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Jean Marie Young

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the EZCORP Fourth Quarter and Full Year Fiscal 2022 Earnings Call. (Operator Instructions) As a reminder, this call may be recorded.

I'd now like to turn the conference call over to Jean Marie Young, Investor Relations with Three Part Advisors. Please go ahead, Jean.

Jean Marie Young

Thank you, and good morning, everyone. During our prepared remarks, we will be referring 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, Lachlan Given and Tim Jugmans, Chief Financial Officer.

Now I'd like to turn the call over to Lachlan Given. Lachie?

Lachlan P. Given - *EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer*

Thanks, Jean, and good morning, everyone. Our team continues to consistently execute on the strategic plan put in place at the end of fiscal 2020. We ended fiscal 2022 with an excellent fourth quarter. I want to thank our passionate and productive team members for their continued focus on operational excellence, which has driven our consistently very strong financial results.

Pawn loans outstanding, the key driver of our business was $210 million at quarter end, a 19% year-over-year increase. PLO is once again at a past level ever. Merchandise sales gross profit margin was 37%, which is within our targeted range, with aged general merchandise continuing to be less than 1% and of total GM inventory.

Beginning on Slide 3. We are a global leader in form broking and pre-owned and recycled retail. We operate 1,175 stores in the U.S. and Latin America, with strategic investments in adjacent businesses, which expand our geographic footprint lines. Across our diverse store base, the two core products of our consumers. We made pawn loans, secondhand goods. The macroeconomic environment continues to be a challenge for our customer base. Inflationary pressures, increasing interest rates, high gas prices and the tightening of credit from alternative lenders drive increased demand for pawn price. The demand for secondhand goods increases as consumers increasingly seek value for money eventually responsible alternatives.

Our goal is to provide the best, most continued experience for our customers through continuous innovation, while positively impacting the environment and the communities in which we serve.

Moving on to Slide 4. We continue to embrace people point and passion as our core operating theme. We know that our engaged team drives our success, so we are committed to investing in recruitment, retention and incentivization. We strive to be the best option for our customers by providing outstanding customer service an attractive and well-positioned store footprint, a differentiated digital platform, a proprietary pod system and importantly, a (inaudible) liquidity on our balance sheet to provide pawn loans across all the regions in which we operate.

Slide 5 shows our progression toward our 3-year strategic goals. We have the most passionate, productive and committed team in the industry, and we continue to find ways to motivate and retain them by enhancing their experience. In addition to our team, we are also committed to enhancing customer's experience. We are modernizing the operations and our points-based loyalty program and online payment options continue to improve and grow.

Turning to our key financial themes for Q4 on Slide 6. As mentioned, PLO, the most significant driver for revenue and earnings was up 19% year-over-year with an associated 21% increase in PSC. As you can see, all of our financial metrics were positively impacted. Total revenue for the quarter was $234 million, up 22% due to higher sales in PSC and EBITDA was $24.6 million, up 33%.

Very pleasingly, U.S. port EBITDA was 43% up year-over-year. PLO on a same-store basis continues to remain strong and above pre-COVID financial year 2019 levels and same-store sales and merchandise sales gross profit are up due to higher sales and continued focus on effective inventory management. The reduction in cash on the balance sheet was the result of an increase in earning assets, Additionally, we were able to repurchase $2 million worth of shares in the quarter and an additional $1 million in October.

On Slide 7, total expenses increased primarily due to labor costs but the percentage of gross profit for the year, expenses decreased from 86% to 80%. Store expenses also increased year-over-year primarily due to labor increases and rent associated with lease renewals. The decrease as a percentage of gross profit from 73% to 68% compared to the previous year.

G&A increased $3.1 million year-over-year but remained flat as a percentage of gross profit of 12% as we increased our investment in marketing and digital activities.

On Slide 8, we talk about strengthening the core with a primary focus on people and systems. This, in turn, has driven our excellent operating and financial results. As mentioned, we are focused company-wide on recruitment, retention, inclusion and incentivization. Our team is enthusiastic and engaged. In addition to investing in our people, we continue to invest in technology, and we believe we are leading the industry in this area.

Our technology and digital initiatives are improving our operational efficiency at the store level and the ease of use of our products and services for our customers. For example, investments in our store networks resulted in a second straight quarter without internet and overall positive availability of 99.98%. We continue to invest in rearchitecting our POS in a microservices architecture for increased agility and flexibility. In addition, we launched mobile technology in our stores that automate our manual processes for reviewing loans, saving management time and providing immediate team member feedback and training.

On Slide 9, innovation and growth is the third pillar of our 3-year strategy, and we continue to execute on our plan. We launched our EZ+ Loyalty Program in Honduras and El Salvador in the fourth quarter and we now have over 1.9 million customers enrolled versus over 1.4 million last quarter. We also collected $9.7 million in online payments this quarter versus $7 million last quarter.

Moving payments online, not only frees up time for our team members to serve as new business, but also provides our existing customers with convenient options for servicing core loans and layaway and promote engagement and loyalty. Additionally, we introduced the ability for our Mexico customers to view their loans and layaways online.

We received more than 15,000 Google reviews this quarter, averaging 4.9 stars in the U.S. and Latin America. Website visits for the 4 main brands were up 16% over the previous quarter, and we believe we are attracting new customers by making shopping more convenient.

From an inorganic perspective, we opened 16 de novo stores in Latin America during the quarter and acquired 9 stores in the Houston area in October. We continue to be disciplined in evaluating acquisition opportunities and the pipeline remains robust. We increased our stake in PCB from 41% to 42% during the quarter. And in November, we received a cash dividend from PCB for $1.7 million and further increased our stake to 44% with a net outlay of $2 million for this increased position.

Slide 10 outlines our ESG highlights for the fiscal year. Our business by very nature, makes us a neighborhood recycler and a compelling component of the local circular economy. We are a significant recycler of secondhand goods in hundreds of local neighborhoods. We resold over 5.6 million pre-lined items in fiscal 2022 and including toxic, consumer electronic items such as computers, TVs, phones as well as tools, musical instruments, household goods and jewelry, saving them from landfill.

We use sound recycling and e-waste processing in the U.S. We do not use factories, distribution facilities or heavy truck. Importantly, we provide an essential, simple, regulated and transparent financial resource for those who are underserved by traditional sources. Diversity and inclusion are a significant focus. And this year, we launched both Black Empowerment and women's empowerment affinity groups, which have all had excellent engagement from our people.

Slide 11, as mentioned, we continue to invest in improving the experience of our team members and customers. Global trading and development programs, talent review and succession planning processes, new long-term cash incentive programs in our stores and reinforced focus on employee health and safety and some of our initiatives.

Offering customer online payment options have successfully reduced their need to travel to the stores. We're always in search of innovative ways in which we can meaningfully impact our team members, our customers and the communities in which we serve.

I'd now like to turn over the call to Tim Jugmans, our Chief Financial Officer, to provide more details on our financial results. Tim?

Timothy K. Jugmans - *EZCORP, Inc. - CFO*

Thanks, Lachie. Slide 12 details our consolidated financial results for the fourth quarter. PLO ended the period at $209.5 million, up 19% on a year-over-year basis, which is our highest in EZCORP's history. PSC revenue was up 21% over last year, with growth driven by both increased same-store PLO growth and acquisitions. Merchandise sales was up 20%, but as expected, margins fell back to 37%, which is within our normal range.

Our focus on selling inventory in the first 90 days has kept inventory turnover strong at 2.6x. It was another great quarter with consolidated EBITDA of $24.6 million, up 33%. For the full year, consolidated EBITDA improved to $112.9 million, up 66%.

Turning to our U.S. pawn operations on Slide 13. PLO rose 20%, driven by the continued focus on our enhanced pawn operating model and better serving our customers' needs. PSC was up 25% year-over-year, primarily driven by same-store PLO growth.

On the retail side of the business, merchandise sales were up 18%, with merchandise sales gross profit up 8% with a 300-basis point drop in sales margin as expected. Store expenses increased 9% due to the labor in line with store activity as well as an increasing rental expense. U.S. pawn EBITDA for the quarter was $33.7 million, up 43% on the prior year. For the full year, U.S. pawn EBITDA improved to $139.6 million, up 45%.

Slide 14 focuses on our Latin American pawn operations. Segment PLO grew 15% for the fourth quarter or 13% on a same-store basis, with resulting PSC up 9%. Merchandise sales was up 22% and up 20% on a same-store basis. Merchandise sales gross profit was up 10% due to increased sale offset by margins down 300 basis points.

Store expenses were up 10% and up 5% on a same-store basis, mainly due to increased labor in line with store activity as well as an increasing rental expense. For the fourth quarter, Latin America pawn EBITDA improved by $0.1 million. For the year, Latin American pawn EBITDA grew to $31.4 million, up 33%.

We began our Board approved 3-year $50 million share buyback program this quarter, repurchasing $2 million worth of shares with an additional $1 million worth of shares in October. We continue to execute this program in an opportunistic and responsible way, taking into consideration general market conditions, liquidity and capital needs and the availability of attractive alternative investment opportunities.

Looking forward on a consolidated basis, we should see PLO levels continue to increase beyond these record levels as we move back to pre-COVID seasonality as well as seeing the effects of our improved business model. As we have suggested in prior quarters, we are likely to continue seeing further reduction in sales growth margin as inventory levels increased in line with PLO and sales discount practice continue to return to normal levels.

Also, as we have seen this quarter, expense growth is likely to continue on a sequential basis as inflationary and wage pressures continue to rise. We are pleased that the execution on our strategic initiatives continues to drive our strong and consistent financial results each quarter. We are excited to see our business continue to break record PLO levels and achieve earnings results above what we had pre-COVID with a superior operating model that has put us in exciting position to scale the business from you.

I will now turn it over to Lachie for a few closing comments.

Lachlan P. Given - *EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer*

Thanks, Tim. Congratulations to our EZCORP team for another outstanding quarter and full year. We are consistently delivering very strong operating and financial results for our shareholders, driving growth through de novo store build-out and disciplined acquisitions, all while maintaining a strong liquid balance sheet and returning capital to our shareholders.

Every day, we continue to work tirelessly toward improving the experience of our employees and our customers in an environmentally responsible way and to deliver enhanced value for our shareholders.

And with that, we'll open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Brian Nagel of Oppenheimer.

Brian William Nagel - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Congratulations guys. Nice quarter, nice year. The first question I have, I guess, maybe a little bit longer term in nature. But just from a positioning standpoint, I mean, you've clearly taken significant strides here to position the business better. We're seeing the results of that. What still needs to happen? What are the opportunities, either from an investment standpoint or just an ongoing kind of repositioned restructuring type opportunities?

Lachlan P. Given - *EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer*

I think, look, we look at it in 2 ways. As the organic stuff, the organic improvements that we work on every single day. And if you look at the 3 different regions, I think there's opportunities in all 3 regions on a store level basis, so we can still attract more customers to retain more customers organically in all of our stores.

So I think there's the organic side of it that we just need to continue to operate better, and we see real opportunities there. And then you've got the inorganic stuff, which is broken up by de novos and acquisitions. And I think on the de novo side, there is just significant opportunity in LatAm to build more stores and get superior returns doing it. And then as we said on the call, I think there is significant pipeline still for acquisitions. So look, I think all in all, it's both organic and inorganic opportunities here. But we have challenges, as all companies do around cost and inflation. And so we're doing our best to manage that. But Brian, still plenty of opportunity out there for us.

Brian William Nagel - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

That's helpful. And then my second question, just a PLO. So we talk a lot about that, and it's obviously been trending quite well. You highlight that as a real key measure of the health of the business. Is there any -- how should we think about the growth in that? Does it grow with the business? Or is there some type of like penetration number we should look at that when it gets even healthier -- Determine when that figure gets even healthier?

Timothy K. Jugmans - *EZCORP, Inc. - CFO*

Look, we're at record levels at the moment as we say on the call. This is the best PLO the company has ever had. So we're in uncharted territory. But our objective is to continue to grow that. We've come off clearly an outstanding year where we've grown beyond all expectations of the analysts. And as I said, our objective is to continue to improve that.

In Latin America, I think there is genuine scope for real step change growth down there. In the U.S., that's a more mature market. And as I said, we're seeing the highest level in -- on a store basis. So look, it's tough to say. It's tough to give you an exact number, but I would say that our objective is to continue to grow it more significantly in Latin America, I would expect, than in the U.S. given it's a more mature market.

Brian William Nagel - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Congratulations again.

Operator

(Operator Instructions) Our next question comes from John Hecht of Jefferies.

John Hecht - *Jefferies LLC, Research Division - MD & Equity Analyst*

Congratulations on good quarter. I guess just -- I guess a little bit of a follow-up on the last question. The PLOs, obviously, they've been strong and trending positively for a while. They've been trending a little better in LATAM. And is that just a function of similar trends in the U.S., meaning inflationary pressures and kind of the lapping of either social welfare stimulus -- or is there other things going on in LatAm that are driving that as well?

Lachlan P. Given - *EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer*

I think you're right. I think there's -- there are macro factors at play here. But I think we've also done great things internally down in Latin America to improve our business. And we've got really strong leadership in place down there. And I think still a long way to go. But yes, I think your diagnosis is right.

John Hecht - *Jefferies LLC, Research Division - MD & Equity Analyst*

Okay. And then there's -- we've seen some of the bigger retailers domestically announced that they've seen customers changing their kind of purchasing behavior, you talked about bargain shopping driving some of your results. I mean, any comments there, are you seeing changes in either the borrower or the retailer behavior, the customers' behavior at this point either for macro trends or certain things you're doing from an execution perspective.

Lachlan P. Given - *EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer*

Look, we're seeing the same -- all of the same commentary from the big retailers that they're really seeing a shift in demand from their customers. Our sales continue to be quite robust. It's -- I think more people are coming to buy secondhand because it's tough out there and our margins holding up really nicely. So while we're seeing the big box retailers every week announcing downgrades and difficult conditions. We're just seeing particularly down Latin America as well; we're seeing really robust sales and maintaining our margins in that target rate.

So I think what's happening is people are buying secondhand and looking for a bargain and there are also particularly young people becoming really environmentally conscious. And so buying secondhand is not only value for money, they actually think it's cool because you are doing what's good for the environment. So we're quite pleased with what we're seeing from a sales perspective.

John Hecht - *Jefferies LLC, Research Division - MD & Equity Analyst*

Okay. And then -- that's very helpful. And then last question. I mean, your store retail margin has been very strong. I mean obviously, migrating just as kind of things normalize, but very strong. The scrap margins are a little bit more volatile. I'm sure there's some reasons behind that, and I'm wondering if you can you talk about what are the factors that move the scrap margins on a near-term basis?

Timothy K. Jugmans - *EZCORP, Inc. - CFO*

John, the scrap margins, yes, they have moved about a little bit. Definitely diamond market has moved up and down on the scrapping side. As you've seen over the years, we are trying to sell much more of that jewelry in store and do much less scrapping. And so that has shifted towards probably the lower grade stuff being scrapped and the higher-grade stuff now being sold in the stores. And so those margins have come down over time and are likely to remain quite low because of that change.

Operator

(Operator Instructions) We currently have no further questions, and therefore, this concludes today's call. Thank you for joining. You may now disconnect your lines.
