EZCORP, Inc. (Q2 2024 Earnings)
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Corporate Speakers

- Jean Marie Young; Three Part Advisors; IR
- Lachlan Given; EZCORP, Inc.; Chief Executive Officer
- Tim Jugmans; EZCORP, Inc.; Chief Financial Officer

Participants

- John Hecht; Jefferies; Analyst
- Brian McNamara; Canaccord Genuity; Analyst

PRESENTATION

Operator^ Good morning, ladies and gentlemen. Welcome to the EZCORP Second Fiscal Quarter 2024 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 Advisers.

Please go ahead, Jean.

Jean Marie Young^ Thank you. And good morning, everyone.

During our prepared remarks, we will be referring to slides, which are available for viewing or download from our website at investors.ezcorp.com.

Before we begin, I'd like to remind everyone that this conference call as well as the presentation slides, contain certain forward-looking statements regarding the company's expected operating and financial performance for future periods. These statements are based on the company's current expectations. Actual results for future periods may differ materially from those expressed due to a number of risks or other factors that are discussed in our annual, quarterly and other reports filed with the Securities and Exchange Commission.

And as noted in our presentation materials, and unless otherwise identified, results are presented on an adjusted basis to remove the effect of foreign currency fluctuations and other discrete items.

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

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

Lachlan Given^ Thanks, Jean and good morning, everyone.

For the second quarter of fiscal 2024, EZCORP has produced another very strong set of operating and financial results for our shareholders. Total revenue of $280 million was up 8% and PLO of $232 million was up 13%. Both were the highest for the second quarter in the company's history.

From a bottom line perspective, adjusted net income was up 21%.

Beginning on Slide 3, we are a global leader in pawnbroking in pre-owned and recycled retail.

We operate 1246 stores in the U.S. and Latin America, having added another nine stores this quarter. The macroeconomic environment remains challenging for our customer base. With rising living costs, economic uncertainty and less availability of consumer credit, customers are increasingly using pawnbroking services to satisfy their short-term cash needs.

In addition, these customers are seeking better value for money retail options and so are purchasing pre-owned merchandise, which also has the additional benefit of being more environmentally friendly.

We strive to provide an industry leading experience for our customers through continuous innovation and excellent customer service.

Moving on to Slide 4, we opened nine de novo stores in Latin America and consolidated five stores during the quarter.

In the U.S., we acquired six stores and consolidated one, a record setting Q2 PLO balance of $232 million was up 13%. When comparing the second quarter with the first quarter, earning assets typically decreased due to pay down of balances during tax refund season in the U.S. This year we saw a mild pay downs similar to last year.

Our cash balance of $229 million provides us with substantial liquidity to fund additional organic earning asset growth, to capitalize upon inorganic opportunities as they arise, repurchase shares, and to fund near-term debt maturities if required.

Slide 5 shows the continuous, consistent improvement in our financial metrics, with total revenues up 8%, merchandise sales up 6%, gross profit up 10% and adjusted EBITDA up 7%.

Strong consumer demand and excellent customer service continues to propel PLO and PSC both up 13%.

Turning to our key business strategy highlights for Q2 on Slide 6, we continue to strengthen our core pawn operations investing in people and technology.

In Latin America we improved PLO growth by focusing on the fundamentals in our stores and by reinforcing business model best practices.

We continued to modernize our point-of-sale back end and launched workday scheduling to enhance both productivity and efficiency as well as team member work-life balance.

EZ+ rewards members grew to 4.6 million globally, with 1.3 million transacting in Q2, almost evenly split between the U.S. and Latin America. Across all geographies, unique customers increased 2%. Team members are at the core of our operating theme of people, pawn and passion.

We are committed to investing in recruitment, retention and incentivisation to ensure that our team members remain highly engaged.

We hosted our second annual career week focused on growth opportunities for all team members across the organization and launched a variety of workday talent tools.

On the innovation and growth side, online payments grew $9.1 million to $21.8 million in the U.S., and we expanded online payments to all stores in Mexico. The buy online, pickup in store pilot initiative has expanded to 100 stores in the U.S., and we are seeing early success in e-commerce activities in our luxury pawn business in Las Vegas, where this channel is helping drive sales for the category.

Slide 7 provides some of our sustainability highlights during the quarter.

We sold 1.3 million pre-owned general merchandise and jewelry items and provided critical financial services to customers in need in the hundreds of local communities in which we serve.

At EZCORP we foster an environment that values diversity, inclusion and development for all, and we are driving many important initiatives across the organization, enhancing diversity awareness, encouraging inclusive conversations and more.

We launched an EZ Pride affinity group and grew all existing U.S. and LATAM affinity groups, EZ inclusive conversations and internal conversations. The backbone of the company is our passionate, productive, tenured and committed team members and we continue to find new ways to enhance their experience. Community engagement is also critical to the culture we are building at EZCORP.

We are working with nine us charities whose work closely aligns with our stated goals of supporting financial literacy, eradicating food insecurity, empowering young people to achieve success, and poverty intervention.

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

Tim Jugmans^ Thanks Lachy.

Slide 9 details our consolidated financial results for the second quarter. PLO ended the period at $232 million, up 13% on a year-over-year basis, which is the highest second quarter in EZCORP's history. PSC revenue was also up 13% over last year with growth driven by both increased same-store PLO growth and new stores.

Inventory turnover was strong at 2.9x with aged general merchandise at 2.3%.

Merchandise sales were up 6% to $161.1 million. Merchandise sales growth profit was up 4% due to increased sales and flat margins as we focus on increased turnover and keeping aged general merchandise inventory low.

It was another solid quarter with consolidated EBITDA of $36.2 million, up 7%, driven by higher PSC offset by a 10% increase in expenses.

Turning to our U.S. pawn segment on Slide 10, total revenues were up 10% to $207.6 million, which was the highest second quarter in our history. Earning assets increased 10% driven by a PLO increase of 11% and 9% in inventory.

Strong pawn demand and excellent customer service continues to drive PLO, which in turn drives inventory growth.

Slide 11 provides a map showing the U.S. states in which we operate.

Our U.S. store count has grown to 535 stores with six stores acquired and one store consolidated in the quarter. PLO jewelry composition is up 100 basis points due to continued operational focus on this category, which also drove the 9% increase in average loan size.

Inventory general merchandise composition is up 300 basis points, driven by an increase in handbags, shoes and tools.

Slide 12 provides a snapshot of the U.S. segment financials. PLO growth of 11% drove the PSC increase of 14% year-over-year.

On the retail side of the business, merchandise sales were up 6% with merchandise sales gross profit up 2% with 100 basis point decrease in merchandise sales margin. U.S. foreign EBITDA for the quarter was $43.2 million, up 7% due to higher PSC, partially offset by a 12% increase in expenses.

Turning to our Latin American segment on Slide 13, total of revenues were up 4% to $72.6 million, which was the highest second quarter in our history. Earning assets increased 11%, driven by a PLO increase of 19% and inventory increase of 2%.

Our store count in Latin America increased four in the quarter to 711 stores in four countries. PLO jewelry composition is up 600 basis points with our operational focus on growing this category, especially in Mexico.

This jewelry composition increase has also driven average loan size up 9% on a constant currency basis.

Our PLO balance increased significantly in the LATAM region by 19%. This was driven primarily by improved operational performance by our team as well as continued strong pawn demand in these markets. PSC was up 10%, driven by both same-store PLO growth and new stores.

On the retail side of the business, merchandise sales gross profit was up 8% with merchandise sales up 6% in addition to 100 basis points improvement in sales margin.

EBITDA grew very strongly for the quarter to $9.4 million, up 23% on the prior year. This was due to higher PSC partially offset by a 7% increase in expenses, with same-store expenses increasing 2%.

Looking forward on a consolidation basis, we should see PLO continue to grow on a seasonal basis with PSC following suit.

We continue to focus on strong inventory turnover and limited aged general merchandise.

While we remain committed to expense management we expect to see expenses increase on a sequential basis, primarily due to ongoing inflationary pressures filling vacancy into our stores and year-over-year store count growth.

Our focus on growing quality PLO, optimizing inventory management, improving systems and processes and delivering excellent customer service should continue to drive strong financial results in our business.

I will now turn it over to Lachy for a few closing remarks.

Lachlan Given^ Thanks Tim.

In closing, I want to thank our EZCORP team for delivering another outstanding quarter of operating and financial results for our stakeholders with record Q2 total revenues and PLO.

We are very pleased with the strong growth this quarter in our LATAM segment.

We can see real momentum building in that business with stronger execution of our enhanced operating model by our teams, producing improving results across almost all financial and operating metrics.

It has been an excellent first half of 2024 and we look forward to driving enhanced value for all of our shareholders for the remainder of the year.

And with that we will open the call for questions.

Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of John Hecht of Jefferies. Your question please, John.

John Hecht^ Good morning. Thanks, guys for taking my questions. You've added a few stores each quarter in LATAM and in the U.S., and it sounds like there's been small acquisitions and then some organic build out too.

I'm wondering kind of if you could give us some characteristics of the pipeline, are there any consolidation opportunities that are worth noting? What geographies would those be in and then where are you focused on organic expansion?

Lachlan Given^ Thanks, John. Good morning.

Look, I think you can see that we've been pretty consistent in adding stores, as you say.

I think the pipeline, it's always been pretty strong, and particularly in Latin America.

I think there's lots to do in those countries.

In the U.S., we added stores this quarter.

I don't think there are many more big acquisitions to do in the U.S.

It's much more of a small, consistent acquisitions pipeline, whereas in Latin America, you've got still some pretty big chains out there that we can potentially do.

But I think what we're showing is that we're disciplined about it.

Well while there's some still pretty big things to do out there, I think we're being disciplined on price, whereas in the U.S., it's much more of a steady issue goes small but consistent.

John Hecht^ Okay.

Second question is, the U.S. margin gross margin on retail has been very, very consistent. There's been an increase in LATAM over the past couple of quarters.

Is that tied to mix or just different buying patterns? I'm just curious about the margin trends there.

Tim Jugmans^ Thanks, John. Yes. Some of it is to do with mix.

We also have had much better pricing in Latin America for the last six to twelve months, and that's coming through in the pricing.

We also are executing the business model a lot better, especially in Mexico, and is driving some of that.

So a combination of all those is really a great result from the team.

John Hecht^ Okay. And last question.

I'm just kind of worried.

We're interested in customer trends.

Is there a way to think about new customers versus recurring customers and any kind of changing behavior in that front?

Lachlan Given^ I don't think there's any changing behavior. I think we're pleased with the organic growth in customer demand. I think it's coming from both sides. We're seeing growth in loan customers. We're seeing growth in people buying secondhand goods.

So I think it's been pretty consistent across all of our regions. Just core customer growth in the two things that we're doing, in the two businesses that we run, but we're seeing some nice growth as well in luxury goods, so luxury handbags, watches, jewelry, we're seeing nice growth there.

So I think it's a pretty consistent picture on customer growth, both in the U.S. and in Latin America.

John Hecht^ Okay. Thanks, guys.

Lachlan Given^ Thanks John.

Operator^ Thank you.

Our next question comes from the line of Brian McNamara of Canaccord. Your line is open, Brian.

Brian McNamara^ Hi. Good morning, guys. Congrats on the strong results. Thanks for taking the questions.

So we observe obviously PLO is really strong again, despite more normal tax refunds coming through, driving loan pay downs.

Is that just timing or are you still running record PLO in May or have you seen that typical seasonal pay down of loans?

Tim Jugmans^ So typically that finishes at the end of March and so you start seeing the build in loan balances from March, so the pay downs definitely do stop. Last year, we did see a very quick turnaround in those numbers. This year, I think it's probably a little bit more normal where it slowly builds through this quarter.

But with the excellent customer service and the rewards program, we do think we get the gain in market share.

Brian McNamara^ Okay. Great. And then I'm assuming the buy online, pickup in store test, I think you guys started that in San Antonio. Correct me if I'm wrong.

I'm assuming that's going well as you're expanding it to 100 stores in Texas and Florida.

I guess, what did you see out of that test or pilot or whatever that kind of gave you confidence to roll this out to more stores? And would you expect to roll this out to kind of all your U.S. stores or all your stores in total at some point?

Lachlan Given^ Look, I think it's still early on. I think we're in a 100 stores now across three markets. We're at a point where we've got the pilot test in a place where we want it. We've got photography going well now. We've got teams trained. So I think it's now is where the pilot is actually happening. So I think by the end of this quarter, we'll know if we've got a successful test.

I would like to think we can roll it out into more stores. Customers early on are seeming to like it.

We're having some early success, but I think this is the quarter where we'll really know. So we said in the materials also that e-commerce is going pretty well in the Max pawn business, while that's still relatively small, we're seeing some strong early results there.

Look, I think this quarter is the quarter where we'll see if this is a real business that we're going to roll out.

But we're pretty confident that early on it looks good, but I think this time next quarter we'll have a much better idea of how it's going.

Brian McNamara^ Got it. I appreciate all the incremental detail on the rewards program.

I think that's really helpful for investors. Are you surprised at how successful you guys have been at kind of digitizing a very historically physical business? You got to come into the store, you got to negotiate and things like that. And how is that kind of overall digitization? Obviously acknowledging it's a very -- it will continue to be a very physical business kind of, to date, given the initiatives you rolled out.

Lachlan Given^ To be truthfully honest, yes, I am quite surprised at how well it's gone.

We've got nearly 5 million rewards customers. So I think, truthfully, I think it has gone a lot better than we would have thought. So it's a very large program. I think it's very successful. I think the engagement looks really strong.

But as we've said to you and our shareholders a bunch of times, it's now time to really work out how we best use this customer base in terms of engaging them, giving them the best benefits that we can drive.

So look, I think the digitization, to answer your question, has gone a lot better than we would have believed.

I think we're leading the industry, but now it's time to really work out how to best engage that customer base and drive real growth for them and for us.

Brian McNamara^ Got it. And then perhaps one for Tim. Costs are a little bit higher than we expected.

What's driving that and how should we think about costs in Q3 and the back half of the year?

Tim Jugmans^ Yes. We continue to invest in our teams, driving some of the costs obviously in Latin America. There's also the costs that the government is instituting with increased minimum wages, a little bit on rent renewals as well causing some of that cost to come through.

We, obviously the successful advertising rewards program is also being successful, so the cost is also increasing.

So there's a couple of those things driving those costs. We do expect the costs to sequentially rise through the quarter, through Q3 and Q4. These inflationary effects are still in play.

As we've seen U.S. Government is still keeping rates steady with inflation still out there.

Brian McNamara^ Got it. And then finally, thanks for taking all the questions. Probably our most important question relating to capital allocation, what drove the decision to pay the principal amount of your 2024 convertible notes in cash? And would you expect to do the same for the 2025? And what other options would you consider absent kind of repeating that, would you consider straight debt or something like that? Thanks.

Lachlan Given^ No. Thank you, Matt.

Look, I think we've been really consistent in the way we think about capital. I think as a board, as a team, we're always looking at all alternatives. We look at equity, debt, equity linked in the capital stack.

So look, I think it's a really consistent message. We are conservative in the way we think about the balance sheet. We like to be very liquid because we're growing quickly. We've got lots of potential acquisitions that we can do at the right price. We're buying back shares.

So we're trying to balance all of those competing or initiatives and we've been very clear with our investors and our shareholders that all alternatives are always on the table.

But look, I think our financing strategy has been an excellent one. I think we are very liquid. We're very conservative, and we've got plenty of capital to go after what we think is a truly global big opportunity and all alternatives are on the table.

And I think this quarter has been a really strong one.

I think you're continuing to see strong growth in the U.S., but I think really pleasingly, we're seeing fantastic results in Latin America and I think that's been a real highlight for this quarter, where we're seeing great loan growth, sales growth, and the team who are driving, particularly Mexico and Guatemala obviously are having some really sustained now strong growth.

So I think it's been a really great quarter for both businesses, the U.S. and Latin America. And I think on your question on the balance sheet, the strategy is showing that we've got the right amount of capital to grow the business both organically and inorganically.

So we're really happy with the quarter. And one of the big highlights is Latin America.

So we're really pleased with what the team has been able to achieve down there and we're looking at driving even stronger growth in the coming quarters.

Brian McNamara^ All right. Thanks very much, guys. Best of luck.

Lachlan Given^ Thanks, Brian.

Operator^ Thank you. I would now like to turn the conference back to Lachlan Given for closing remarks. Sir?

Lachlan Given^ Thank you everyone for joining and to our team at EZCORP, thank you very much for delivering a really strong quarter, particularly down in Latin America. Thank you all for joining the call and we look forward to our one on ones for the rest of the day. Thanks, guys.

Operator^ This concludes today's conference call. Thank you for participating.

You may now disconnect.