

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

EZPW.OQ - Q2 2022 EZCORP Inc Earnings Call

EVENT DATE/TIME: MAY 05, 2022 / 12:00PM GMT

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

Marla Susan Backer *Sidoti & Company, LLC - Research Analyst*

Jean Marie Young

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the EZCorp Second Quarter Fiscal 2020 Earnings Call. (Operator Instructions)

As a reminder, this call may be recorded. I would now like to turn the conference over to Jean Marie Young, Investor Relations 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 is 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

Thanks, Jean, and good morning, everyone. Our team continues to consistently execute on the strategic plan we announced to the market at the end of fiscal 2020, evidenced by another very strong quarter for financial results. Pawn loans outstanding, a key driver of our business increased 38% year-over-year at its highest level ever for the second quarter. On a consolidated same-store basis, it has been within 4% of prepandemic levels.

Building on an excellent third quarter, EBITDA was up 61% for the second quarter. We delivered very strong net income of \$16.6 million, up 75% on last year. I'm also pleased to announce that the Board of Directors has approved a share buyback program of up to \$50 million to be executed over the next 3 years. We have a rollup and liquid balance sheet and are confident in our ability to continue to generate strong cash flow. We have the capacity to return cash to shareholders by buying back shares at what we believe is an attractive valuation while continuing to grow the business into significant scale.

Beginning on Slide 3. We are a global leader in pawn broking and pre-owned and recycled retail. We operate 1,152 stores in the U.S. and Latin America and have strategic investments in adjacent businesses that expand our presence across the globe. On this slide, we talk about building shareholder value by satisfying the short-term cash needs of our customers with an industry-leading customer experience that is fueled by continuous innovation. We take pride in every one of our stores and have an intense focus on our people and the service they provide to our customers. We will continue with our disciplined approach to pawn through acquisitions, both in the markets in which we currently operate and other advantageous regions that allow us to expand our geographic footprint.

Moving to Slide 4. People, pawn and passion is our core operating team and has been wholeheartedly embraced by our 6,600 team members. Our diverse team drives our success, and we've invested in trading, incentive and cultural alignment so that we can continuously improve corporate culture and retain our best talent. We strive to be the first and best choice of our customers pawn needs. To do that, we've simplified what we're asking our store teams to do every day into 4 key actions: developing our people, serving our customers, making pawn loans and selling secondhand goods. This significant change in operating culture has been a critical component in driving our improving results.

Slide 5 shows our progression towards our strategic goals. And once again, I'm pleased with our consistent performance here. We have invested in developing our team members, and I believe we have the most passionate, productive, committed and motivated team in the industry. We are focused on continuing to strengthen the core pawn business and are executing well on driving operational efficiencies, significant bottom line growth and enhancing return on capital. Improving the customer experience remains a priority, and we have expanded our points-based loyalty program and online payment options for pawn loans.

Turning to our key financial themes for Q2 on Slide 6. As mentioned, PLO, the most significant driver for revenue and earnings, was up 38% year-on-year, leading to a 21% increase in PSC. The typical seasonal decrease in PLO was the lowest we have seen on record. Net revenue was up 14% year-over-year, and EBITDA was up 61%. Net income was up 75%.

On Slide 7, you can see the total expenses increased year-over-year, primarily due to increased store count. However, the percentage of net revenues for the past 12 months, total expenses decreased from 93% to 82%. Store expenses increased year-over-year with a 14% store count increase, but as a percentage of net revenues, it decreased from 78% to 70%. G&A decreased \$1.4 million year-over-year and as a percentage of net revenues, it decreased from 15% to 12%.

On Slide 8, we talk about strengthening our core with a focus on people and systems. We continue to see enthusiasm in prior at all levels of the organization, including throughout field operations, field support and the entire support team, given it's been a difficult time for staff in general. We've added (inaudible) on bonuses to attract new hires and added robust talent succession reviews and incentive plans to increase retention. We remain committed to diversity and inclusion initiatives and cultural transformation to ensure team members aligning to our guiding principles of leadership, customer service, accountability, respect, diversity and sustainability. Digitization and monetization are improving process efficiency, which is providing our customers with increased options and convenience. This is also simplifying processes for our teams in the stores.

On Slide 9. Innovation and growth is essential for our strategy. Our EZ+ Loyalty system was launched -- a loyalty program was launched in the U.S. and Mexico during Q1 and is now live in Guatemala. We have over 930,000 customers enrolled versus over 500,000 last quarter. Online extension payments grew to 15% in Q2, up from 13% in Q1. We are providing our customers with convenient options for both pawn and layaway servicing. We received more than 6,000 Google reviews this quarter, averaging 4.8 stars in the U.S., and we'll be expanding Google reviews in Mexico. The customer feedback has outlined widespread appreciation for our online support enhancements and specifically, live chat.

Our inventories showcase continues with 183 stores in the U.S. and 113 stores in Mexico, offering a full e-commerce experience. This helps us capture new customers as the search for certain items becomes much more convenient. Additionally, we are very excited about the addition of a Chief Marketing Officer to our team, who will drive all marketing initiatives and the execution of our digital strategy. From an inorganic perspective, we opened 3 de novo stores in Latin America during the quarter and acquired 3 stores in the Dallas area in April. We've increased our stake in CCV in March and April, and now close to 41% of that business. The acquisition pipeline remains robust. We remain disciplined when evaluating opportunities and are focused on successfully integrating our recent acquisitions in an efficient and robust manner.

Slide 10 outlines our ESG highlights. The core investment team for the EZCORP business is that we are a significant recycler of secondhand goods in the hundreds of local neighborhoods in which we operate. We have no factory, distribution facilities or heavy trucking. We contribute to the circular economy by extending the useful life of and recycling million of items. This quarter, we procured over 1.5 million pre-owned items and sold approximately 1.4 million items, ranging from consumer electrics, cameras, household goods, tools, musical instruments and jewelry. We provide an essential, simple, regulated and transparent financial resource for those who are underserved by traditional sources.

Diversity and inclusion remains a significant focus, and we've launched women's empowerment infinity groups in the U.S. and Latin America. Our team members now have improved global training and development programs as well as talent review and succession planning processes. For district and store managers in the U.S., we launched a new long-term cash incentive program to increase retention and have enhanced the incentive programs in Latin America.

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. - CFO

Thanks, Lachie. Before discussing the results, I would like to run through the effect of the adoption, which we took at the beginning of the financial year for the new accounting standards for convertible notes. This new standard uses the if-converted method to calculate diluted EPS. This method requires a numerator to be adjusted by the after-tax interest expense. It assumes the notes are converted at the beginning of the period and the resulting common shares should be included in the denominator. The application of the if-converted method only applies if the impact is dilutive. Impact to diluted EPS is only accounted for on a prospective basis, not retroactively. This materially increases the weighted shares outstanding by 25.2 million, assuming all convertible are converted.

Slide 11 details the full calculation for FY '22 in comparison to the old method used for the FY '21 results. Our consolidated financial results are on Slide 12. PLO ended the period at \$172.7 million, up 38% on a year-over-year basis, which is the highest EZCORP as seen at the end of quarter 2. We are now within 4% of the Q2 FY '19 same-store PLO balance. PSC revenue was up 21% over last year, with growth driven by both increased same-store PLO growth and acquisitions. Merchandise sales was up 16%, with margins falling back to the high end of our normal range at 38%. Our focus on selling inventory in the first 90 days has kept inventory turnover strong at 2.9x. It was another great quarter with consolidated EBITDA of \$32.1 million, up 61%.

Turning to our U.S. Pawn operations on Slide 13. PLO rose 40%, driven by continued focus on our enhanced pawn operating model and serving our customer needs. PSC was up 19% year-over-year, primarily driven by a same-store PLO growth. On the retail side of the business, merchandise sales were up 7%, with merchandise sales gross profit down 1% due to the expected 400 basis point drop in sales margin. Even with the growth in transactions, we kept a tight hold on cost with an increase of 1% in store expenses. U.S. Pawn EBITDA for the quarter was \$36.4 million, up 28% on the prior year.

Slide 14 focuses on our Latin American pawn operations. Segment PLO grew 31% for the second quarter or 13% on a same-store basis. As a result, PSC was up 29%, driven by higher average PLO coming from same-store PLO growth as well as additional stores. Merchandise sales was up 57%, 31% on a same-store basis. Merchandise sales gross profit was up 34% due to increased sales, offset by margins down 600 basis points. Store expenses were up 22% year-over-year with 130 additional stores. Even with the increase in same-store transactions, we have kept same-store expenses under control, only up 1%.

All these changes resulted in Latin America pawn EBITDA improving \$2.6 million or 67%. Looking forward, on a consolidated basis, we should see PLO levels continue to increase as we move beyond the effects of government stimulus to a more normal economic environment as well as seeing the effects of our improved business model. However, given the seasonality of our business, the first half of the year is significantly stronger from an earnings perspective than the second half. These first 2 quarters are buoyed by higher PLO balances as well as stronger sales results than either of Q3 or Q4. Q3 is the lowest earnings quarter, coming off the lowest PLO balance of the year due to tax season and has limited special sales opportunities.

In the second half, we are likely to see further reduction in sales gross margin as inventory levels increase and sales discounting practices continue to return to normal levels. Even though we have kept expense growth to a minimum in Q2, we expect that inflationary and wage pressures will continue to rise in the second half of the year. We continue to successfully execute on our strategic initiatives and are very pleased to see this coming through in the form of consistently strong financial results each quarter. We are excited to see our business return to pre-COVID levels of profitability, but with a superior operating model that has put up an exciting position to scale the business from here.

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

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

Thanks, Tim. We continue to execute on our strategy in the second quarter and are extremely pleased with the excellent operating and financial results driven by our team members who continue to embrace our culture of people, pawn and passion. I'd like to thank everyone who attended our Investor Day in Dallas last month. It was a great opportunity for us to spend time with you in-person in the stalls and to show you what a passionately high-performance team we are building here at EZ. I also want to thank the Board of Directors and their confidence in EZCORP's ability to continue to deliver consistently strong financial results as evidenced by their approval of a 3-year \$50 million share buyback program. We are very excited about the business and where we can drive it to from here.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

First question comes from the line of John Hecht from Jefferies.

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

Congratulations on the great quarter. You mentioned inflationary impacts on some of the G&A, but your costs have been very contained as a percentage of revenues recently. Just I guess, how do we balance those 2 things over the next few quarters, the expense base against the inflationary pressures?

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

Thanks, John. Yes, the inflationary pressures, we've definitely done a good job in the first 2 quarters really containing that. We do think that as a percentage of net revenue will still be good, but on a dollar basis, we believe that those costs will be going up. But as a percentage of net revenue, we think we -- the trailing 12 months that we produced in the earnings presentation, will be on track with that.

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

Okay. That's very helpful. Then the PLO, I mean you guys have had a great increase in the PLO outstanding. Obviously, some of that relief from just the normalization, some of it's inflationary pressures. What -- are you seeing anything different from the customer behavior at the store level tied to inflation? Or are there other factors driving some of the consumer response to what's going on in the market today?

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

There are a couple of things there, John. There is a little bit on inflation. Obviously, some of our customers are being affected by rising gas prices. It's also the change in our business model and our customer service at the counter has significantly increased over the last few years, especially in the U.S. And the third one, I think at -- our customer had a little bit less money during tax season because of the child tax credit that were handed out through the year, which meant, they got slightly less of a tax return this year. And so a combination of those 3 things is really leading to a great quarter.

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

Okay. And then a final question. You added a few stores, I think you said in Dallas. What's the pipeline on the acquisition front? And how is the overall market for -- whether it's the U.S. or LatAm, what's the overall market like for potential acquisitions?

Timothy K. Jugmans - EZCORP, Inc. - CFO

John, thanks for your questions. Look, I think it's it hasn't changed quarter-on-quarter. It remains in most regions in the U.S. and in Latin America, a relatively robust from a pipeline perspective. I think multiples likely coming down that we'd like to think with the current environment and the economy, but in U.S., it remains as it was last quarter. And we're still seeing some exciting stuff to do in Latin America. So let's say, it's pretty robust.

Operator

Next question is from Marla Backer with Sidoti.

Marla Susan Backer - Sidoti & Company, LLC - Research Analyst

As the environment is presenting certain challenges and opportunities, do you -- when you look at your store base, you've opened new stores de novo, you've opened via M&A. What about underperforming stores? Are there any stores that you see right now in the existing chain that you think might be candidates for closure?

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

We do -- that's a good question. We do run a program looking at exactly that, and we review that very closely. We -- none of the stores that we have at the moment, we believe are there for closure. They're obviously underperforming stores in a large portfolio of stores. We're doing a lot to turn those around, but that is something we do look at on a regular monthly basis to see what we're doing with underperforming stores and the way we can turn those around.

Marla Susan Backer - Sidoti & Company, LLC - Research Analyst

Okay. And then in terms of some of your digital initiatives, you commented on it in the press release and you've commented in the past. You've expanded some of those initiatives to new additional markets. Can you give us a little bit more color on directionally where you see taking some of those opportunities? I mean, what you expect, you might be able to do with some of those initiatives?

Timothy K. Jugmans - EZCORP, Inc. - CFO

I think the way think about digital is, firstly, we are resorting out with -- we're going on some on PLO and a digital to run all of those initiatives and strategy. But the way we think about it is that it is a primary driver of attracting new customers to our business. That's the sort of predominant

reason, and definitely, we are servicing our existing customers a lot better, quicker, more efficiently in the way that they want be serviced. They don't necessarily want to come to our store to extend their loan or pay their loans. So it's really a super strategy.

The thing I'm most excited about is trying to attract a new customer base to what we do, particularly young people as second-hand goods (inaudible) is becoming seriously large international business where young people prefer by second-hand goods. I think it's a trend that's incredibly exciting for us, and digital is where we predominantly reach those customers. So I think, yes, it's very important for our existing customer base because they want to transact digitally, but really is also about growing this customer base and doing it across the existing market pillars and then potentially new markets as well.

Operator

There are no further questions at this time. I would now like to turn the conference back to Mr. Lachie Given.

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

Thank you, operator. Thanks, everyone, for joining this morning. Obviously, a terrific quarter that we're all very proud of the team for. So thanks for joining, and we look forward to talking to you. Thanks.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2022, Refinitiv. All Rights Reserved.