PARTICIPANTS

Corporate Participants

Jeff Christensen – Vice President-Investor Relations, EZCORP, Inc.
Stuart I. Grimshaw – Chief Executive Officer & Director, EZCORP, Inc.
Mark Ashby – Chief Financial & Accounting Officer, EZCORP, Inc.

Other Participants

John Hecht – Analyst, Jefferies LLC
Christian S. Hoffmann – Associate Portfolio Manager, Thornburg Investment Management, Inc.
Henry J. Coffey – Analyst, CRT Capital Group LLC
Gregg Hillman – Analyst, First Wilshire Securities Management, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the EZCORP Fiscal Year-End 2015 Results 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. [Operator instructions]. As a reminder, this conference call is being recorded.

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

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

Thank you and good afternoon, everyone. Welcome to EZCORP fiscal 2015 results conference call. I'm excited to be with EZCORP. I joined the company yesterday. I look forward to meeting with you in person and speaking with you.

Joining me today are Stuart Grimshaw, Chief Executive Officer of EZCORP; and Mark Ashby, Chief Financial Officer of EZCORP.

During our prepared remarks, we will be referring to slides which are now available for download from our website at investors.ezcorp.com. A complete copy of the slide presentation was also filed this afternoon as an attachment to our 8-K.

Before we begin, I'd like to remind everyone that this conference call 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 uncertainties and other factors that are identified on page 2 of the presentation slide deck and discussed in our annual report on Form 10-K filed with the SEC.

It is now my pleasure to turn the call over to Mr. Stuart Grimshaw. Stuart?

Stuart I. Grimshaw, Chief Executive Officer & Director

Thanks, Jeff, and good afternoon, everyone and welcome to the earnings call. We hope everyone has enjoyed the holiday season, and we apologize for those of you that we've taken away from that, so we promise you, we won't keep you very long.

Sort of an apology from us as well for the filing delays we've experienced due to the financial restatement, which we now believe that's behind us. And we are back to the reporting rhythm that's consistent with the prior years.

If I turn to the slide deck and start perhaps on slide 3, the numbers weren't as we would like them, which I'm sure everyone would agree with. However, over the period of time, a lot of work has been achieved, and it continues the focus of strategic positioning that we had on the 29th of July, and there we outlined a number of strategies and put it clearly to the focus, simplify and optimize strategies that we would be running through the business. And as we look through the three areas that we have focused on since the strategic update, we have refocused on the core business segments being the U.S. Pawn, Mexican Pawn, and Grupo Finmart, and we'll deal with those individually later on. And we have dealt with the restatement issues and they have had a material impact upon the results, as Mark Ashby will outline a little later on.

In terms of building the foundations, we've stabilized and strengthened the balance sheet. In particular, we've really restarted focusing back on our core strengths of PLO growth. We have reduced our aged inventory from 20% of inventory to 11% now. The provisioning re-loans on Grupo has been strengthened, and also we have removed the payday loan portfolio from the balance sheet altogether.

We've implemented a new management team, which I'll talk to a little later, but I would like to mention that Joe Rotunda joined us in May of this year. Joe was overseeing the pawn operations of both U.S. and Mexico, and Joe, I believe, is arguably probably the best pawn operator in North America. And we're grateful to have him back in the company leading these businesses. We've also looked to the system processes and how we're looking at those in terms of aligning the general ledger in Grupo, looking at the point of sale modernization through the pawn business, and we're looking at workforce planning as well, which will optimize the way we manage our workforce in the stores.

And we've made quite a lot of noise around the rationalization of our head office functions. Since, March 2014, we've actually reduced head office numbers about 45%, taking 160 people out of the head office of this business. And while we're doing all that we have seen some signs that the business is responding well to the activities that we're undertaking.

We have aligned the strategic initiatives with KPIs, which we meet regularly on. The transition to the new business segment reporting is made much clear for everyone to understand what is required of them in the period of time. And importantly, in the last quarter of FY 2015, we had the best quarter-on-quarter same-store loan growth than we've seen for over five years. So there are some signs that the work we are doing well early days is starting to take some traction.

If I turn to slide 4, which just recaps the slide that we outlined on the 29, July. And one of the things – you will see this slide quite a lot because this is a three-year journey as a minimum, so we are not deviating from the plan. But we're competing in the markets where we have attractive dynamics, and the three areas we've outlined, we believe, we are well-positioned. We are in the top three in those businesses, and each of them actually respond well to scale, which we can drive through organic and acquisitive activity.

The core capabilities that we are seeing being rewarded is actually through customer leadership, and we're seeing the customer satisfaction results, while early and small, still show that we have some strengthened relationship with the customer.

And then undertaking initiatives to win in these markets and supporting that, we're doing a lot of work, particularly in pawn around mystery shopping, where we can use the tools that we have there to coach and manage our teams to greater levels of success for their engagement with the customers. And particularly, we're starting to align the customer engagement with the incentive schemes for the store people, and that is being well received and paying them on a timely basis, which means they're rewarded for the immediacy of what they're doing.

If I move on to slide 5, coming back to the focus, simplify, and optimize, it's a very simple strategy that relies on executing well. And under each of these, I thought we'd give you a bit of color as to what has happened in the period of time. We have acquired a number of new pawn stores, and there were 13 in the quarter to go with the 12 we did earlier in the 2015 financial year. In Mexico, we have identified three de novo sites that we're looking to undertake and grow. And in terms of Grupo Finmart, we re-established the management team in terms of hiring a new CEO, CFO, and Chief Risk Officer, which I'll talk to on the next slide.

As we mentioned previously, we closed the U.S. Financial stores, and we did that on time and on budget. We closed 480 stores, and with that a 1,000 employees departed the organization. We are able to do that successfully, if you can call it that. It's never a great thing to close a business down, but it was the right thing to do at the time. In terms of building capabilities, we are actually started to rebuild the EZCORP executive team, and I'll talk to that on other page.

In the operating model, head office has been reduced in size. We've actually brought in someone to look at product and process, which hasn't been done before. We have a new Chief Risk officer, which also was quite unusual but strengthens the risk parameters that we operate within. As I mentioned, the mystery shop programs extended through both the U.S. and Mexican pawn stores and the management team have been responding extremely well to the valuable feedback they give us around customer engagement. As I mentioned, the incentive plans we have in place supports this.

In the rationalization, we actually have closed 44 stores. We looked out for the thee-year to five-year horizon. There are a number of stores that wouldn't make the return objectives that we have set. 12 of those were in the U.S. and 32 were in Mexico. As I mentioned, the inventory reduction program has worked extremely well. The span of control in the U.S. Pawn, we have actually improved that, so that the district managers have just under – around 8 stores that report to them and this was as high as 10 two years ago and gets us back to some of the cluster where we were in 2010 when Joe was running the organization. And we believe that the coaching environment we're creating is going to be critical to the success of this business as well as ensure that we extend the tenure of our store managers to the level and the duration that we expect. And the foundational work started on Grupo to support improved underwriting, and we're looking very heavily at risk-based pricing.

If I move on to page 6, this really talks to Grupo and reminds you that in April and May of 2015, we moved to a 94% ownership structure, which gave us more control of the operation. We have a new CFO, a new Chief Risk Officer, and a new CEO started in the first quarter of this financial year; a new Treasurer start this month. Both of these have a very strong – always have a strong mix of backgrounds, be it on traditional and non-traditional. A number of them come from Scotiabank, Citibank, and Provident Financial, so we have a very good mix of professional capability, which is designed to support the business as it goes through its next phase of growth while we build the platforms and foundations for success.

The risk management focus is definitely one that has been brought to the fore with this formal credit committee and asset and liability committee established. And we've had third-party recommendations, and they're looking at how we can improve the underwriting process for both government agencies and individual borrowers, which we'll undertake at the time.

In terms of the increased profitability focus, we're looking heavily at loan term and pricing per contract and we're looking at prioritizing segments and conveners where we believe the returns are much greater, based on the performance we have. And particularly, we've been looking in the customer segment of the [indiscernible] (10:32) social security institutes, which is the pension segment, which we believe offers tremendous potential. And we'll be undertaking a very thorough cost review of the Grupo business to start ensuring that we align the expense ratios, to where we hope we can get to.

In terms of the operational efficiency, we have a lot manual processes which we're undertaking to automate. And one of them will be aligning our people soft general ledgers between the U.S operation and Grupo, so it's consistently aligned.

So, with that, I'll pass over to Mark Ashby to provide more color on the numbers.

Mark Ashby, Chief Financial & Accounting Officer

Thanks, Stuart, and good afternoon everybody. First step, I'm going to talk for a couple of slides about the Grupo restatement. Seeing it was such a big issue, it's worthwhile just giving you some background or maybe some clarification on the three impacts that it has had and that – I'll cover that on slide 7 and on slide 8.

I'll start with slide 7 on the interest rate. The previous process was to recognize the revenue over the term of the loan. So, if you had a loan that was for two years, you would recognize the revenue on that loan each month for the 24 months. What we have found is that the effective interest method is more appropriate, and that 24 months in terms of contracted loan period could be as long as 30 months in terms of actual cash for the same period. As a result, we've been through overlying portfolio, and we've averaged them on a 12-month, 24-month, 36-month, 48-month loan basis, and now spread – re-spread the revenue from those loans across the effective interest period.

What you saw from that was actually a reduction in interest income from when the loan was originated – commenced, and then spread out over a longer period of time. So you would see that revenue flow over a longer period of time, which meant that by the time the loan start to stack, you will see an increase in revenue on an accounting basis flow through.

The advantage of this is it better represents the cash flow of the collection period – of the loan period. So it gives us a better visibility from an accounting and reporting perspective on what that actually means in terms of running the business from cash flow.

The bad debt reserving was another key change. The most significant change is to reserve a 100% of a loan outstanding where no payment is received within a consecutive 180-day period. If we do receive payments on those loans subsequent, which we do, we use a cost recovery method and those payments are subsequently received and recorded initially against the bad debt expense. Than any overage in continuing revenue is then applied to the interest revenue line of the P&L.

So that's a significant change. And you can see as we get into the Grupo numbers that if you do have a couple of the conveners, and couple of the agencies that slip into 180 days, which can happen for various reasons, then we reserve the 100% on what I would say is quite a conservative basis. As we start to collect those, if and when, then that is part of the operational efficiency that we need to have clear focus on what Stuart – part of what Stuart was referring to earlier on.

The asset sales, it's a little bit of nuance. If you go back, we had the asset sales in FY 2014 and Q1 2015. The effect was to reverse those asset sales and keep the loans on book. So the asset sales of the portfolio were made to the trusts. Those trusts are now consolidated back into our book. So we get the revenue effects. We also get bad debt effect under the policies that I've outlined above. And in addition to that, we get the interest expense and the liability that happen to be sitting out there. So, those three items have changed the profile of the Grupo business for us, not necessarily all for bad reasons. It really is – does give us better visibility to match some of the cash requirements of the business to the way we report.

By way of reference, if I move to slide 8, and in particular, if you look, the top chart is the Grupo Finmart net loan balance restated versus original. It's all in U.S. dollars. If you look at FY 2014 Q2, you see that the balances were roughly the same. If you move forward to Q3, Q4, and Q1 FY 2015, you see the impact of the consolidation of the trust back into our numbers. So, we now have a higher balance to start to generate some revenue from.

So you can see that the original net loan balance is declining as we've sold off the loans. And now have been restated back up to that level. So, that draws interest income, as does the interest spread. And that is really reflected in the lower part – chart there, which is the Grupo Finmart interest income restated versus original.

And if you look again from around Q3 of FY 2014 and just have a look at Q3, Q4, 2014 and Q1 2015, you can start to see the significant departure in revenue recognition compared to what was in the past. Obviously, we haven't published Q2, Q3 or Q4, so there is no original loan revenue to compare to. But you can see the growth in interest income, partly because we have the trust consolidated, and partly now because of the interest spread starting to compound on top of each other as it grows coming forward.

If I move on to into slide 9, what you're going to see over the next few charts really reflects a lot of what Stuart introduced before in terms of the themes covering impacts of cleaning out our old inventory, focus on driving PLO growth, particularly as Stuart mentioned, since Joe has been on board. Restructuring expenses that we called out on July 29 that we were commencing to incur, but we've split it out across the each of the operating units, so that you can try and get an idea of what the normalized numbers look like. So, I'll start to talk about that.

From a total perspective, on a continuing operations basis, our overall revenue was down 1%, net revenue was down 3%. And that gap really reflects the initiatives to clean out aged inventory and implementing – implementations of the tightened reserving policies in Grupo, and the targeted reduction in scrap volume where scrapping was wound back deliberately to make sure that we had appropriate inventory to be able to sell to customers at the right point in time.

Expenses in this total chart show an increase of about 13%, which is some $50 million. But really, it does include nearly $66 million worth of restructuring, impairment, and other discrete items, which I'll touch on a little bit further into the presentation.

The EBIT numbers I'll cover in terms of – each of the operating unit contributions in future charts. If we have a quick look at interest expense, if we look at the Grupo interest expense, that really was due to higher average debt for the year and that was supporting predominantly originations and also the operating cost of the business.

The increase in corporate interest cost is predominantly from the increased amortization of the debt premium associated with the convertible notes that were raised in the previous financial year. So, that's the single biggest driver. So, that really is the summary of [indiscernible] (19:02) year.

On page 10, we look at the total restructuring charges and other discrete items. Now, these are attributable to both continued and discontinued ops. But just to give you a wholesome picture of what we saw, the cost USFS, the U.S. Financial Services, that exit, you can see in total was about $38.4 million. That covered the CFPB agreement, which we announced a month or so ago, of $10.5 million. And the rest covered the severance, lease exit costs, and goodwill write-off. There are still some of those charges coming into Q1. And we'd expect – and that's on a discontinued ops basis, but we'd still expect another $2 million to $3 million flowing through into Q1.

The second point, to do with business rationalization cost of $32.6 million, that does include restructuring and other discrete items. And some of the key drivers of that are the pawn store closure costs, some impairments for underperforming assets, legacy IT, asset write-offs. And we went through a very rigorous process that Stuart touched on earlier about determining which stores to close, whether there are – whether we thought that they are currently achieving acceptable financial returns or could in the future.

There was an impairment we put through on the Cash Converters, Australia investment of $29.2 million. That reflects the movement in the share price and currency movements, where the Australian dollar depreciated against the U.S. dollar. Restatement expenses, we've used the word estimate in there, of $4.1 million. It wasn't a – clearly wasn't a cheap exercise, and you had to involve a lot of external parties, including two groups of auditors and a couple of other accounting firms. Everyone had a seat at the table. And then there was the clearance – the clean-up of the Cash Genie UK regulatory compliance. That was another $4 million in there.

In terms of restructuring expenses, on a continuing operations basis, again we think, there's another $2 million to $3 million coming through, as we just wrap up the first quarter. And we'll finalize that over the coming weeks.

Slide 11, to give you a normalized view of continuing operations, and by normalized, what we've done is we've taken our discrete items that I've referred to, the restructuring charges, and put a constant currency view on the continuing operations. So, clearly, that affects Grupo and affects the Mexican pawn operations, which are the bulk of that.

The net revenue, on a normalized basis, actually increased by 2% for the year. And net revenue increased by 1%. And you'll notice that the U.S. pawn was the area where the net revenue did not increase; actually decreased by 5%. And we'll touch on that a little bit later on.

Again, the gap between the 2% and the 1% does reflect initiatives for the margin impact of clearing out all the inventory in particular. Other expenses – sorry, corporate expenses sitting at minus 7% for the year which was down $5 million. The other expense line is the CCV profit that we take as a portion of their profit into our books, or loss. It was a profit in 2014, it was a loss of 2016 – sorry, in 2015. So, that's what that refers to.

If I jump down again to the bottom line on a normalized basis, we're looking at a loss of $23 million compared to $8 million. And you'll see where that comes from as we go through the next couple of charts.

As we indicated a little while back, we had planned to move to more effective segment reporting to reflect the way the business is actually managed. And you would have seen that in the 10-K. And this is a snapshot of each of those operating units. These are normalized numbers. So, again, the – for the U.S. pawn, we just take out restructuring charges and other discrete items and we just have it as a part of the reconciliation in the back where we have a chart, takes you from GAAP to non-GAAP.

In total, the revenues were down 4%. PSC revenues were down 1% for the year. But we did see a shift in trend, particularly by the time we got from Q3 to Q4. And I'll touch on that on the next slide, but pleased to see that we're seeing continued improvements in PLO growth and PSC revenues as a result.

Merchandise sales – both merchandise sales are up by 3%. That really does and – it does reflect the clearance of aged inventory. The merchandise margin went from 37% to 35%. And that had a negative impact clearly on the business for the year.

Scrap sales had a significant impact in revenue, and as I mentioned earlier, was a direct result of some conscious decisions to back off scrapping inventory that could otherwise be sold to customers and generate more appropriate revenue, particularly once we start to deal with the aged inventory levels of growth out there.

So, overall, that gave us a net revenue reduction of 5%. Expenses were basically flat. And the contribution level which I refer to as EBIT here was $92 million for the year against the $113 million last year.

The next chart, page 13, calls out a couple of key indicators for the business. The U.S. Pawn loan balance in the top left-hand corner, obviously, that's the key driver of their revenue structure. And you can see that change in trend in terms of growth over the last two quarters of the year.

At the end of the year, the PLO balance was minus 6%. We had been minus 11% earlier on in the year. And the trend had reduced on a same-store basis. We're growing – that trend was exactly the same. So, we're moving in a positive direction and that trend continued into the first quarter.

The pawn revenue that follows the trend of the PLO, and again we have played with the direction that's heading. The pawn store count, you can see over the course of the year that we made some acquisitions, a couple of de novos early in the year, but we also had closures. I'll touch on that earlier about the closures of the stores in September as a result of being underperforming of it today or we didn't expect to hit financial [ph] – little (26:39) financial hurdles.

The bottom three charts really reflect the impact of trying to clean out inventory. So, this shows – the first chart shows the sales volume last year versus this year. Whilst the sales volume is higher, you can look at the merchandise margin to see for the first three quarters, it was significantly lower. It wasn't until Q4 we saw that cross. And that is a reflection on the fact that if you look at the right-hand column, the aged inventory started to reduce to acceptable levels. And now, we think that the pressure on the merchandise margin will be alleviated coming into FY 2016.

The next page, which is 14, it's a similar theme in terms of margins, in terms of cleaning out inventory, similar theme in many aspects of the restructuring of the business. Although on a constant – as a constant currency ignoring restructuring costs and other discrete items to give you a view of what's happening in Mexico, and it's a positive story all the way there.

We've seen growth in overall revenues. We've seen growth in PLO. We've seen growth in merchandise sales; again, a contraction in merchandise margin from cleaning out the old inventory, scrap sales not quite as bigger impact in Mexico.

So, in the end result, we saw an increase of 15.3% on net revenue. Total expenses were basically flat. And at an EBIT level, we saw a turnaround from the contribution of minus $4 million last year to a positive $3 million in FY 2015.

Page 15 has the same indicators that we use for the U.S. pawn, and you can see the growth in the top left-hand corner in the pawn loan balance, which has been quite consistent across the course of the year. There was no new stores. As a matter of fact, in Q4, we closed nine stores towards the end of the quarter.

The PSC revenue also increased over the quarter – sorry, rather consistently from Q2, Q3, Q4. The impact of clearing inventory is shown in the bottom three charts as well. And you can say the Mexico Pawn sales were consistently above last year. But we did have the gross margin significantly impacted across the first three quarters. And it wasn't until Q4 that we started to see that margin start to improve as a – and that's as a percent of sales.

That again is a direct reflection on the reduction in aged inventory. And the chart on the bottom right actually shows that quite starkly in terms of the improvement that's being made.

I'll just have a quick sip of water. Thank you.

Okay. Grupo Finmart, the – a couple of callouts in terms of performance of Grupo Finmart. Obviously, the profit before tax is not an outcome, but we like to maintain. But we have seen a few things occur. First of all, obviously, our ownership went up from about 76% to 98% over the last quarter of the year.

I think the interest income continues to grow. And that's driven by some strong growth in originations of about 24% on last year, but you also will note that the bad debt expense increased from $20 million to $31 million for the year. And that's a significant increase. And as a percentage, that grew faster than their interest income. A lot of that was in Q4. And that is driven predominantly by the impact of the 180-day policy that we have.

So, clearly, the opportunity to recover some of that money is there. And that comes from the focus that Stuart spoke about earlier, which is somewhat reflected in the increase in the expenses, which is the investment in the infrastructure to put appropriate infrastructure in place to be able to start to manage the business to the levels that we do expect going forward.

We talk – if we move to chart 17, not a lot to say about this, but this is just a summary on the U.S. Financial Services, which is now closed. Very pleasingly, it occurred on time and then incurred under our initial budget that we anticipated. There was some good negotiations, some great collection efforts that puts us in a better position. I don't plan to go through this in any detail. But I'd just give you a snapshot of what it look like compared to last year.

Finally, just a couple of points on the balance sheet, continuing the themes that have been spoken about earlier, we're starting to see the growth in the PLO on a constant currency basis, as we adjust the impact of the depreciation on the peso, plus we are seeing it across United States, we're starting to see that growth at a level that we – well, I won't say we're happy with, but continue in the direction that we'd like to see.

Inventory clean-up was a significant focus for the year. I've touched on that across each of the business units. Aged inventory has been flushed into 11% of growth compared to 20% a year prior. Aged general merchandise is now down to 5% of gross general merchandise. General merchandise' turns improved up to 2.8 times in U.S. Pawn, and to 2.4 times in Mexico, which is a significant improvement in Mexico, which is a 56% improvement.

Aged jewelry reduced to 15% of gross inventory, which is down from 30%-odd last year. So, that's a significant reduction again. So, all that does help in terms of easing gross margin pressure coming into next year.

The other item and we touched on in Grupo and it's part of the restatement is we have a very robust bad debt reserving provision practices in place. The 180 days is – it's pretty brutal and – but it does give focus to the business. I would think the revenue recognition is now more appropriate in terms of recognizing the cash cycle.

But also it does – each of those gives opportunity for the business, if we can improve the time to collect the whole loan that starts to affect profitability quickly, same as recovering your bad debt on – particularly in 180 days, as well as your focus on general reserving ahead of payroll. I haven't spent much time on those, but they're still key components of trying to drive profitability for Grupo.

So, that's a summary – a snapshot of the year. Hopefully, gives you a little bit more color than trying to scroll through the 10-K. And I'll hand back to Stuart.

Stuart I. Grimshaw, Chief Executive Officer & Director

Thanks, Mark. If we move on to slide 19, as we indicated in our call on July 29, we wanted to set get some deliverables down. But we indicated at that time that, there's probably going to be a lot of noise through the accounts at that time, that it would take us a couple of quarters to stabilize the accounts to actually be able to put some robust measures around the financial metrics, particularly the cost to income, EPS growth, and the ROE above cost of equity.

So, we'll come back to those, probably half way through the year. In terms of the mystery shopper results, it's still pretty much early days but we're seeing some stores actually having doubled their performance over the last three months, as we've gone through the stores. So, that's been worthwhile. We just need to aggregate all those. The Net Promoter Scores, we're still trying to get the external view across all our businesses.

The turnover rates, we're just cutting by store personnel, be it store managers, as you recall, the wage and salary, sort of the wage people. We're getting an average turnover of about – well, the store managers close to between three to four years, which we really want to get up to the 5- to 10-year bracket, which is why the incentive scheme and the coaching that Joe is putting in place for the district managers is quite critical. So, we'll come back to a bit later on with more granularity around that, which you can measure us upon.

And finally just to – so as to wrap up on slide 20, just to recap what we've been through. We have focused on the three core business segments, U.S. Pawn, Mexico Pawn, and Group Finmart. And we'll continue to report transparently on those. The execution focus, which we outlined, was critical since the success of the strategy is quite relentless. We have exited underperforming sites in the Pawn businesses. We've stabilized the balance sheet. We closed the U.S. Financial Services business. We rationalized the head office. And we have a strengthened management team both at Grupo and as well as EZCORP head level.

And the early signs that we're seeing, we've pointed to some of the early signs in the Pawn business that's looking that way. But we still have a lot more work to do to optimize the business performance as to where we think it should go.

So, with that, I'd like to open the line up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Grimshaw. [Operator Instructions] Our first question comes from the line of John Hecht of Jefferies. Your line is now open.

<Q – John Hecht – Jefferies LLC>: Afternoon. Thanks, guys. First question, I know you guys highlighted a couple of quarters ago some strategies for corporate cost savings. Are you done there or are there more savings to go on a kind of recurring basis?

<A – Stuart Grimshaw – EZCORP, Inc.>: Hi John. Stuart. We've been through the, I'll say, called the hard yards of getting the easy wins where there's been duplication across those function and head office. We don't rest on that. I think there's still opportunity, but it won't be of the magnitude of what we've seen in the past. To shrink our head office by 45% in 18 months is fairly extreme. So, we'd be more looking at the process improvement angle as opposed to the actual raw, hard cost cut-out.

<Q – John Hecht – Jefferies LLC>: Okay. And second question. Just related to the overall trends, sort of the macro trends of the business because you're impacted like others by low gold prices, low fuel prices and so forth, and I'm – and you seem to have reasonably good performance coming into the final quarter from the prior quarter. Anything you can comment on the kind of macro trends, or is this just a block-and-tackle, execute environment? What might we want to look for to kind of give us some aspects of a tailwind that might help you and others in the industry?

<A – Stuart Grimshaw – EZCORP, Inc.>: John, we – the macros are still playing around. I mean, we watch the sales and they change week-to-week, depends on the consumers or what's happening. The change that really sort of occurred in the last quarter was – well, I wouldn't call it the block-and-tackle, but it's similar, it's the hard yard that you have to do at the storefront level and coaching and managing the teams, and also measuring the performance of what is expected.

And I would say that we lost a fair degree of sight around what it takes to be successful in customer engagement at the store level. We're actually now bringing that focus, particularly to bear in the U.S. Pawn business.

In the Mexican Pawn business, they've actually been doing pretty well over the last twelve months. So we've actually been just helping them tweak their model a little bit better particularly around what you should look for, given the experience we have in the U.S. So what we see is the macro environment is reasonably benign in terms, you're not seeing any rapid areas of growth coming out of it. But the issue for us as management is to try and exceed market expectations where we can by managing the business to a soft [indiscernible] (39:46).

<Q – John Hecht – Jefferies LLC>: Okay. And if I can ask one final question, just so I can confirm from my perspective, is there going to be any more non-controlling interest items in the P&L now that you have sold or just closed some of those other divisions?

<A – Mark Ashby – EZCORP, Inc.>: Well, we've got – we only own 94% of Grupo.

<Q – John Hecht – Jefferies LLC>: Okay, so 94%. Okay, you didn't buy the whole. Okay.

<A – Stuart Grimshaw – EZCORP, Inc.>: No.

<A – Mark Ashby – EZCORP, Inc.>: No. So that's a...

<A – Stuart Grimshaw – EZCORP, Inc.>: There'll be a small bit.

<Q – John Hecht – Jefferies LLC>: So small bit for Grupo, and is that the only – the final slug of that?

<A – Mark Ashby – EZCORP, Inc.>: That's it.

<Q – John Hecht – Jefferies LLC>: Okay. Thank you.

<A – Stuart Grimshaw – EZCORP, Inc.>: Thanks, John.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Christian Hoffmann of Thornburg Investment. Your line is now open.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Good afternoon.

<A – Mark Ashby – EZCORP, Inc.>: Hey, Christian.

<A – Stuart Grimshaw – EZCORP, Inc.>: Hi.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: So I'm just looking at slide 11 which represents normalized continuing results. So if I look at that, I get to EBITDA in the mid-$50 million area. It looks like CapEx is trending around $25 million and interest is about $17 million. Am I thinking about the business in the right way?

<A – Stuart Grimshaw – EZCORP, Inc.>: I think from a CapEx perspective as we go forward, we've given a view to the CapEx trend out over the next couple of years, which would be an average of about $15 million per year. So for the year gone, the number was to be higher, but certainly for the year coming, the years coming, we'll see an average of about $15 million per year. If you try to work that into your model.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Okay. And I guess my follow-up question would be, if EBITDA is in the $50 million to $60 million area, by my math the numbers have been re-jiggered a few times. But I had EBITDA closer to like $230 million in 2012, which admittedly was the peak. But could you just kind of help me bridge the plus $200 million to the $50 million-ish area? I know gold's had an impact. I know shutting down U.S. Consumer has had an impact, but again as with all the changes, it's pretty hard to understand the story and really get a sense of what's going on. But it's a huge delta.

<A – Stuart Grimshaw – EZCORP, Inc.>: It's a huge delta. I think it's probably best to answer it offline because there's a lot of changes that occurred through that. We're out of U.S. Financial Services, there's Cash Genie, there's a U.S. online business, gold was up, Grupo was contributing reasonably well – there's a lot of changes. And it's a bridge that we can walk you through, but it will take a lot more to walk through than just a one-minute discussion on the phone. So perhaps we can catch up with you afterwards.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Who should I see for that? Because I know there's been some changes there as well. I'm not sure who to contact anymore.

<A – Mark Ashby – EZCORP, Inc.>: The contact would be Jeff.

<A – Stuart Grimshaw – EZCORP, Inc.>: Just come through Jeff first. We'll link Mark in with that as well.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: And should we – should filings be normal at this point going forward or are there any other delays or complications that might – that jam with yours a bit?

<A – Stuart Grimshaw – EZCORP, Inc.>: The last delay you had was getting on the phone call today.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Okay. Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Henry Coffey of Sterne Agee. Your line is now open.

<Q – Henry Coffey – CRT Capital Group LLC>: Good afternoon.

<A – Stuart Grimshaw – EZCORP, Inc.>: Hey, Henry.

<Q – Henry Coffey – CRT Capital Group LLC>: You've been through hell, so congratulations. It's been a lot of work.

<A>: [indiscernible] (43:30) have to go through with it again with you, that'll be fine.

<Q – Henry Coffey – CRT Capital Group LLC>: I'll be polite. When we look at the capital structure, you have that very low cash cost of interest. Are you penalized on the convertible side with accounting? And what is the effective cost of that on a gap/versus actual basis of your – what's the effective cost – what's the GAAP cost of your debt versus the actual cash cost?

<A – Mark Ashby – EZCORP, Inc.>: The GAAP cost – give me a second just to work my way through that one.

<Q – Henry Coffey – CRT Capital Group LLC>: In terms of the – because of the accounting for the convert.

<A – Stuart Grimshaw – EZCORP, Inc.>: You've got the embedded derivative in there.

<A – Mark Ashby – EZCORP, Inc.>: Yeah, there's a significant jump right off of the borrowing costs sitting in those numbers in terms of the interest number for the year. And I'll have to – just give me a couple of seconds to...

<Q – Henry Coffey – CRT Capital Group LLC>: Sure.

<A – Mark Ashby – EZCORP, Inc.>: If I can pull that up. I wish I have that on hand. So, the amortization – thank you. Okay. The actual interest expense – of the $16 million, actual interest expense is about $6 million. The rest is accounting.

<Q – Henry Coffey – CRT Capital Group LLC>: And is some of that just related to the accounting around the convert?

<A – Mark Ashby – EZCORP, Inc.>: Yeah. So what you've got is – the sort of expenses you've got sitting in there are the amortization of the premium, the debt premium, and the deferred financing costs. They're the other two components that build that up.

<Q – Henry Coffey – CRT Capital Group LLC>: Given that that convert's probably never going to convert or not convert in a long time, is there a way you can adjust for that, or are you going to be sort of stuck with that?

<A – Mark Ashby – EZCORP, Inc.>: We're stuck with the amortization of those costs. No matter what you do, you're going to pay for it. The only way in my experience, Henry, you can deal with that is to extend the whole financing structure out, which incurs another cost which...

<A – Stuart Grimshaw – EZCORP, Inc.>: Exactly, hits you.

<A – Mark Ashby – EZCORP, Inc.>: And that becomes more cash-prohibitive.

<Q – Henry Coffey – CRT Capital Group LLC>: Right.

<A – Mark Ashby – EZCORP, Inc.>: ...an accounting blip. So that's the considerations we would have to throw into it.

<Q – Henry Coffey – CRT Capital Group LLC>: What sort of – from a cash generation, capital stock buyback, give us a sense of what sort of resources you have. Do you have excess cash flow here that we can start seeing deployed in buybacks? Do you have the capacity to support the growth that you're seeing in Mexico, both with Grupo Finmart as well as the Mexican Pawn business there?

<A – Stuart Grimshaw – EZCORP, Inc.>: I'll probably split it into two areas, Henry. One is the cash we generate from the pawn operations we try and apply back into the pawn operations through loan growth; or acquisitions, should they make sense to us; or even, as we see in Mexico, some of the de novo growth. The Grupo growth story is one about how we use external financiers to fund the loan growth plus also use the cash flow generator to support origination but also cover the expenses. So they're quite distinct ways we manage our cash across both of those businesses.

But the surplus cash, we do prefer to look to reinvest into the business only because opportunities such as we've seen in pawn where they've picked up 25 stores, once someone acquires them we don't see them again. And these are unique opportunities we don't want to miss out on. And we think the market in its state being reasonably fragmented, it's a great opportunity to deploy cash for assets, which you would get a return above the cost of equity anyway.

<Q – Henry Coffey – CRT Capital Group LLC>: When you estimate what your cost of equity capital is, what number are you using?

<A – Stuart Grimshaw – EZCORP, Inc.>: We're using around 11%.

<Q – Henry Coffey – CRT Capital Group LLC>: And then, I mean, under what – are there any circumstances under which you would buy back stock? I know you – we're sort of in a three – there are three public companies in your sector, and the other two are pretty aggressive at buying back stock right now.

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah. Look, we would never say never. And certainly, we think that we always look at it but at this point of time, it is not on the radar.

<Q – Henry Coffey – CRT Capital Group LLC>: And then the businesses we're looking at, that's the future of the Pawn – U.S. Pawn, Mexico Pawn, Grupo Finmart? There's no other explore – that you know the lessons of a prior administration where they were looking everywhere, but these three businesses are the business going forward.

<A – Stuart Grimshaw – EZCORP, Inc.>: That's correct, Henry. We just want to keep it simple.

<Q – Henry Coffey – CRT Capital Group LLC>: Great. Thank you. And congratulations on all the work you've done over the last six months.

<A – Stuart Grimshaw – EZCORP, Inc.>: Thanks, Henry.

<A – Mark Ashby – EZCORP, Inc.>: Thanks, Henry.

Operator: Thank you. And our next question comes from the line of Gregg Hillman of First Wilshire securities. Your line is now open.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Hi, good afternoon, gentlemen.

<A – Mark Ashby – EZCORP, Inc.>: Hey.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Could you talk about Grupo Finmart a little bit? In the past you said that its restatement was only an accounting item and it didn't really affect the cash flows for the business. Is that still your opinion?

<A – Mark Ashby – EZCORP, Inc.>: Yep.

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah, that's correct.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay. And then since you guys have come onboard, have the fundamentals at Grupo Finmart deteriorated since you've been involved with the company, or they improved?

<A – Stuart Grimshaw – EZCORP, Inc.>: I think the way I'd answer that is probably in a couple of phases. One is, the origination growth of the company has been very strong over the period of time as it has been in the industry. So that hasn't changed at all. What has changed is the accounting policy recognizing the cash situation of the company. So we've aligned the accounting and the cash consistently. So that hasn't been a change; that's actually been a statement realization. I think the opportunity for us around some of the understanding of the cost base and getting much closer with the risk profiling now that we are 94% owner, [ph] they're 76% (49:53) owner, we think will strengthen the company. So I don't think that things have worsened since we've been there. The financial statements have more reflected the state of the company the way it's been for a couple of years.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay. And then, Mark, the whole question of financing the growth at Grupo, I noticed the interest rate – the interest cost went up quite a bit from $19 million to $28 million. Can you explain that and can you just explain how you're going to finance growth at Grupo and what kind of interest rate net of any hedges will be – whereby your cost of funds is going to be on a go-forward basis?

<A – Mark Ashby – EZCORP, Inc.>: Sure. The driver of the interest expense was predominantly the increase in the average debt held throughout the course of the year, and that is to support the origination growth.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay. I'm sorry. I didn't catch what you said. Could you say that one more time please?

<A – Stuart Grimshaw – EZCORP, Inc.>: It's a mix of the debt on hand increased plus the interest cost associated with the debt on hand increased as well.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay. And then, the question of financing future growth and at what interest rate, and what kind of spread or – by the way, what's the spread right now? What's the net interest margin right now for that business, or what was it for last year?

<A – Stuart Grimshaw – EZCORP, Inc.>: Was it 36%?

<A – Mark Ashby – EZCORP, Inc.>: Yeah. So, we've got a – well, we've got a yield of 36% from 29% last year.

<A – Stuart Grimshaw – EZCORP, Inc.>: So the interest rate depends a lot on where the funding comes from. Some of the funding's come out of the U.S., which has a hedge overlay on it, which probably averages at around 14%, 15%. Some is direct, which is lower. It all depends on whether we're – how we've actually gone about the funding bid securitized one way or another as well. So it's a mixed average rate you're getting, and then obviously we want the rate as low as we can, so we can increase the net interest margin, which drives more value to the bottom line. So we're very aware of it. And part of the structure that we've put in place at EZCORP is we've put a treasurer in place here for the first time ever, and we have one in Grupo, so that there's strong focus on the debt management side of that business that is managed both here in the U.S. and in Mexico.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: And the yield on loans is like 30% to 40%, right?

<A – Mark Ashby – EZCORP, Inc.>: Yeah. It's 36%, I think, for 2015.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: 36%? Okay. Okay. Well, maybe I'll follow-up offline about that, your comment.

<A – Stuart Grimshaw – EZCORP, Inc.>: Thanks, Gregg.

<A – Mark Ashby – EZCORP, Inc.>: Thanks.

Operator: Thank you. [Operator Instructions] One moment please for questions. I'm showing no further questions at this time. I would like to turn the conference back to Mr. Grimshaw for his closing remarks.

Stuart I. Grimshaw, Chief Executive Officer & Director

Thanks, Sabrina. Thanks very much for taking the time to listen to the story. And we will be back for you probably just over a month's time with the Q1. We'll be around obviously over the next few days, so we'll be very happy to take any calls should you want to get some further analysis or further color on the information we've presented today. So thanks once again for your time.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may all disconnect.