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EZCORP, Inc. (EZPW)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the EZCORP First Quarter Fiscal Year 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. As a reminder, this call may be recorded.

I would now like to turn the conference call over to Jeff Christensen, Vice President of Investor Relations of EZCORP. Please go ahead, Jeff.

Jeff Christensen
Vice President, Investor Relations, EZCORP, Inc.

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 contains 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 or implied by these forward-looking statements due to a number of risk and other factors that are discussed in our annual, quarterly and other reports filed with the Securities and Exchange Commission.

Now, I'd like to turn the call over to Mr. Stuart Grimshaw. Stuart?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

Thanks, Jeff. And welcome to everyone to our first quarter 2019 financial results presentation. It's been another very strong quarter in terms of our operating performance, and Danny will run you through this shortly. However, I'd like to briefly recap some of the strategic issues we highlighted at the Investor Day in December of last year. So if you could turn to slide 3, there are four initiatives that we outlined. Firstly focusing on the customer to deliver the market share gains. We've always said that everything starts with satisfying the customer's need for cash. And in this regard, we looked at the growth of our loan portfolio. On a consolidated basis, we grew same-store loans by 8% or a gross 10% with the U.S. growing at 7%, and LatAm at 11%, but the LatAm region grew a gross of 27% representing the acquisitions we've undertaken. These are extremely strong numbers that are driven by a great team of people who are focused on the customer experience.

The second initiative was diversification across geographies. We continued to build on our presence in Latin America with the acquisition of five stores in Mexico and the opening of four de novo stores in the Latin American region. In addition to these investments, we also undertook four store expansions and five relocations in the GPMX business. To reiterate we expected five-year ROICs on these investments, we expect 25% from acquisitions, 30% on relocations, and 35% on de novos. We also remain committed to an annual growth of between 100 stores to 200 stores, but I'll caveat that these have to be the right price, with the right management team, and in the right locations such that the ROICs I mentioned previously, are achieved.

The third initiative we outlined was the strong cash flow and balance sheet. Our cash balances have grown to just under $300 million reflecting an increase in operating cash flow of 18% to $23 million with a further $7 million in principal received from AlphaCredit. As discussed at the Investor Day, we have a strong pipeline of acquisitions that we're assessing and are at various stages of discussions with these targets. We also had a maturity of the June 2019 convertible note looming. The convertible and debt markets have pretty much been closed since the Investor Day and our board are currently reviewing the options available to the company in light of the market conditions and strategic opportunities available.

We also continue to look to domestic banks for support on unsecured and zero covenant basis, but to date this has proven difficult to achieve. But stepping back, we remain committed to maintaining the financial flexibility to capitalize on the highest return opportunities.

The fourth initiative is the data-driven digital engagement with our customers. We know that our customers are becoming increasingly more sophisticated through the use of smartphones, laptops and tablets. Our industry is not immune to the evolution of digital engagement and fulfillment. And we believe that we must digitize our engagement with our customers to create a more robust presence in our customers' financial lifecycle which drives enhanced customer acquisition and retention.

To this end, I will talk a little later about the investment we've had in commencing the development of a digital platform in partnership with the Boston Consulting Group Digital Ventures arm. In regards to POS2, by the end of this week we will be up and running in 184 stores; 55 stores in Mexico; and 129 stores in the U.S. At the time of the Investor Day we are in 100 stores – 108 stores. Importantly in the U.S. we'll have presence in seven states where 84% of our stores are located.

We will rapidly move to deploy into these states fully once we get through the tax refund season, which we are unsure as to how long it will last for. You will recall at Investor Day, we highlighted the advances we have made in the capture and utilization of the customer data that we have. We mentioned that we have over 220 million data points that we will base our customer grading outcomes upon. We will over the next few months start to integrate the full customer grading system into our POS2.

And with that overview I'll pass over to Danny.

Daniel M. Chism

Chief Financial Officer, EZCORP, Inc.

Thanks Stuart and good morning everyone. I'm excited to share with you our strong pawn operating performance for the first quarter. Let's start with the highlights of the adjusted results on slide 4. Consolidated pawn loans outstanding or PLO was 10% higher at the end of the quarter, setting us up well for Q2 and the remainder of fiscal 2019. For the quarter we leveraged a 7% increase in net revenues and to an 11% higher EBITDA, and a 15% rise in adjusted diluted EPS to $0.31.

As I mentioned last quarter our adjusted earnings exclude non-cash interest income and expense from both the current and prior year figures to reflect results more akin to cash earnings. Net cash from operating activities showed a similar improvement, up 18%. Our year-over-year same-store PLO growth at the end of the period was the strongest delivered in several quarters. As Stuart mentioned U.S. Pawn delivered 7% same-store PLO growth and leveraged a 5% bump in net revenues into an 8% increase in adjusted PBT. Latin America, our fastest growing segment delivered double digit same-store PLO growth up 11% and was up 27% including the effect of new and acquired stores. The Latin America Pawn segment's EBITDA increased 10% to just over $10 million.

Moving on to slide 5, you see the outstanding progress we've made in regularly improving the consolidated EBITDA and EBITDA margin. The consolidated margin was at 15% just three years ago and we've now reached 23% in the first quarter. That advance reflects the benefit of our efforts to simplify and focus the business, leverage our expense structure and other management actions. For U.S. Pawn our largest segment, EBITDA margin expanded to 33% from 31%, reflecting the benefit of a higher PLO combined with well-managed expenses. Latin America Pawn posted a 35% margin in the quarter, while we're excited about the new and acquired stores added over the past 15 months, they do temporarily suppress the EBITDA margin until new stores mature and acquired stores are fully integrated and transition to EZCORP standards.

Turning to slide 6, included in the GAAP results for the quarter were non-cash charges of $20.6 million as well as discretionary growth investments and other discrete costs in the quarter. They contributed to a pre-tax loss of $5.6 million. Excluding those items, adjusted pre-tax income was $22.5 million. The discrete non-cash charges are comprised of several items. We recorded a $13.3 million impairment to the carrying value of our investment in Cash Converters. We believe there to be upside in CCV stock as current levels incorporate general volatility of the Australian stock market. CCV's underlying earnings have also demonstrated an improving trend, and sell side analysts predict a significantly higher stock price over the next year.

However strict application of accounting standards caused us to mark our investment down to the price at which CCV's stock was trading at December 31. We also recorded a $2.9 million charge to our equity interest in CCV's income for our portion of its previously announced settlement of a class action lawsuit resolved in the quarter. The remainder came from a $4.4 million charge to fully reserve our exposure to Republic Metals Corporation which declared Chapter 11 bankruptcy in November 2018.

We previously used Republic as our primary gold scrap refiner in the U.S., and Mexico. We continue to pursue collection, and in fact recovered almost a quarter of that in just the last week after closing our December books. Corporate expense includes $2.1 million of investment towards the development of digital data driven platform to provide transactions and lending services connected to ledger of physical assets as Stuart mentioned. Stuart will provide a little more insight into this opportunity in a few minutes. The quarter's GAAP results also include about $800,000 of cost in Latin America, not indicative of current activities, and which I don't expect to recur.

Please turn to slide 7. Here you'll find the underlying performance after adjusting for constant currency, non-cash interest, and the discrete items just discussed. As I mentioned earlier, we leveraged a 7% increase in net revenues into a 15% rise in adjusted diluted EPS to $0.31. The strong growth in PLO was seen in PSC growth with both up 10%.

Consolidated operations expense was up 8% from the same quarter last year mainly from acquired and new stores in Latin America. Consolidated operations expenses represent 68% of net revenue in line with this quarter last year. Operating leverage should grow in fiscal 2019, as acquired stores are further integrated and recent new stores mature and build scale. We anticipate new stores will reach breakeven and start contributing positive EBITDA in six to nine months but they do drag EBITDA margins a bit until they mature. Acquired stores have a similar effect until they're fully transitioned to EZCORP standards.

Corporate expenses increased modestly up 2%. On our last call, I mentioned that we use adjusted net interest expense to analyze the business. This removes the effective non-cash interest expense related to our convertible debt, as well as non-cash interest income on our notes receivable from AlphaCredit. Adjusted net interest expense was $1.2 million in the quarter compared to $400,000 in the same period last year. In the current quarter that removes $5.6 million of non-cash interest expense and $1.4 million of non-cash interest income. The latter of which will continue to drop quarterly as the note principal continues to be repaid monthly. Though the effective tax rate on our adjusted income was about 26% this quarter, I continue to expect our adjusted effective tax rate for the full year to be approximately 31% to 32%.

I'll briefly touch on the U.S. Government shutdown. We've seen no discernible impact on our business related to the shutdown. The most likely impact could be if the IRS is delayed this year in issuing customer refunds. If that were to occur it would push out a bit later the cash inflow we typically see in Q2 and the beginning of Q3 that would benefit our pawn service charges from loans remaining outstanding longer and would be offset by lower sales in that period, as our customers would be shorter on cash. The net impact would not be so much a change in earnings as much as a change in the timing of the cash flows.

Slide 8 shows U.S. Pawn same-store PLO growth quarter by quarter stacked on top of the same quarter of the prior year and the same information for our largest competitor at the bottom of the chart. The long-term trend remains that we're delivering higher loan growth quarter-after-quarter suggesting we're continuing to take market share.

Slide 9, shows you the excellent U.S. Pawn results for the quarter. U.S. Pawn delivered strong same – strong year-over-year same-store PLO up 7%. Even looking at stores unaffected by hurricanes last year same-store PLO rose 4% this quarter, up 2 percentage points sequentially from last quarter. The ending PLO of $305,000 per store is similar to the recent fourth quarter representing a seven year high. Same-store PSC was up 8% slightly higher than the PLO increase as the disciplined approach to pawn lending maintained a strong loan yield. Inventory was well managed with the same-store increase of only 4% in relation to the 7% improvement in PLO as sales rose 5%. Merchandise margins were 90 basis points below the prior year quarter, but at 38% remained at the high end of our target range of 35% to 38%. Overall, we leveraged a 5% lift in net revenues to an 8% increase in adjusted profit before tax to $30 million.

We made no secret for the fact that acquisitions in Latin America are a big part of our growth strategy. As seen on slide 10, even on a same-store basis the segment is delivering significant loan – long-term loan growth quarter-after-quarter. In fact, this was the 19th consecutive quarter of same-store PLO growth. This quarter's 11% same-store PLO increase was on top of a double-digit increase in the same quarter last year.

Slide 11 shows total PLO growth of 27% for Latin America Pawn including the impact of new and acquired stores. December quarter and PLO per store of $84,000 was the highest in Latin America since 2007. Customers had less cash this quarter driving this strong same-store PLO growth, partially offset by softer sales. Same-store PSC increased 7%. The difference between PLO and PSC same-store growth rates is primarily attributable to the rapid growth of the loan portfolio in the period.

Latin America delivered 20% higher net revenue. Profit before tax was about the same as the prior year quarter as expenses increased mainly due to our investments in recently acquired and new stores. We anticipate operating leverage will expand in fiscal 2019 as new stores mature, and as we continue to migrate acquired stores to EZCORP standards.

The quarter's expenses also reflect additional administrative personnel needed prior to the transition of acquired stores on to EZCORP's point of sale system, which occurred near the end of the quarter. I also expect PLO yields to return to historical levels as we continue to bring acquired stores up to EZCORP standards and employ our policies and practices.

Turning to slide 12, we ended the quarter with a strong balance sheet and $297 million cash, even after investing an additional $9 million in the PLO growth. Assuming payoff of the $195 million of convertible notes due in June and other liquidity needs for daily operations leaves $30 million to $50 million of available cash to invest in acquisitions, new stores and discretionary growth investments. In addition, we continue to receive timely principal and interest payments from AlphaCredit in accordance with the terms of those notes receivable. We anticipate receiving another $19 million in the remainder of fiscal 2019 including cash interest. We also expect to collect another $6 million from AlphaCredit in September 2019. This is the first installment of the related deferred compensation fee with the remaining $8 million due in fiscal 2020.

Now that you have a better understanding of the financial results, I'll turn the call back over to Stuart.

Stuart I. Grimshaw

Chief Executive Officer & Director, EZCORP, Inc.

Thanks, Danny. And as I mentioned previously I just want to spend a bit of time just running through where we are with the digital platform evolution for the purposes of this presentation we've been calling it Evergreen. If you turn to slide 14, what we've done is quite an exciting investment for us. We've partnered with the Boston Consulting Group Digital Ventures arm to invest in the creation of a digital platform that's customer centric and innovates and addresses our customers' financial needs. To this end, we've taken the competitive advantages of EZCORP which are a large retail footprint, terrific customer engagement, great brands and reputation, and deep customer data or product valuation IP, and couple these with the skills of the Boston Consulting Group Digital Ventures arm which has an attacker mindset and speed, startup experience, proprietary proven methodology, multi-disciplinary teams, and a lean approach. And coupling these, we are using this to research and develop a digital platform that places us at the center of the customers' financial needs. Just for background, Boston Consulting Group Digital Ventures has partnered with many companies such as Starbucks, UBS, and Bosch to invent, launch, and scale game changing businesses. This is their core DNA and provides us with the comfort that we would manage risk appropriately in following this path.

And turning to slide 15. In an FDIC study published in October 2018, [ph] there's table (00:17:42) that there were 63 million unbanked and underbanked individuals in the United States. You may recall that as CEO of Empeño Fácil outlined at the Investor Day that Mexico had a similar number of 16 million unbanked and underbanked individuals or 63% of their adult population. According to the CFSI Fundamentally UnderServed Market Size Report of 2017 (sic) [Financially Underserved Market Size Report of 2017] (00:17:55) unbanked and underbanked consumers spent around $180 billion on fees and interest. You'll note that our annual revenues are around $900 million which makes us very small in this segment.

There are many monoline fintech companies trying to access this space but are either capital constrained or not – and unable to meet all the customers' financial needs or unable to cost effectively attract customers to their platform. This means that customers remained fundamentally underserved to the digital, and to a degree physical world.

Turning to slide 16, in conjunction with Boston Consulting Group Digital Ventures, we undertook substantial and in-depth customer research by one-on-one interviews in their homes which highlighted three key friction points. First, is the new to pawn customers lack an understanding of an asset's value and feel the whole pawn experience is an intimidating one. Secondly, making a payment on the loan can only be undertaken in-store and is a laborious one for time-constrained people. Thirdly, it incurs time and cost to already constrained people to understand loan amount, payable, payments made, and due date.

On slide 17, I mentioned previously we've leveraged the strategic assets of the company in the process of creating the digital platform and there are four key points that I want to bring out here. Firstly we have 970 pawn store locations combined – and combined with digital channels, this will enable a strong moat with very low acquisition costs for new customers. We will have 2.4 million loan customers served per annum and this does not account for those customers who either sell product or purchase product. And with the depth of customers, we're able to trial products rapidly and get feedback instantaneously. Thirdly 56% of new customers to EZCORP are millennials with strong digital awareness and acceptance. And fourthly the proprietary customer behavior and product valuation IP that we have can be leveraged for digital enablement rapidly.

Let's turn now to slide 18, and this will give you a snapshot of what the skin could potentially look like. From these inputs, we created the concept of Evergreen which is designed to be a single access point serving the financial solution needs of our customer base. How are we initially going to do this? Well, firstly we'll create a digital global asset register for our clients. This will create a better understanding of the wealth of the goods they own. Currently the research shows that they have little knowledge of the assets they own and limited knowledge of the value of these assets. They will be able to take photos of what they own and utilizing the [ph] What's It Worth app (00:20:41) which is under development that was shown on the Investor Day. They'll be able to get a total approximate value of these assets.

Secondly and most importantly there is a financial inclusion element to this. We'll look to create a digital wallet that will also enable transactions to occur for this customer segment in a low cost manner. Customers will be able to interact digitally with us that will open the opportunity to many more customers than we currently serve. And thirdly, as we collect more data, we will be able to see how we can assist customers more dynamically through their difficult moments.

We're really excited about the strategic investment and believe we'll be in market with an offering towards the end of this calendar year. As you would have heard from Danny's presentation, we expensed around $2.1 million of initial investment as only a very small portion of this was capitalized at this early stage. Going forward we expect the development cost to be in the vicinity of around $1 million a month until launch, with around 50% to 60% of this being capitalized based on Boston Consulting Group's experience with other companies. The exact number for capitalization is still under review.

Finally, turning to slide 19, where we look to the drivers of long-term growth. In terms of the current operational initiatives, we remain performing at a very high level. The focus on serving and satisfying our customers need for cash is being seen on the financial results, and this is driven by the experience in the store and the commitment of our team members to this vision. We'll continue to drive to high standards each day. In terms of the future, we'll continue to assess acquisition opportunities that will broaden our footprint and serve the unbanked and underbanked community. We have talked about the role data and digital will play in our future and the development of the Evergreen project will see this come to fruition. The data insights we gather will also be incorporated in the positive environment, which is in the accelerated phase of its implementation.

And with that, I'll open it up to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Vincent Caintic. Your line is open.

Vincent Caintic
Analyst, Stephens, Inc.
Q

Hey, thanks. Good morning, guys.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.
A

Good morning.

Vincent Caintic
Analyst, Stephens, Inc.
Q

Just wanted to turn back to the slide about the cash available for investments. And I just want to confirm here what your thoughts are – just want to confirm that on the June 2019 maturities that you won't be raising any debt or converts to take care of that, that'll just be all from the cash already on your balance sheet?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.
A

Hi, Vincent, it's Stuart. As I said in the presentation, the board are currently discussing that in light of market conditions, the cash availability and strategic acquisition opportunities that are available. So, they are going through that process at this point of time.

Vincent Caintic
Analyst, Stephens, Inc.
Q

Okay. Typically, and I guess also may be given what you're seeing out there for opportunities. How much cash do you think you need to keep in reserve. So is $30 million to $50 million right after acquisitions or how are you thinking about your cash reserves going forward?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.
A

We think $30 million to $50 million is actually the base level of cash we require. That wouldn't be if that would not be available for acquisitions that is for the operating requirements with the company.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay, got it. Thank you. Then switching to this Evergreen project, so I think this is really interesting. So I'm not as familiar with the offerings that might be available out there. So I know there's a lot of fintech offerings there, but in terms of pawn or anything that's really adjacent to your product like is there anything out there, is there competitive differences that you see between what you're intending to offer versus what might else be out there?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Yeah, the offer we're putting there is actually very unique. There's a couple of small fintech type companies operating in the space but none of them have a customer base, and none of them have a store present. None of them have the POS where they collect data instantaneously on customers and have feedback. So we have researched the market, and we believe that this is a very unique offering. And more importantly, we think it opens the market to new customers as we take some of the nervousness, anxiety of financial stress off the hands of the customer by creating a close to a global asset bank where they believe they have wealth that can meet the constrained needs they invariably come under. So we think this is an extremely unique offering, and we think there is a substantial competitive advantage. Not only in partnering with Boston Consulting Group, but actually bringing our physical assets to bear into the digital world.

Vincent Caintic
Analyst, Stephens, Inc.

Q

That's interesting. Is there I don't know if there's been a study on this but is there a way to size how much you think your customer has in terms of pawnable assets or how many hard assets they have available to them versus what they typically actually are using for pawnable assets or like how much more is there of addressable market that you could tap?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

It's a good question. We actually don't know because typically the experience in store is one where the customer has a number in mind and we will try and get them the cash based upon asking the questions around other assets they might have or not. So, we – at this stage it's a bit of an unknown, but what we have to do is educate the customer that they do have a store of wealth, but it's not what we would not what we sitting around this table would view as a traditional store of wealth.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. Very interesting. Thanks very much.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Thanks, Vincent.

Operator: Your next question comes from the line of Greg Pendy. Your line is open.

Gregory R. Pendy
Analyst, Sidoti & Co. LLC

Q

Hey, guys, thanks for taking my question. Just real quick on scrap, I know it was down 24%. Is that entirely related to Republic Metals and should there be a catch up in subsequent quarters? And then also while on that topic, I know we can't predict commodity prices, but right now gold would be positioned more favorably I guess starting in your 3Q assuming that the prices hold. How does that impact scrap? Thanks.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Yeah, so, on the Republic Metals, I'll take that first. I would say the scrap volumes you see come through this quarter, the actual write off we took doesn't show up in that line item. It shows up in the other revenue or other expense although there was within the quarter particularly in Latin America, it took a while to establish a new relationship with a refiner in Mexico. So that did pressure the volume of scrap this quarter. In the U.S., I would say there was some anecdotal pressure on the volume of scrap, but not significant in the U.S. as we already had a different refiner relationship set up. So I would expect a little bit of catch-up this next quarter in the scrap in Latin America. That was the biggest impact on the revenue piece.

Regarding the gold prices, you're absolutely right, it's something obviously we watch on a fairly regular basis as well. It's back up to – I guess the last time we saw these prices were the May-June timeframe last year. So that should provide a bit of a tailwind assuming it remains at that height. But as a commodity price, if I could tell you that it was going to remain that way for the next three months, I could make a heck of a lot more money trading commodities.

Gregory R. Pendy
Analyst, Sidoti & Co. LLC

Q

Fair point. Thanks a lot.

Operator: [Operator Instructions] Your next question comes from the line of Brad Hathaway. Your line is open.

David Bradley Hathaway
Managing Partner, Far View Capital Management LLC

Q

Hi. One quick clarification from the first question. The $30 million to $50 million, I believe you talked about is the money you have kind of earmarked for acquisitions and capital investments and things like that, it's not actually to fund the operations, correct?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

The $50 million to $70 million is what we call the base flow that we actually always wanted to have in the bank to fund existing operations. So acquisitions, et cetera, would be above that and the capital investments would run through the P&L. So that's just our – what we view as our appropriate safety buffer.

David Bradley Hathaway
Managing Partner, Far View Capital Management LLC

Q

Got it. No, I understood that for $50 million to $70 million, not the $30 million to $50 million. Got it.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Yeah. That's correct. I should have clarified that.

David Bradley Hathaway
Managing Partner, Far View Capital Management LLC

Q

Yeah. The real question is, this is now a couple of presentations in a row you talked about this 100 new stores to 200 new stores and did you open nine stores in the quarter between acquisitions and destructions. What makes you confident you can get to this 100 new stores to 200 new stores number?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Just the acquisition pipeline we have in place at the moment, Brad. We're looking at some good sized acquisitions and I've always had the caveat that this was not a growth at any price type objective. This is growth at the right price. We have walked from a couple of acquisitions where the price has not been right or the management team hasn't been to the level that we think that would bring – and that would bring additional risks. So, we think that the acquisitions we have in place will deliver that, but as I said it's the right price, seller and buyer have to agree. It's the right management team, the right locations. We think it's fair, but until you get into the nitty-gritty of the due details you find out a lot more. But we still think that it's achievable through this year with what we have.

Daniel M. Chism
Chief Financial Officer, EZCORP, Inc.

A

And I would add on not only acquisition that would be the largest piece of that, but we do anticipate opening more de novo stores this year than we did last year as well. We've not put a specific number on that, but I would expect some increase year-over-year in that.

David Bradley Hathaway
Managing Partner, Far View Capital Management LLC

Q

Got it, but I figured it had to be acquisitions because opening 100, 200 de novos would be a bit challenging I would think.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

That would be – that would be very ambitious.

David Bradley Hathaway
Managing Partner, Far View Capital Management LLC

Q

And then finally with regards – so do you believe that 100 stores to 200 stores is financeable out of that $30 million to $50 million?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Out of the $50 million, I would say $50 million to $70 million is where we are. We would have to make some determinations as to the strategic relevance and returns on the acquisitions, which the board are going to have to digest as they consider the utilization of the cash and balance it against the convertible notes in June 2019.

Daniel M. Chism
Chief Financial Officer, EZCORP, Inc.

A

Yeah and I would reiterate if we go that path, the same discipline that we've exercised where we would only take that on if we thought that any acquisition activity beyond what the available cash we'd be able to fund would be accretive to earnings including any drag on the EPS from a new financing.

David Bradley Hathaway
Managing Partner, Far View Capital Management LLC

Q

No, I guess...

Daniel M. Chism
Chief Financial Officer, EZCORP, Inc.

A

Consistently maintain that discipline.

David Bradley Hathaway
Managing Partner, Far View Capital Management LLC

Q

No, it seems like obviously since the Investor Day and you're talking a lot more about returns on capital and whatnot so that kind of focus and discipline is much appreciated by the shareholder base.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Thanks, Brad.

David Bradley Hathaway
Managing Partner, Far View Capital Management LLC

Q

Good. Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Matt Sweeney. Your line is open.

Matthew Sweeney
Analyst, Laughing Water Capital

Q

Hey guys.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Hey Matt.

Matthew Sweeney
Analyst, Laughing Water Capital

Q

Congrats on another great operational quarter. I just had a quick question regarding Evergreen, which sounds like it could be very exciting and just want to kind of qualify or quantify the way you use the word partner. Does that mean that this is more like a vendor partnership or is this more of an equity partnership?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

I know we're the full owners with it, but what we've been able to do is they have reputation on the line with it. They are very interested in the outcome of this project. So, this is we haven't actually discussed any equity in it at all. We haven't gone down that path. We have as you would appropriately think, we have managed the fee bases pretty well. So, they're not – I don't think they're a vendor, and they're not a true equity partner, but they're completely aligned with the vision and the outcome that's required to make this successful.

Matthew Sweeney
Analyst, Laughing Water Capital

Q

Great. And then keeping in mind that this is the sort of thing that as we know from other fintech offerings out there, it can attract the whole new investor base and can be potentially very exciting. And I know it's very early days, but there – are there are any thoughts on what metrics you might split out and how you might report this as potentially as maybe a different segment. Or is there something you think would just be rolled into existing line items?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Matt, it's a good question. My sense is and as we establish the board's approval, my sense is we should show this is a separate line of business, so that you can still get the visibility of the operating performance of the pawn business. And also by that visibility, you'll see the cost of – cost of revenues of what the new initiative is doing. Now there will be a degree of overlap between the two because we think the global asset register that we'll create will actually increase the transactions through the store, but we'll work that out as we get to launch. So until launch, at each quarter we'll give you an indication of the costs that are incurred, and at launch we'll provide, I'll be recommending to the board unless they think otherwise that we do have a separate line of business.

Daniel M. Chism
Chief Financial Officer, EZCORP, Inc.

A

Great. Yeah, I think that would make a lot of sense just in terms of attracting a whole new class of investors that might not be attracted to the traditional pawn business but with this kind of mobility tech focused, I'd not only say that it will be recurring revenues, but it will be good access into consumers' wallets, it could attract the whole new investor base. So I think that's potentially very exciting.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

And typically these businesses are valued on revenue, the transparency there is pretty important.

Matthew Sweeney
Analyst, Laughing Water Capital

Q

Okay. That's all I have. Thanks, guys.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Thanks, Matt.

Operator: Your next question comes from the line of [ph] Andrew Oskoui (00:35:16). Your line is open.

Q

Hi. I was wondering if you had any updates towards your long-term intentions with the position in Cash Converters, and we know this is dependent on the future CCV share price, your access to financing and other investment opportunities. But in the future are you more likely to hold the current position, acquire more of the company or liquidate your shares once they appreciate?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Hi [ph] Andrew (00:35:28). We think the Cash Converters model is an interesting one, which is how the initial investment came in, they operate in 17 countries globally. I think the business model still needs refinement. We know that the franchisees actually did very well out of the model and the franchisor, while it's doing well, could probably do better than where it is. The management team is being redone. So I think they're on the right path to recovery, the issue around anything is class action activity. And that's been reflected in the share price and as Danny mentioned, has the write-down on that, but it has a scalable global model which is of interest. We've always said that we are where we are at 35%. My intention has been as I've reiterated on the last investor call that I don't want to commit any more capital to that, and that would have to be something fundamentally different for us to do so. But at this stage there are no plans to invest any more capital. The 35% is a difficult position to move, but at this stage, we have no intentions of moving at the current level of price than it is.

Q

Thank you, and congrats on the great quarter.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Thanks, [ph] Andrew (00:36:47).

Daniel M. Chism
Chief Financial Officer, EZCORP, Inc.

A

Thanks, [ph] Andrew (00:36:52).

Operator: Your next question comes from the line of Vincent Caintic. Your line is open.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Hey, thanks. Just a quick follow-up on the investments you're making into the Evergreen project and any other projects out there, is there any run rate level of expenses and investments we should think of going forward absent any acquisitions and buying stores, but just a general level of investments we should be modeling in? Thank you.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

As I mentioned on the call, Vincent that we think on the Evergreen it's probably about a $1 million per month run rate to launch. We think based upon BCG's experience with other companies, 50% to 60% of that is probably capitalizable, the rest is pretty much investments in POS 2.0 cloud-based infrastructure. That it's pretty much run-of-the-mill stuff. Danny, would you add anything there?

Daniel M. Chism
Chief Financial Officer, EZCORP, Inc.
A

No I think that's about right. The capitalization on the work on Evergreen obviously is dependent on the actual tasks output to different phases of that. So that's where the range of the $50 million to $60 million but [ph] I got tell you (00:38:11)...

Vincent Caintic
Analyst, Stephens, Inc.
Q

Okay.

Daniel M. Chism
Chief Financial Officer, EZCORP, Inc.
A

... [ph] you hit it (00:38:11).

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.
A

Thanks, Vincent.

Operator: Your next question comes from the line of Matt Sweeney. Your line is open.

Matthew Sweeney
Analyst, Laughing Water Capital
Q

Hi guys, thanks for taking another one. A follow-up on [ph] Andrew's (00:38:31) question about shipping up to Canada instead of Australia. Can you update us on CASHMAX. I know there is a shift towards more of an installment loan strategy.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.
A

Yeah. Yeah.

Matthew Sweeney
Analyst, Laughing Water Capital
Q

And then also think about that strategically, 27 stores, it seems like it's under-scaled. There are public competitors that can kind of give us an idea of what those should actually be valued at. Is that something to think about strategically to maybe sell that and use the money to reinvest it in Latin America where returns are better?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.
A

Matt, if you felt that we could get that much money for [ph] Canada just to make (00:39:01) Latin American beer, I'll be right behind you. I don't think 27 stores is going to move the dial at all. We are shifting to installment through the government initiatives. We did try to move these stores probably about three years ago. We had no takers at all. We're trying to make the most of it while we can and then if something strategic, someone comes to us or we come to them, we'll certainly deal with that. But 27 stores is something like an easy home, is not really that relevant to them nor is it for Citi Financial. So what we're trying to do is manage it as best we can but really it's a bit of a rounding error in the financials and it doesn't take any management time at all. So we're just putting it on care and maintenance until something happens.

Matthew Sweeney
Analyst, Laughing Water Capital

Q

So bit of a rounding error. I think that the segment loss last year was like $10 million, which relative to your total EBITDA is significant I would think so. Is there a case to be made that it should even just be shut down to remove that loss?

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Look, we look at that as well, didn't lose $10 million. There's a few things rolled up into that total package but that was what we are looking at – we look at it all the time, Matt. We haven't had any offers. I think there's probably a few stores that we need to consider, but we've got leases in place on them. So we're looking at it, but it's not something that bothers me too much.

Matthew Sweeney
Analyst, Laughing Water Capital

Q

You know, I apologize, I was looking at the other international number which covers other things, of course. So that was my error on the loss of $10 million. Apologies.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

No problem.

Matthew Sweeney
Analyst, Laughing Water Capital

Q

That's all I have.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

A

Thanks, Matt.

Operator: There are no further questions at this time. I turn the call back over to the presenters.

Stuart I. Grimshaw
Chief Executive Officer & Director, EZCORP, Inc.

Thanks very much, everyone. We would like to thank everyone who's dialed in or logged into the webcast. Danny and Jeff are available for questions later this morning and this concludes the call. Thank you very much and have a great day.

Operator: This concludes today's conference call. You may now disconnect.