EZCORP, Inc., Q2 2023 Earnings Call, May 04, 2023 (EditedCopy)

TEXT version of Transcript

Corporate Participants

* Lachlan P. Given

  EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer

* Timothy K. Jugmans

  EZCORP, Inc. - Chief Financial Officer

Conference Call Participants

* Brian Christopher McNamara

  Canaccord Genuity Corp., Research Division - Analyst

* John Hecht

  Jefferies LLC, Research Division - MD & Equity Analyst

* William Kethley Dossett

  Oppenheimer & Co. Inc., Research Division - Research Analyst

Presentation

Operator [1]

Good morning, ladies and gentlemen. Welcome to the EZCORP Second Quarter Fiscal 2023 Earnings Call. [Operator Instructions] As a reminder, this call may be recorded. I'd now like to turn the conference over to Jean Marie Young, Investor Relations with Three Part Advisors, . Please go ahead, Jean.

Jean Marie Young, Three Part Advisors, LLC - Managing Director [2]

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, Lachie Given; and Tim Jugmans, Chief Financial Officer. Now I'd like to turn the call over to Lachie Given. Lachie?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [3]

Thanks, Jean , and good morning, everyone. Our team's consistent execution of our strategic plan has again yielded strong financial results with record second quarter pawn loans outstanding and merchandise sales. PLO is the key driver of our business was up 17%, $202.9 million, and merchandise sales were up 12%, 8% on a same-store basis.

The macroeconomic environment continues to support increased core demand for our products and services, including providing environmentally conscious consumers with a more sustainable way to shop. Our team's relentless commitment to serving our customers with passion and respect and to excel operationally in all that we do continues to drive our strong operating and financial results.

Beginning on Slide 3. We are a global leader in pawnbroking and pre-owned and recycled retail. We operate 1,199 stores in the U.S. and Latin America with strategic investments in adjacent businesses, expanding our geographic footprint worldwide. The macroeconomic environment continues to be a challenge for our customer base with inflationary pressures and economic uncertainty driving increased demand perform. Consumers are seeking value for money and environmentally responsible alternatives, driving increased demand for secondhand goods. We strive to be the best, most convenient experience for our customers through continuous innovation, while positively impacting the environment and the communities in which we serve.

Moving on to Slide 4. Our engaged team drives our success, so we are committed to investing in recruitment, retention and incentivization. We provide outstanding customer service, an attractive and well-positioned store footprint, a differentiated digital platform, a market-leading loyalty program and a proprietary POS system so that we can offer the best options for our customers. Our strong balance sheet gives us ample liquidity to provide pawn loans across the regions in which we operate through various economic cycles.

Slide 5 shows how we've progressed on our 3-year strategic goals. We believe we have the most passionate, productive, tenured and committed team in the industry, and we continue to find ways to motivate and retain them. Our team drives our success and our intense focus on employee training and recognition as a result of installed level vacancies of less than 3% across all geographies. We continuously strive to improve both our team member and customer experience across all that we do. Customers continue to sign up for our points-based loyalty program, which has grown to 2.9 million customers.

In Mexico, we are improving the retail showrooms to offer an even better shopping experience. Turning to our key financial themes in Q2 on Slide 6. PLO, the most significant driver of revenue and earnings was up 17% year-over-year, which was a record for the second quarter, with an associated 19% increase in PSC. Taxes and paydown was less than expected this year. Total revenue for the quarter was $253.8 million, up 17%. EBITDA was $33 million for the quarter, up 4%. We are focused on better execution in Lat Am to bring down aged inventory and get closer to the levels seen in the United States.

Cash on the balance sheet increased over the first quarter due to increased merchandise sales and the expected paydown of PLO during tax season. On Slide 7, EBITDA margin was 13% for the last 12 months ending March 2023 versus 12% in the last 12 months ending March 2022 with the U.S. driving the growth. Recently, EBITDA margins flattened due to inflationary pressures. On Slide 8, we talk about strengthening our core by focusing on people and technology to ultimately drive earnings. We are focused on recruitment, retention, inclusion and incentivization to ensure that our team is highly engaged, implementing processes to improve the bench strength of our field team and improving recruiting strategies that resulted in a vacancy rate of less than 3%, as I mentioned earlier.

We believe that we are leading the industry in technology and process efficiency. Our store network and system upgrades are complete and are improving stability and supporting our digital initiatives. We continue to invest in technology and are building out our e-commerce capabilities. On Slide 9, innovation and growth is the third pillar of our 3-year strategy, and we continue to execute our plans. Our EZ+ loyalty program was over 2.9 million customers enrolled versus over 2.4 million last quarter, an increase of 19%. We also collected $12.7 million in online payments this quarter, up $6.5 million from the second quarter of fiscal 2022. Our 1 Million Point giveaway promotion in the U.S. aimed at acquiring and engaging EZ+ loyalty members to 27,000 entries and 200 winners. Improving the customer experience and growing the customer base remain key to our strategy. We have increased website visits to our core brands by 13% over the previous quarter. MaxPawn, our luxury pawn website saw an 86% increase in daily website visitors over the previous quarter. We opened 11 de novo stores in Latin America with 8 in Mexico and 3 in Guatemala.

In the Las Vegas area, we opened 2 de novo stores, 1 Max Pawn store and 1 EZ Pawn store. Slide 10 outlines our ESG highlights for the fiscal second quarter. 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 1.4 million pre-owned items in the quarter, including toxic consumer electronic products such as computers, TVs and phones, as well as tools, musical instruments, household goods and jewelry, saving them all from landfills. We use sound recycling and e-waste processing in the U.S., we do not use factories distribution facilities or heavy trucking.

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 we continue to have excellent engagement in our Black Empowerment Affinity Group groups in the U.S. and our Women's Empowerment Affinity Group in both the U.S. and Latin America. In addition, we launched a Working Parents affinity group in Latin America during the quarter.

We celebrated employee appreciation day globally, and we have revamped the mission of our EZCORP Foundation. Building on our core tenets of people pull and passion, our mission is to improve the quality of life in the communities where we live and operate through supporting financial literacy, food security and financial stability.

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

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [4]

Thanks, Lachie. Turning to our consolidated financial results on Slide 11. PLO rose 17%, driving PSC up 19% year-over-year, primarily driven by higher average PLO growth and improved yields. On the retail side of the business, merchandise sales were up 12% with merchandise sales gross profit up 5% with an expected 200 basis points drop in sales margin.

Store expenses increased 16%, primarily due to labor in-line with store activity, higher store count and to a lesser expenses related to our loyalty program. G&A expenses increased 28%, primarily due to the reversal of incentive compensation for the previous CEO last year and, to a lesser extent, the increase in accrued incentive compensation. EBITDA for the quarter was $33.3 million, up 4%.

Turning to our U.S. pawn operations on Slide 12. PLO rose 18%, which led to a 19% increase in PSC year-over-year. On the retail side of the business, merchandise sales were up 9% with merchandise sales gross profit down 1% due to the drop in sales margin of 300 basis points. Store expenses increased by 12%, primarily due to labor in-line with store activity, higher store count and to a lesser extent, expenses related to our loyalty program. U.S. pawn EBITDA for the quarter was $40.3 million, up 11% on the prior year.

Slide 13 focuses on our Latin American pawn operations. Segment PLO grew 14% for the second quarter or 12% on a same-store basis with a resulting PSC up 21%. Merchandise sales were up 22%, 16% on a same-store basis. Merchandise sales gross profit was up 32% due to increased sales and margins up 300 basis points. Store expenses were up 29% and 24% on a same-store basis, mainly due to increased labor

in-line with store activity and higher store count.

Inventory turnover remains strong at 3.5x. However, Aged GM is up to 3.2%, which reflects an opportunity to improve execution in Latin America. For the second quarter, Latin America and EBITDA improved 11% to $7.3 million. Looking forward, on a consolidated basis, we should see PLO levels continue to hit record numbers as we move our [taxes] traditionally seasonally low for the year. This also means that PSC and profit for Q3 are traditionally the lowest for the year.

As communicated in prior quarters, we are likely to continue to see gross margin to remain at the lower end of our range of 35% to 38% as we remain focused on strong inventory turns and limited age of general merchandise. Also, as we have seen this quarter, store expenses have increased and will do so on a sequential basis as inflationary pressures continue to affect the business. We also expect G&A expenses to increase sequentially for the same reason. Our focus on growing PLO, selling what we own and investing in technology to gain efficiency and enhance customer service continue to drive our improved financial results. 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 [5]

Thanks, Tim. In closing, I want to thank our EZCORP team for yet another excellent quarter. We are consistently delivering strong operating and financial results for our stakeholders. We grew PLO and merchandise sales to record levels for the second quarter, opened 13 new stores, 2 of which were in the important market of Las Vegas, enhanced our bench strength in the stores and the support center, and we continue to buy back shares, returning capital to our shareholders.

We achieved these milestones with a robust balance sheet and strong liquidity, providing the platform to capitalize on increasing demand for our 2 core products and an exciting pipeline for pawn store acquisitions across the regions in which we operate and beyond. And with that, we will open the call for questions. Operator?

Question And Answer

Operator [1]

[Operator Instructions]

Our first question comes from the line of John Hecht of Jefferies.

John Hecht, Jefferies LLC, Research Division - MD & Equity Analyst [2]

I'm just wondering kind of what you're seeing in terms of the retail mix of the stores. I remember a year ago or 2, you guys had a good mix of like secondary shoes that might have even been considered luxury, but obviously value luxury. But now that we're kind of in a different economic climate, are your customers seeking different types of merchandise from you, considering the value proposition you offer?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [3]

Look, I don't think we're seeing anything that's materially different from the customer in the mix. We are seeing nice growth in the luxury items, handbags and shoes, but they're still relatively small, but a really exciting growth numbers. And we're obviously concentrating a bit more on the luxury strategy now, which is super exciting. But I think, generally speaking, there's been no material changes in the mix.

John Hecht, Jefferies LLC, Research Division - MD & Equity Analyst [4]

Okay. And then retail margins, I mean, you're in the range. I think you guys mentioned maybe the lower end of the range. But then again, this is -- now we're kind of back to a normal range relative to the historical context. Any comments there? Is that a function of consumers being more selective or maybe bargaining again just because they're under more pressure? Or is it just things have settled back to normal? The mix is normal, and that's kind of the outlook given the set of circumstances?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [5]

I think it's more of the latter. Our kind of enhanced operating strategy over the last couple of years is to be far more focused on terms. So making sure that we're getting rid of inventory as quickly as we can. And I think the margin falls out of that strategy. So maybe in past years, it was more margin first. But when you do that, you clearly get an aged problem. So our pawn operating strategy now is concentrated on loans at the counter and to dispose of inventory as quickly as we can and at an appropriate margin. So look, I think the outlook remains the same. It's at the low end of that range as we continue to make sure that the terms remain strong.

John Hecht, Jefferies LLC, Research Division - MD & Equity Analyst [6]

Okay. And then that , I think you've had -- you've added about 40-ish stores in the last year. Just any call out there with respect to how the stores season or mature relative to what they would have done a few years ago?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [7]

Look, we're really excited about that strategy. The de novos in Latin America, both Mexico and Guatemala, that's been really exciting strategy because the market is so large. So I think you'll see more of that from us. I think it's these stores come on quicker than they do in the U.S. because you're putting less capital and expenses are lower. And so you move to profitability quite quickly versus the U.S. So yes, I think it's very much on plan. The results have been on plan, and I think you'll see us do more of them.

Operator [8]

The next question comes from the line of Brian Nagel of Oppenheimer.

William Kethley Dossett, Oppenheimer & Co. Inc., Research Division - Research Analyst [9]

This is William Dossett on for Brian Nagel. Congrats on a nice quarter. So our first question is bigger picture in nature. And just on the overall pawn backdrop. Can you describe how your core customer has been holding up through fiscal Q2, but also here in the early months of the spring. And there's also been a lot of discussion around like a recession later in the year. So we wondered if there's been any notable shift to changes or new shift to buying patterns or traffic or just general consumer demand for pawn loans lately?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [10]

Thank you for the question. Look, I think it's a very positive outlook for pawn. You can see our core growth for our 2 products, which is obviously pawn loans and secondhand goods. You can see that we're really up pretty strongly this quarter again. But the core demand for these products continues to grow. In terms of a recession later in the year, historically, that would usually mean more growth in pawn loans and sales get tougher.

What we're seeing is that, in fact, sales remain strong as we think customers are looking for value for money and more environmentally conscious, so we're looking for secondhand goods. So look, it's a good question. In terms of the quarter itself, we saw strong growth, and we think that, that's going to continue in both products. And in general, recessionary environments have good time for pawn broking businesses.

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [11]

But adding to that, we did see in quarter 2, the -- definitely less of a paydown during tax season. I think a lot of companies reported seeing their customers with less money during tax season, which really meant that from a loan balance perspective, we are on a much higher-than-expected loan balance at the end of the quarter, and that puts us in really good stead for the rest of the year.

William Kethley Dossett, Oppenheimer & Co. Inc., Research Division - Research Analyst [12]

I appreciate that color. Our next question was in respect to the loyalty program. Congrats on the strong adoption here in Q2. It's 2.9 million members versus 2.4 million last quarter. And -- so we just wanted to get your opinion on how this program is helping you connect better with the core consumers. And also, while it's still early, have you seen any financial benefits thus far?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [13]

Look, it's a good question again. And it is certainly early. So our first phase has been to sign up as many customers as possible and get the message out to our customer base that there is benefit here for them. Next step is to maximize the success of it, to get consumers more engaged, coming back more often using their points. But anecdotally, lots of customers are talking about it when they come into the store, they always want to talk about their points. So we think that it is just generally engaging our customer base in a much better way.

The hope is that it wins -- it helps win share going forward. But I think, financially speaking, it's still very, very early. We've just engaged an outside agency to help us to come up with more innovative strategies around it. But I think you can see that clearly our customers both loves it. I think in the coming quarters, you'll see us do more around it and I think drive more revenue. But for now, it's still pretty early financially.

William Kethley Dossett, Oppenheimer & Co. Inc., Research Division - Research Analyst [14]

And our last question, if I can squeeze this in is that you've done a lot to invest and staff well your stores here in the past year. And so our question was, excluding new stores or acquisitions, is your current expense infrastructure in place so that we should really think about any incremental SG&A is largely wage inflation related. And then considering this and also, we recognize you haven't given long-term guidance, but any updates to the way that we should think about the long-term operating margin profile of your business?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [15]

I think Tim will have some comments here. But I think on the store base question, we said in our remarks just now that I think vacancy is a bit less than 3%. So that's -- and that's on a consolidated basis. I would say to you that in the U.S., we are pretty much fully staffed now in the stores based on the current activity. So it's really strong progress against the period last year where it is very, very tough to get people into the stores in terms of staff members. So look, we're feeling really good about the staffing level now. So yes, it will be about inflationary impact on that store base. Tim, I don't know if you want to add anything on that or just move to the longer-term kind of operating margin question.

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [16]

Yes. Definitely we will see some inflationary pressures hitting next quarter on a sequential basis across the store network and G&A. But the big sequential rise in expenses is slowly diminishing as the inflationary pressures are really almost all set in, but there is still a little bit more movement to go. And on our margin -- our total margin perspective on a bottom line. We definitely see that we've still got room to move on the revenue line, only a little bit more room on the expense lines and move up. And so as that revenue goes up, we think the margins will start improving next year. But at this stage of this year, it's probably relatively stable.

Operator [17]

The next question comes from Brian McNamara of Canaccord Genuity.

Brian Christopher McNamara, Canaccord Genuity Corp., Research Division - Analyst [18]

Congrats on the strong results. So first off, I'm curious if you guys are seeing any tangible benefit from the recent high-profile regional bank failures and the tightening of lending standards while your core customers likely unbanked or underbanked, is this leading to some new customer acquisition of folks perhaps on the fringes?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [19]

Perhaps, it's a good thought. Look, you can see that our core demand is increasing. You can see that our loan balance is significantly up. And I think there's a whole variety of reasons, including the macro environment, inflationary pressure, interest rates, gas prices, definitely the tightening of credit from competitive products like the installment lending payday title, whether or not it's the failures of First Republic and Silicon Valley Bank, I don't know. Usually, that is a cost, it's probably a different customer base. But it's not out of the question that we would be seeing some incremental growth. But I think it's probably those other factors that are really driving it. And I've got to say truthfully, our store people and our strategies in our store and our rewards program and our customer service, I think, is probably the biggest driver of all.

Brian Christopher McNamara, Canaccord Genuity Corp., Research Division - Analyst [20]

So secondly, PLO was down less than 2% sequentially compared to your typical kind of minus double-digit given seasonality, which is an incredible result in our opinion. Is that just tax refund timing? Or is there underlying strength on top of that? And I guess, for example, how would that look today from a seasonality standpoint?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [21]

Yes. I think tax reason is the largest issue at play. You see a lot of other companies have announced the same thing. So I think that is the largest reason. But yes, all of our strategies, our operating strategies, our initiatives to better loan at the counter to retain customers, I think, is definitely taking hold. But usually, it's much bigger paydown from tax season. So that was definitely a benefit for us this quarter.

Brian Christopher McNamara, Canaccord Genuity Corp., Research Division - Analyst [22]

And then finally, are you seeing any improvement in the acquired stores in Mexico where you cited some weakness in Q1 in terms of aged inventory and merchandise margins?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [23]

Yes, we definitely. Thank you, Brian, and thanks for the question man. Definitely seeing progress in the Mexico acquisitions. We've got new leadership down there. We are seeing better retention of people in our stores firstly, and that is usually the leading indicator to improved financial results. So concentrating so much on bench strength on the promotability of store managers or assistant managers and really retaining team members down there is starting to see some significant traction. So we're confident that, that then, as I did in the U.S. last year, that then transfers into better selling of aged inventory, better lending at the counter. So on most metrics, we're seeing improvement in those acquisitions down there. So we're pretty excited about it.

Operator [24]

Thank you. And with that, we will conclude our time of Q&A. I would now like to pass the conference back over to Lachlan Given for any closing remarks.

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [25]

Thanks, operator, and thank you all for joining the call. It's obviously a very good quarter again, and we look forward to talking to you all in the one-on-ones later on today and tomorrow. Thanks all. Bye-bye.

Operator [26]

And with that, we will conclude today's call. Thank you for participating. You may now disconnect your lines.