed. It's very good news in that we certainly are under no pressure to do anything. We have liquidity to pay it with cash in May. So we can take our time here in really weighing the pros and the cons of each alternative. I know people have different views on those alternatives. But we are highly focused on it.

We may go before May we may go after May but I think given the amount of growth potential in our business, both organically and inorganically, we will likely do another financing in the future to fuel that growth. But as I said, we are under no pressure to do it in any hurry. The terms continue to improve for us with our operating performance improving.

So I think we are very comfortable with where we are at in terms of potential financing. But the board is, as I said, very focused on it, spending the time with our various advisers to hopefully pick the right path forward.

Operator^ Our next question comes from John Hecht with Jefferies.

John Hecht^ First one on the recent wage increases in Mexico. Number one is there's been a series of these. Do you guys have any insight as to that we're probably reaching the end of this cycle of wage increases, number one. And number two is other than the increasing of expenses down there from wage increases, does the wage increases affect any other aspects of your business on the lending side?

Lachlan Given^ Look, I think John, thank you for the questions as well. Look, I think yes, we are seeing various programs from the Mexican government on wage increases. This one was a pretty significant one again. We don't know to be honest with you, what the future holds on that front. But what I can tell you is that our Mexican and Latin American business are gaining real momentum (technical difficulty) growth, phenomenal sales growth.

So I think the assets being put in to pockets is clearly helping on the sales side. But in terms of the loan side, we are not seeing any slowdown given the money that's been through the minimum wage rises. So look, it has impacted our expenses, obviously. And answering your question, we don't know where it's going to go, but the very good news is that that segment is growing incredibly well in a balanced way with a great team. So I'm super excited about the growth prospects down there.

John Hecht^ Okay. That's great. Then you guys have invested in infrastructure to develop new services like the online sales, the customer rewards. which I think are pretty unique in the industry. Maybe can you give us a sense for how you measure the impact of that? Any customer trends that you're seeing as a result of those activities?

Lachlan Given^ Yes. Look, it's a good question. Yes. We are investing across all of our digital assets, our core infrastructure, our point-of-sale system. And look, I think if you start (technical difficulty) growth, I think you can say that whatever we are doing here is in part due to the investment we're making in driving more customers through our digital business because we are trending very, very well comparatively. We look at -- when we look at acquisitions, we compare the way we're growing both from loans and from sales as to other companies are growing and we're obviously growing very strongly. We think we're winning market share in the neighborhoods in which we operate. So I think we start with the high-level numbers, and we think that we compare quite favorably to the competition.

In part that we believe that, that's due to the digital investments we're making. When you go into our stores, which I know you do and you speak to a store manager and you talk about our EZ+ program or our Google Ratings or our social media presence and you say to a store manager, "Well we're thinking about winding that back." They immediately jump down to you and say "Don't, no, no, don't do that." That's -- we really -- we find it important -- an important way to engage our customer.

So I think look, from a customer-centric point of view and from a high-level numbers point of view, I think we're confident in what we're doing. I think you look at other sectors, and you know that you have to meet the customer in all sorts of places. You can't just choose to meet them in the store because they want to meet you online or on the telephone. So I think we are just building various distribution platforms in order to give our customer the best experience. So look, we've done it in a pretty disciplined way. We haven't gone and spent a huge amount of money on this stuff. We keep it lean, we test. We look at it on an ROI basis. But look, I think when you run a customer and people-centric business, these investments are important.

John Hecht^ Okay. Then my final question is, you've been adding stores, you've been making acquisitions. I mean maybe can you give us your sense for this fiscal year, where the store -- whether it's acquisition or growth opportunities and where are you focused there?

Lachlan Given^ Look, it's a good question. I think look, we're trying to run a balanced growth strategy around stores. So you've obviously got the de novo program and then you've got your M&A program. I think with de novos, you can be a little bit better planned. I think we've been building roughly 40 stores per year over the last couple of years. And look, I think that's a good way to think about at least the short-term future.

We'd like to be somewhere in that kind of vicinity. The only caveat to that is if you do a large medium- to large-sized acquisition, maybe you slow down that de novo program a little. But look, it's -- de novos are a very important part of our growth strategy. We've got a fantastic team in Latin America that is solely focused on that and are getting very good at it.

So I think that's an important part of the growth story. Then on M&A, as you know it takes a willing buyer and a willing seller to come up with a mutually acceptable price, and that can take time. I think you've seen in our recent acquisitions over the years that our sort of price and structure disciplines are very real. So look, we think the pipeline is strong. I don't think there's been much change in the last few years in pipeline. I just think we're going to do it in a disciplined way.

We're going to do it where we think we're buying good people, often in areas that we can fold pretty easily into our field team. But I think it's -- Latin America, particularly is still very exciting in terms of the M&A platform. In the U.S., it's -- as you know there are still definitely targets out there. I think the biggest is Simple Management Group, which we obviously have a significant investment in. So that's an exciting one for us. That's now 100 stores across Florida, the Caribbean and Central America.

So I think that one is very interesting. Then beyond, I think the world of pawn broking is a very large world of incredible scale. So I think long term, this is a super exciting global scale opportunity. But for now I think we're concentrated on our core markets, and I think there's plenty to do there, both organically and inorganically.

Operator^ Our next question comes from Kyle Joseph with Stephens.

Kyle Joseph^ Just wanted to get a sense for domestic growth. I know you guys talked about as inflation wanes, you would expect that growth to come down a bit, but you did - - we did see it accelerate in the December quarter. So just kind of give us any sort of sense of what drove the acceleration in the quarter and kind of how quickly you expect that to normalize?

Lachlan Given^ Kyle, look, as you point out, it was a super strong result in the U.S. on the lending side. I think it was, as Tim said in his remarks, I think it was driven by both really strong engagement by our people in store. Blair and his team are phenomenal in teaching out our team members, our pawn brokers in store to engage every customer. I think that engagement and that core expertise is really driving stronger loans.

Then you've got the higher average loan size, as Tim mentioned. And just -- I do think that the consumer out there is still challenged at our end. So yes, inflation is coming down, but it's still up there. Interest rates are high, gas prices. You've got other forms of finance tightening. So I think our customer is showing that there is still a strong need for cash. So our view is that with strong execution in the stores, we should continue to drive pretty strong growth here in loans.

Kyle Joseph^ Got it. Then just high level, talk about competitive trends between the, call it, the two segments, the U.S. and LatAm and where you're seeing LTV trends in each segment?

Lachlan Given^ I think competitive trends, I don't think they've changed quarter-over-quarter. I think obviously there are the two major competitors, us and First Cash and then a very fragmented industry beyond that. So I think -- I mean the competitive trends, I think have been pretty stable. Then segment by segment -- what was the second part of the question? Segment by segment, competitive trends?

Kyle Joseph^ Yes, just where you're seeing LTVs.

Lachlan Given^ Tim, do you want to comment on that, segment by segment?

Timothy Jugmans^ Yes. So from an LTV perspective, those are in constant movement based on where we're seeing the sales occur in our stores and across the market. So those we are adjusting all the time. But from a consolidated perspective, they really remained very consistent year after year.

Operator^ I would now like to turn the call back over to Lachie Given for any closing remarks.

Lachlan Given^ Thank you, Operator. Thank you, everyone, for joining today. We very much appreciate your time and we are looking forward to talking to a lot of you over the next couple of days. And just one last time a very big thank you to the EZCORP team for another very, very strong set of operating results.

Thanks, guys. We look forward to chatting a bit later on.

Operator^ Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.