PARTICIPANTS

Corporate Participants

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Stuart I. Grimshaw – Chief Executive Officer & Director, EZCORP, Inc.
Mark Ashby – Chief Financial Officer, EZCORP, Inc.

Other Participants

Vincent Albert Caintic – Analyst, Macquarie Capital (USA), Inc.
Kyle Joseph – Analyst, Jefferies LLC
William R. Armstrong – Analyst, C.L. King & Associates, Inc.
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the EZCORP Fiscal 2016 Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this call may be recorded.

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

Jeff Christensen, Vice President-Investor Relations

Thank you, Kate, and good morning, everyone. Welcome to EZCORP's second quarter conference call. 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 available for download from our website at investors.ezcorp.com.

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 in these forward-looking statements due to a number of risks and other factors that are discussed in our annual, quarterly and other reports filed with the SEC.

Now I would like to turn the call over to Mr. Stuart Grimshaw. Stuart.

Stuart I. Grimshaw, Chief Executive Officer & Director

Thanks, Jeff, and good morning, everyone. When we started on the new strategy in July of last year, we highlighted [ph] to do (01:39) three care areas that we wanted to look into and really [indiscernible] (01:43) to focusing, simplifying and optimizing our businesses. We've made some pleasing strides under each of these, culminating in a pre-tax profit increase in the pawn statements of 27% to $34 million. And driving this has been an increase in pawn loans outstanding of 12% on a same-store basis versus 9%.

We've also progressed reasonably well in the comprehensive mystery shop program which we started initiating towards the end of last calendar year. We've seen improvements in the U.S. scores of 17% and in Mexico 11%. I'll just remind you that's a mix of video-shopping our staff as well as phone-shopping our staff. And that usually happens for each store about four times per store per quarter.

So the focus on the customer is actually absolute and this is helping drive some of the outstanding performance we have had in the stores. So we also tied the incentive compensation plan for all team members to include growth in our key metrics as well as the experience that we're seeing through the video shop.

When it comes to simplifying the approach to our businesses, we've had very pleasing results. We looked at the return on our pawn-earning assets increasing to 152% from 150% and again a strong merchandise margin of 38% from 33%. We continue to see the levels of aged inventory declining as you'll see on page three where it's reduced from 12% to 9%.

In terms of optimizing for the future, the Grupo Finmart strategic review has been completed with the sale of this business being the preferred option. A non-cash goodwill impairment charge of $73.9 million was recorded this quarter, which led to the loss from continuing operations of $73 million. However, in our core pawn business, we have acquired six more pawn stores in our key market area of Houston. The [Technical Difficulty] (03:31) of restricting stock incentives are aligned with the shareholders' interests with the primary performance objective of vesting through to FY 2018 as a [indiscernible] (03:40) is compound annual growth of 10% from a re-based EBITDA. And finally, we're targeting reduction in corporate annual expense of $50 million by FY 2018.

So with that high level overview, I'll pass it over to Mark Ashby.

Mark Ashby, Chief Financial Officer

Thanks, Stuart, and good morning, everybody. If we turn to page four, this is the consolidated GAAP results for the quarter and also showing for the first half. As Stuart indicated, there's some strong performance in the pawn segments and offset by the impairment charges associated with Grupo Finmart. The revenue line show a headline of down 2%. That's been affected by the exchange rate and also because of the Grupo Finmart business. As we'll show later on as we get into the Pawn segments, you'll be able to see the growth coming through.

Net revenue for the quarter ended up being basically flat. If you look at the profit before tax based on a segment level, you can see the growth in the U.S. Pawn up 15%; Mexico Pawn, up from zero to $2.1 million compared to the same period last year; Grupo Finmart, at a loss of $81.2 million; and other international improvements predominantly because of CCV improved profit compared to same quarter last year at $1.4 million.

We did perform evaluation for accounting purposes of the Grupo Finmart business. They came at a value of $46.5 million. And by the time you go through the machinations of the accounting requirement, that led to a goodwill impairment charge of $73.9 million, which is all of the goodwill associated on our balance sheet for Grupo. So there's no more goodwill remaining on the consolidated balance sheet.

Corporate expenses were up in Q2 predominantly because of higher accrued incentive compensation. The first half expenses increased from restatement costs, general expense credit last year and also associated with some increased compensation cost. That led to a continuing ops net income loss of $73 million for the quarter versus a loss of $3.4 million last year.

If we turn to page five, these are the adjusted results. This takes excluding Grupo Finmart business. And it takes out restructuring costs, restatement costs at constant currency and some other discrete items and the reconciliation is all shown in the back of the pack.

If you look at the total revenue, you see some good growth at 3%, but more pleasingly, net revenue growing by 11%. So the rate of growth in net revenue is outstripping the growth in the total revenue. And that's driven – because the operational improvements in both PSC revenue, up 10%, and the merchandise margin increasing to 38% from 33% as a result of clearing out aged inventory and focus on the customer.

If you look at the profit before tax by segment, you can see U.S. Pawn up 15% on adjusted basis, Mexico Pawn up and other international which I touched on on the previous page. The corporate expenses, you can see, up by $1 million for the quarter and for the first half up by, I said, over $4 million – which, on a like-for-like basis for the half, it's basically flat and down 3% for the quarter if we take into consideration the effect of the incentive compensation plan and the general credit last year.

So at page six, I'll just hand back to Stuart just to step us through this next chart.

Stuart I. Grimshaw, Chief Executive Officer & Director

Thanks, Mark. This is a new slide we've put into the pack and we think it actually describes the pawn [ph] cycle (07:53) very well. What it shows is that the absolute focus on the customer and the need for cash drives the results that we're seeing. And if you look at the transactional activity where having stores on a same-store basis were up 12% of the new pawn lines. And when you transfer that across the PLO outstanding, it's up 9%, which is very strong results from the stores. And there are two asset classes which drive the income statements, the pawn loans outstanding and the inventory.

And as we see, the same-store or PLO up 9% where inventory is up 11%, but our redemption rate has been flat suggesting that this is a quality result rather than any and that might suggest we have been over-lending. Then the pawn loans outstanding drives the pawn service charge without [indiscernible] (08:38) on the same-store basis. And then the sales from the inventory was up 10% on a same-store basis. So as Mark has outlined, it's at a 38% gross margin. As you'll see, there is a [indiscernible] (08:49) through the chart that's led to a profit increase of 27% to $34 million.

And as we look down the side on page six, you'll see that some of the highlights there of the yields on the PLO and the inventory are strong. Redemption has been flat and the inventory turns at 2.4 times for the U.S. was actually down slightly from where we were last year. But last year, we were washing a lot of the aged inventory out. And as I mentioned before, our aged inventory has continued to produce over that period of time. But we feel that this slide actually accurately portrays what we are doing and how the focus on the customer is actually revealing itself through our balance sheet and income statement.

Mark Ashby, Chief Financial Officer

So if we turn to page seven and we look at the U.S. Pawn business, as Stuart touched on the metrics that are driving the outcome, we've called out some of the key metrics on the U.S. Pawn business. And if I actually start on the top right-hand side, you can see the same-store pawn loan balance growth year-on-year.

At the end of Q3 2015, it was negative and it started to grow over Q4, I think it was minus 6%. It was slightly positive at the end of Q1 2016, up to 7% growth at the end of Q2 which is an encouraging trend. That also does drive the revenue. So if we look at this on a total basis, the pawn loans outstanding for the quarter are up 9%, pawn service charges are up by 8%. So we're starting to see that revenue flow through.

Merchandise margin from the U.S., up from 34% to 39% and that drove merchandise gross profit increase of 18% for the quarter. And if you summarize all that into net revenue basis, net revenue is up 8% to $94.6 million.

The bottom right-hand corner, the chart shows the continued improvement in our gross profit margin, resulting somewhat from the clearing of the aged inventory which you can see is now down 10% at the end of the quarter. But it's also reflective of one of the comments in the box down at the bottom, on the continued improvement in the quality pawn loan values. So the focus is on the quality loans, lending more to customers that have intention to redeem and less to those who are likely to forfeit. And if you combine that with the pricing management and making sure our inventory is addressed appropriately and not sat on for periods of time, the product lifecycle improvement is also supporting gross margin growth.

A similar story on page eight. If you go to Mexico, the themes are very similar. The same-store pawn loan balance growth, 28%, which is the seventh consecutive quarter with double-digit same store loan growth. This is on constant currency basis, I should mention to you as well. Strong EBITDA growth. Pawn loans outstanding up 28%. Pawn service charges 27%. Merchandise growth profit up, from 27% to 32% and net revenue up 37%. So the same focus on the customer and the structure of the transaction and improvement in the aged inventory again supporting the improvement in Mexico.

If I turn to page nine, we've got a couple of charts here on Grupo Finmart. And as Stuart mentioned, the strategic review is complete and the sale of the business is the preferred option. And UBS has been appointed to run the sale process, which has commenced.

I touched on as before the valuation of Grupo Finmart for accounting purposes based on its DCS, assuming a capital structure which is EZCORP's investment into Grupo, not one that an outsider may put into the organization. It led to a valuation of $46.5 million and that resulted in the impairment charge of $73.9 million. There is no goodwill remaining on the balance sheet.

As we mentioned last quarter, the focus has moved to operational improvement, and we did see, particularly in the last six weeks of the half of the quarter, some improvements that flowed through. Collection rates started to increase. And January is a very low month for collections just generally. But we did see a direct result of some of the initiatives in place, collections starting to improve, particularly receipts from reserved loans.

The cost reduction program is starting to deliver some cash savings and reductions coming through from Q1 to Q2. Originations have also been very focused. So where the money is going, it's very targeted on the performing government agencies.

If we turn to page 10, just focusing again on some of the operational initiatives. If you look at the top, the interest income was flat on a constant currency basis for the quarter. Bad debt expense is up on the same period of last year. And net revenue is a result in decline. The profit before tax was a loss of $3 million – and this excludes the impairment charges – it was a loss of $3 million last year and a loss of $9 million this year.

The bad debt reserve increase is a similar story to the last quarter. It's really been driven by delays in payment timing. The actual average payroll reserve rate is running at 9.6%. Interest expense is down because of reduction in debt, and the expense increase on the same period last year really as a result of the strengthening investment and strengthening of the management team which is now starting to pay some dividend.

If we turn to page 11, there is a couple of new charts sitting in here. The improved collections on reserved loans – and I'll start on the bottom-right hand corner. Last quarter we collected $2.1 million on the reserved loans. This quarter we collected $4.4 million on the reserved loans. So the focus on trying to shake out some of that money is taking place and showing some dividend.

Of the $70 million reserve that's in place, $55 million of that is payment delays, not defaults. So over time, the majority of that would be expected to be collected. So, the focus is on trying to collect those on a regular basis.

We have also put – under the collection of reserved loans in the top chart [Technical Difficulty] (16:04) collect reserve loans, now, it's an estimate based upon the profile, but for comparative purposes, looking at the number of months, if you annualize the collections in quarter one versus the collections in quarter two, the number of months that would take to collect the reserved loan, and that just gives you an indication that if we maintain that improvement, the cash collections over time will continue to strengthen.

In terms of the cash flow, and I should say for both of these charts, we still include the VIEs, so it's not just [Technical Difficulty] (16:39). If you look at the collections, collections were up for the quarter. But in case of the previous quarter, originations were down as we tightened up the origination profile. SG&A, I mentioned, is also starting to tighten up. EZCORP putting $2 million to fund the operating cash flow for Grupo, which is basically the same amount as Q1.

And if you look at the funding structures, the VIEs, there was a significant debt repayment for the quarter and for the half of the VIEs, they're basically [ph] self-funds (17:20) so you'll see that as a neutral in there. The debt repayment specifically attributable to Grupo was $4 million, and that was funded by cash from EZCORP to repay some maturing debt lines that came through during the quarter.

So, that gives you a summary of the cash flow. And well, that concludes the financial summary. Over to Stuart. Thank you.

Stuart I. Grimshaw, Chief Executive Officer & Director

Thanks. We turn to slide 12. This really tries to highlight where we are on the journey. As I mentioned previously, on July 2015, we started on this journey. We said it would be a three-year program. And I probably want to focus on four of the key drivers of what we're doing. The first one is really refocusing the pawn store operations. And we've seen there that we have acquired a number of stores over this period of time, but we've also closed underperforming stores both in the U.S. and Mexico as we reshaped the portfolio.

The second one we've done over this period of time is we have sort of moved away from businesses where we see the strategic value is limited and not consistent with where we need to be and that's included closing the U.S. financial services business, closing the Mexico buy/sell business, and also undertaking the strategic review of Grupo which Mark has touched on previously.

We're also been investing in our people. And as you see there, we've renewed the executive team. Also, we've invested in the district managers where we've increased the numbers from 55 to 67 which enables our span of the district managers for stores to go from 10 down to 8 which allows a closer focus on the coaching and mentoring of the store managers which we believe is important. And we've also revised the incentive plans at the store level to focus around the customer.

And lastly, what we're looking at now is investing in our customers, [Technical Difficulty] (19:10), but also looking at the point-of-sale upgrades, as well as customer data analytics which we are just starting to move into now.

So if I conclude by turning to page 13, there are four things that really continue to occupy ourselves and that's the intense focus on servicing and satisfying our customers' needs for cash and as you'll recall on the slide six about how that works for the balance sheet and the income statement. We're continuing to invest in process and customer-facing systems. The pawn fundamentals continued to demonstrate really strong momentum through the previous quarter, and as Mark has touched on all those with the 27% pre-tax profit growth in the [ph] form (19:59) is great. PLO balances are up 12% and 9% on a same-store basis and the merchandise margin of 38% is significantly enhanced from where we were last year, which reflects on the earning assets of 152%. And finally we're fully into the sale process of Grupo Finmart at this point of time.

So with that, I would like to open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Vincent Caintic with Macquarie. Your line is open. Please go ahead.

<Q – Vincent Caintic – Macquarie Capital (USA), Inc.>: Hey. Thanks very much, and good morning guys. Two questions, first on the sales of Grupo Finmart, I remember in the prior discussion, there were, when talking about the strategic decisions, there was some talk about the debt restrictions or covenants that had to do with Grupo Finmart and I was wondering how you are addressing those.

<A – Stuart Grimshaw – EZCORP, Inc.>: Which debt covenants are we referring to, Vincent, [indiscernible] (21:05) through the convertible...

<Q – Vincent Caintic – Macquarie Capital (USA), Inc.>: Just the – I believe there is a cross-collateralization or if that's...

<A – Stuart Grimshaw – EZCORP, Inc.>: There is a cross defaulter under the convertible bond which only retriggers $25 million; if the judgment is $25 million or more there is a potential trigger in the convertible bond.

<Q – Vincent Caintic – Macquarie Capital (USA), Inc.>: Okay. Got it. And then secondly, more of a philosophical one, we saw that there was a consolidation in this industry with First Cash and Cash America announcing a merger. And I was wondering if that changes your view at all in terms of EZCORP, whether to be a consolidator or to sell or to merge with other participants. Thanks.

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah, no, it's always interesting to see two competitors who have been sort of competing heavily against each other get together and we'll be watching it. But I think it doesn't change our game much at all. I mean, the focus we've always had is on the customer's need for cash, and we really focus more on that than what our competitors are doing as we're seeing through the strong results that we've been recording.

The industry is still quite a fragmented one notwithstanding the merger, you've still got – the three of us – well, now it's going to be two of us really having 15% market share of the overall market in the U.S. So there's still I think plenty of space for us all to play and reap the rewards of what is a great business with a great customer. So I think we'll let them focus on their consolidation and we'll focus on the customer.

<Q – Vincent Caintic – Macquarie Capital (USA), Inc.>: All right. Makes sense. Thanks so much, Stuart.

Operator: Thank you. Our next question comes from the line of Kyle Joseph with Jefferies. Your line is open. Please go ahead. Kyle, check your mute button.

<Q – Kyle Joseph – Jefferies LLC>: Good morning, guys. Thanks for taking my questions. Sorry about that.

<A – Stuart Grimshaw – EZCORP, Inc.>: That's okay.

<Q – Kyle Joseph – Jefferies LLC>: Anyway, so going back to the Grupo Finmart results, they are definitely a lot better than we expected. I know you said collections improved. How much of that was seasonality versus how much of it is sort of the unions being able and willing to pay you guys back more, so I mean, I just want to know what's driving the improvement in that business.

<A – Stuart Grimshaw – EZCORP, Inc.>: There's a couple of things, Kyle. January and February is usually a bit slower for us. So there is a bit of seasonality that usually comes through that. But the management team have focused heavily on the collections process, and what you've seen there is, as you can see through the average collection time moving quite rapidly, we've been able to make some significant inroads into the payments from some of the convenios that have been traditional deferrers. And we've actually reduced the originations on convenios where we have seen performance which is detrimental to our collection. So at the moment we're originating in 69 convenios.

This time last year, we had over 200 convenios on our books of which we're probably originating probably about 120 of those. So we've significantly reduced the originations for those convenios where we have issues. We focused the collections teams around insuring that we don't wait as long as potentially we have in the past to collect. So while there was a small degree of seasonality, most of it actually has been strong management initiatives and action to get the cash through the door.

<Q – Kyle Joseph – Jefferies LLC>: Great. And then just I'm trying to calculate the core sort of the run rate earnings from the quarter, sort of ex the Grupo impairment charge. Like, what sort of tax rate should I be using too because [indiscernible] (24:41) a little bit of a profit ex that, when you also factor in the run rate earnings of the Grupo segment. so what sort of tax rate would I be using on that – and sorry, I tried to go through all your stuff but I'm not sure if you guys did disclose a core sort of EPS number for the quarter ex the impairment charge?

<A – Mark Ashby – EZCORP, Inc.>: No. I don't think we did. The weighted average tax rate, probably it would be about 35%.

<A – Stuart Grimshaw – EZCORP, Inc.>: Probably a bit lower, I think you're going to get about 32.3%.

<Q – Kyle Joseph – Jefferies LLC>: 32%. Okay. And then I can calculate that number from there. And then just going back to debt and liquidity. Sorry, I haven't had time to go through your whole 10-Q, but it looks like – I calculated around $140 million of debt still outstanding at Grupo, you can correct me if that's wrong.

But just give us an idea of how much of that EZPW could potentially be on the hook for and how much you expect the ongoing cash flows from Grupo to be able to pay that down?

<A – Mark Ashby – EZCORP, Inc.>: There's a couple of components in there. The only debt associated, of course, to EZCORP is the $230 million on the convertible notes.

<Q – Kyle Joseph – Jefferies LLC>: Right.

<A – Mark Ashby – EZCORP, Inc.>: But the balance of the debt is broken into two components, the actual Grupo debt and then there is the VIE debt because we have to consolidate the VIE. The VIEs is not our debt and Grupo is not obligated to fund the VIE debt. The only hook in there is that we're obligated to support the cash flow hedge of one of the VIEs. But the actual debt itself that you see in the chart, if you broke it into the two, I think it's about $50 million belongs to the VIEs and about $90 million belongs to the Grupo.

And that is the Grupo component is split roughly 50/50 in terms of what's going to be paid out in the next 12 months versus beyond the 12 months. So hopefully that gives you a view on the first part of the question. The second part of the question, the trust themselves [Technical Difficulty] (27:00) service their own debt and it does get difficult to dissect that when you usually have to consolidate all these numbers.

Grupo itself, the collection rates are improving; how much it can service of its own debt requirement I suppose will depend upon time. The profile of the debt does not spread evenly in terms of the debt obligations over the next – if you look at the next 12 months. The next quarter is relatively low [Technical Difficulty] (27:40) basically from the end of June onwards, it's such that [indiscernible] (27:46) increase from there. So, there's no specific answer. It depends on collection performance. New debt lines, we're also working on it in Grupo at the moment. We expect one to come into play over the next few weeks, around the end of May so there's still funding loans available, so there would be some substitution effect, so sort of a mixed bag.

<Q – Kyle Joseph – Jefferies LLC>: Got it. That's helpful. And then the cash flow hedge on the VIE, is that on the entire $50 million or is that just one of the slugs to the VIE, if you don't mind...

<A – Stuart Grimshaw – EZCORP, Inc.>: It's down to – yeah, it's down to $37.8 million.

<Q – Kyle Joseph – Jefferies LLC>: Okay. So, that's at 2017 VIE, so it's at $37.8 million. Okay. Got it. And then if I...

<A – Mark Ashby – EZCORP, Inc.>: Just one other point you need to understand with that hedge potential liability. There are earning assets in there that generate cash flows to support the amortization [indiscernible] (28:49). So well, if there is any shortfall, that will depend upon the performance of the loans to support that amortization [indiscernible] (28:59). Sorry, go on.

<Q – Kyle Joseph – Jefferies LLC>: No, got it. That's very helpful. And then just in terms of the sales process, can you give us – I know you're probably limited in what you can say, but sort of a indication of interest you had, a little bit of your outlook on timing for that as well.

<A – Stuart Grimshaw – EZCORP, Inc.>: Obviously, we're a bit limited on what we can say. I think I'll probably say that we've been favorably surprised by the level of interest. We are in the process of having discussions with interested parties.

Honestly, we want to move as quickly as we can through the process, and I think these are commented in the 10-Q that we had hope to have it done in a few months' time. And I think we've indicated before the end of the financial year. But we need to move quite quickly because we don't want [indiscernible] (29:51). So it's progressing well at this stage.

Operator: Thank you. Our next question comes from the line of [ph] David Diamond (30:01) with Rovida Advisory. Your line is open. Please go ahead.

<Q>: Yeah. Hi. Good morning, everybody.

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

<Q>: Nice job on the quarter. Glad to see the ship heading firmly in the right direction. I had a few very quick questions. First on the gold price, we're seeing record [indiscernible] (30:20) once again in the gold market. I'm curious to what gold price might just become a more material tailwind for your business, if at all. That's my first question.

The second, Stuart, I just wanted to dig a little deeper on the previous caller's industry consolidation question. I'm curious to what extent is the severe relative undervaluation of your stock relative to your peers. And also your split shareholder structure, to what extent does that make you less interested in industry consolidation.

And lastly, Stuart, if we assume a world sort of post-Finmart for EZCORP, I'm curious, assuming a nine-inning American baseball game, what inning would you consider the company to be in once your restructuring efforts with Finmart is done? Thanks very much.

<A – Stuart Grimshaw – EZCORP, Inc.>: Sure. There's quite a bit in there, David, so let me see if I can pick it all up. I mean, the gold price has been moving pretty much between about $1,230, close to $1,300 over the last couple of months. So we've seen commodities all around the oil and iron ore starting to come off and copper is coming off as well. So, gold has actually held that range quite strongly as the others are starting to move. So I think it seems to have settled around that $1,250, $1,275 level. That doesn't really change too much for us.

I mean, we haven't been an active scrapper where some of the margins were made previously, and I think if you go back to the heady days of 2010-2011, we were actually making some substantial profits through the scrapping. You'll see here the margin on scraps for the quarter was 13%. Some of our competitors are actually having lesser margins and add-on scraps. So I think in order to make the heady days, you'd have to see gold moving towards that $1,450, $1,500 levels which I don't think we're going to see. But that's just my idea. I'm not a very good commodity speculator, so you might have a better view of that than me.

In terms of the industry consolidation, and I think the question is when would we [indiscernible] (32:35) multiples close to where our competitors are and whether the shareholding is a depressant on those multiples. I think once Grupo has been dealt with, you'll get a cleaner position to be able to value the company. And we're showing that with the pawn results and the focus on the customer, we are getting some very strong returns from what has been our core business. So, we need to ensure that we manage the Grupo process well to actually show the company's potential to the investment community.

Now the split shareholder structure, I think everyone's got a view as to whether there is some form of discount by having that structure or whether there isn't and I'm actually reasonably neutral on it to the extent that as long as we're outperforming our peers and moving forward with our customers, the focus I have is more about driving the value in the business, not worrying about the shareholding structures of the business.

And if I was to look at where we are in nine innings, we certainly know we need a seven-inning stretch. I think once we move Grupo and deal with it in the right manner, I think we're still probably in the second or third innings which is where I think we are in our strategic three-year cycle as well.

So I hope that I answered all those questions, David.

<Q>: Great. Thanks very much. Nice quarter.

Operator: Thank you. Our next question comes from the line of Bill Armstrong with C.L. King & Associates. Your line is open. Please go ahead.

<Q – Bill Armstrong – C.L. King & Associates, Inc.>: Good morning, Stuart, Mark and Jeff. Couple more questions on Grupo. So in the first half, you've provided about $70 million of funding for working capital and debt repayment. Over the next say three months to six months, how much more funding do you think is required assuming that's probably about what it will take to sell the business?

<A – Stuart Grimshaw – EZCORP, Inc.>: I don't think we put [Technical Difficulty] (34:39-39:43). I think over the next quarter – we've sort of indicated that we think the next quarter is probably running at maybe $2 million to $3 million per month, but it depends on the funding lines we put in place at Grupo and what that actually pays out to. And as Mark suggested, post June, some of the amortization and some of those funding lines pick up and we are working closely, looking to [indiscernible] (35:11) to actually make sure we have the deadlines in place through that period of time. So we'll probably be in a better position at the end of the June quarter, Bill, with that funding line to give you more clarity about the quarter ahead.

<Q – Bill Armstrong – C.L. King & Associates, Inc.>: Okay. The $46.5 million valuation, I just want to make sure I understand exactly what that represents. Is that the equity value of Grupo or would that be more of an enterprise value?

<A – Mark Ashby – EZCORP, Inc.>: How do you describe it? I'll say enterprise value was probably a better landing point based upon currents of the capital structure that EZCORP has within Grupo and extrapolating out for about five-plus years on the DCS basis. So it's a mechanical type of process out there that comes up with that valuation.

<A – Stuart Grimshaw – EZCORP, Inc.>: And that's just the net asset.

<Q – Bill Armstrong – C.L. King & Associates, Inc.>: Okay.

<A – Mark Ashby – EZCORP, Inc.>: Yeah, it supplies you a fair value of what the assets in theory were, not necessarily what's on your balance sheet. And if anyone wants an hour and a half accounting seminar, please let me know.

<Q – Bill Armstrong – C.L. King & Associates, Inc.>: Okay. I think that will suffice for that question. And then lastly, when you were going through the process and decided to sell the business and sort of looking at what the market might be for this business; do you think we're looking at more strategic buyers, financial buyers? Are we looking at just Mexican or Latin American buyers or are we looking at maybe possibly U.S.-based buyers as well?

<A – Stuart Grimshaw – EZCORP, Inc.>: I think we've had interest from all of the above. So it's not specifically coming out of one quarter. So we have had expressions of interest from U.S. as well as Mexican. So it's still too early to see where it lands, Bill, because I think obviously some people are kicking tires. Some will be interested and we'll figure that out over the next few weeks.

<Q – Bill Armstrong – C.L. King & Associates, Inc.>: Got it, okay. Thank you.

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

Operator: [Operator Instructions] Our next question comes from the line of Christian Hoffman with Thornburg. Your line is open. Please go ahead.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Good morning. It looks like you guys selected $34 million of tax refunds during the quarter. Just curious, do you expect anymore refunds or is that kind of the balance of it?

<A – Stuart Grimshaw – EZCORP, Inc.>: I'd like another one of those. But no, that's it, Christian. That's all there is.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Got it. Can you remind me what the payout of deferred consideration, the $14.875 million, was for in trailing six-month period?

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

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

<A – Mark Ashby – EZCORP, Inc.>: ...February 2015, we acquired a business and at that particular point in time, equity was used. And there were certain structures in that that the share price wasn't allowed to move by certain amounts. If it went down, then we had to take -

<A – Stuart Grimshaw – EZCORP, Inc.>: Take a [ph] May (38:32) call.

<A – Mark Ashby – EZCORP, Inc.>: Yeah, and substitute it with cash.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Which business was that?

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah, I think it's Cash Pawn.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Which one?

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah, Cash Pawn is around the Austin area in the Central Texas area.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Got it. Is there going to be more cash leakage associated with that or any other acquisitions?

<A – Stuart Grimshaw – EZCORP, Inc.>: That was payable a year after the deal was signed. So there's no more sitting on that one.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Are there any for any other ones?

<A – Mark Ashby – EZCORP, Inc.>: No.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Can you talk about your balance sheet and leverage a little bit? The numbers are a little bit messy. I know you strip out Finmart and you show without Finmart and you want to sell it and I appreciate all those things. But how should I think about leverage at the recourse level, leverage the total entity including the non-recourse debt if there are some cash needs there? Can you talk about that a little bit? Because I actually didn't see much discussion of that in the presentation.

<A – Mark Ashby – EZCORP, Inc.>: Well, it's actually quite a simple type structure that at the EZCORP level, we have $230 million worth of convertible funds.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: And what EBITDA supports that?

<A – Mark Ashby – EZCORP, Inc.>: I beg your pardon?

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: What EBITDA supports that?

<A – Mark Ashby – EZCORP, Inc.>: Basically, the pawn business.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: What is the LTM EBITDA for that?

<A – Mark Ashby – EZCORP, Inc.>: The last 12 months' EBITDA for the pawn business. I've [indiscernible] (40:14). But the maturity profile is in 2019. And so that's when the [Technical Difficulty] (40:29) of $30 million is due. There's no payment. There's no covenant. There's nothing – no operating covenant sitting underneath that. So that's a pretty straightforward type of fund. The rest of it is associated with proposed [indiscernible] (40:44) into the two components as I've alluded to earlier on. And that really is slipped between the VIEs, which is about $50 million. $90 million is Grupo Finmart's direct debt and that has amortization schedules associated with it. And obviously, you try and substitute new debt. Now, a lot of the loan structures have – they have the asset sort of sitting against it. You have the loan book sitting against – as in our assets, sitting there to service those loans. So it's pretty straightforward. But it's not really structured around EBITDA multiples or any of those type of metrics that normally you see floating around.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Yeah. I mean the convertibles have created stress levels. So I think it is kind of an important consideration to the extent it's not that transparent, [Technical Difficulty] (41:56) less helpful for folks, my own personal opinion. Maybe one more just lastly. What would be the plan B if Finmart doesn't attract the price you were looking for?

<A – Stuart Grimshaw – EZCORP, Inc.>: We would have to look at some of the other options, which – one might even be complete sale or might be partial sale. We would look at another range of options, looking at putting some [indiscernible] (42:32) and financing in place to ring-fence it. But it's a good business and we want to make sure that we represent it completely. And we've got good expressions of interest, so we don't have to reconsider that in depth at this point in time until we get further down the track.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: In the structure you're contemplating, would the non-recourse debt travel to the buyer of that business and fall off of your balance sheet?

<A – Stuart Grimshaw – EZCORP, Inc.>: Assuming that there's some change of control issues – I think that's hidden in some of these. So we'll be having discussions with them around that. But we don't think that should be too much of an issue.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: But your ultimate goal would be to not have any service requirements for -

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

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Just to have the whole thing kind of cut off.

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

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

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

Operator: Thank you. Our next question is a follow-up from the line of Kyle Joseph with Jefferies. Your line is open again. Please go ahead.

<Q – Kyle Joseph – Jefferies LLC>: Hey, guys. Sorry, just one follow-up question. Just looking at the slide 11 on Grupo, and it looks like you guys didn't have to put as much cash into Grupo this quarter. And then I think you also highlighted not a lot of near-term maturities for that business. But given the increased collections and not a lot of near-term maturities, what's your outlook for the amount of cash that EZ could potentially have to put into Grupo?

<A – Stuart Grimshaw – EZCORP, Inc.>: We sort of mentioned it just briefly before, Kyle. We think it'd be probably a couple of million a month through to June. But we're trying to work with some new financing structures which will alleviate the pressure on us. So by the end of June, hopefully, we'll be in a better position with those discussions underway to give you a better color around what they would be going forward. And I would mention that Mark had mentioned on the slide that June we start – some of the amortization of these loans start increasing. So we're doing a lot now to try and minimize any cash that does have to go into the Grupo business.

<Q – Kyle Joseph – Jefferies LLC>: Got it. Thanks very much.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of [ph] Sean George (44:54) with DuPont Capital Management. Your line is open.

<Q>: Hi, good morning.

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

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

<Q>: Is there any rep and warranty issues with the Grupo Finmart debt or the VIE debt?

<A – Stuart Grimshaw – EZCORP, Inc.>: In what regard, Sean.

<Q>: So if, say, there were some issues with the loan documents or customer information; could those loans be potentially put back to the VIE or Grupo Finmart? Kind of what we saw in the housing market in the U.S., 2011-2012?

<A – Stuart Grimshaw – EZCORP, Inc.>: Not that I'm aware of.

<Q>: So if -

<A – Stuart Grimshaw – EZCORP, Inc.>: There's nothing -

<Q>: Yeah, so if the holders of these securities say, well, the information was bad in these loans or if there was missing information, there is no way for them to put the loans back to Grupo?

<A – Stuart Grimshaw – EZCORP, Inc.>: I haven't been through the documents in that full length. As I said, there's nothing I'm aware of that's been -

<Q>: Okay, but you've – okay, and you've never experienced anything like that to date then?

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

<Q>: Okay. And the assets supporting the debt at Grupo and the VIE, so the loan supporting those debt, if the asset balance isn't enough to support the debt; does Grupo or the VIE have to make up the difference or can Grupo or the VIE just say, well, there wasn't enough assets there and the non-recourse debt is impaired. I guess another way to say it is that recourse back to Grupo or the VIE even though it's not recourse to EZCORP.

<A – Stuart Grimshaw – EZCORP, Inc.>: The base point one with the recourse nature, it has a requirement on it to top up any cash if there's a shortfall in the servicing. And that has been at $0.5 million a month, I think, at the moment. But typically, most of these structures have overcapitalization in them, which means that even if some of the delays still occur, they're self-servicing. And with our improved collection sitting behind it, the improvement in those collections has meant that they're fairly self-sustaining.

<Q>: Okay. So they're very over-collateralized. But what about in a case where – theoretically, I'm sure this wouldn't happen, but in a case where all the loans went bad; would then Grupo have to replenish?

<A – Stuart Grimshaw – EZCORP, Inc.>: Under the main VIE which they're for, they would be required to ensure the servicing of those loans occurs in line with the contracts that are in place, the monthly contracts in place. So as we've outlined previously, with those particular VIEs, there is a requirement on Grupo in the first instance and EZCORP potentially in the second instance to top up.

<Q>: Okay. And then what is the servicing requirement? Is it for the life of the loan or is it just for a certain amount of time?

<A – Stuart Grimshaw – EZCORP, Inc.>: It's December 2017 that the four major VIEs run off. And there's a surplus portfolio of assets that sits within those.

<Q>: Okay, all right. Thank you.

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

Operator: Thank you. Our next question comes from the line of Chris Reddy with Lazard. Your line is open. Please go ahead.

<Q – Chris Reddy – Lazard Asset Management LLC>: Hey, good morning. I just had a couple of quick questions for clarification sake. With regard to the Grupo Finmart, I understand how the VIEs work with that $50 million. But then you have the $90 million of Grupo debt. And there's a couple of notes because we don't get a full set of financials on Grupo Finmart. On page two, there's $51 million of total assets. Then on page 39, there's carrying value of assets and liabilities. And then page 54, there's net earnings assets. What are those and which are the ones that actually support that $90 million of debt?

<A – Stuart Grimshaw – EZCORP, Inc.>: Can we start with the first one?

<Q – Chris Reddy – Lazard Asset Management LLC>: Yes, please.

<A – Stuart Grimshaw – EZCORP, Inc.>: Page two of -

<Q – Chris Reddy – Lazard Asset Management LLC>: Yeah, page two of the 10-Q. So it's assets and liabilities of Grupo Finmart securitization trust, $51.942 million broken down with -

<A – Stuart Grimshaw – EZCORP, Inc.>: It's a public securitization.

<Q – Chris Reddy – Lazard Asset Management LLC>: I'm sorry, that's what?

<A – Stuart Grimshaw – EZCORP, Inc.>: It's a public securitization that was done. So that's...

<Q – Chris Reddy – Lazard Asset Management LLC>: Okay.

<A – Stuart Grimshaw – EZCORP, Inc.>: ...that'll start amortizing in June.

<Q – Chris Reddy – Lazard Asset Management LLC>: Okay.

<A – Stuart Grimshaw – EZCORP, Inc.>: ...in June. Got a bunch of assets against that.

<Q – Chris Reddy – Lazard Asset Management LLC>: Right. And so are we able to then take that $90 million of Grupo Finmart debt and then subtract out this $50 million that securitizes it? And then – so then you're down to $40 million?

<A – Stuart Grimshaw – EZCORP, Inc.>: I'd have to check.

<A – Mark Ashby – EZCORP, Inc.>: I don't – if we just move onto the next one, I'll think up the answer to that question.

<Q – Chris Reddy – Lazard Asset Management LLC>: Okay. And then the next one was page 39, I believe, yeah, where there's just note 18 subsequent events, carrying values of major classes of Grupo Finmart assets and liabilities. And so this is just a summary of the aggregate balance sheet?

<A – Mark Ashby – EZCORP, Inc.>: That's the assets and liabilities held on their condensed balance sheet. Yeah, that's the consolidated assets of Grupo including the trust.

<Q – Chris Reddy – Lazard Asset Management LLC>: Okay, great. And then I guess on page 54, there is a note where it says – yeah, it's I guess the other data. Net earning assets of continuing operations, 86.7. I'm just trying to figure out what that exactly is.

<A – Mark Ashby – EZCORP, Inc.>: That would be the net value of the loans on the books that are performing.

<Q – Chris Reddy – Lazard Asset Management LLC>: Okay, great.

<A – Mark Ashby – EZCORP, Inc.>: [Technical Difficulty] (51:53). If I go back just to your first point, the public securitization does start to amortize. And it's starting – I think we [Technical Difficulty] (52:10) in a month. It's somewhere in another note in the Q. And that is probably $35 million, $36 million of the total of the Grupo assets. So your point was breaking it to take that off to see what's outside the public securitization.

Operator: Thank you. And I am showing no further questions at this time. That does conclude today's Q&A portion of the call. I'd like to turn it back over to Stuart Grimshaw for any closing remarks.

Stuart I. Grimshaw, Chief Executive Officer & Director

Thanks, Kate. I'd like to thank everybody who dialed or logged into the webcast. Thanks for your interest in the company. Mark and Jeff are available for follow-up questions later this morning. And this concludes our call, so thanks very much for [indiscernible] (53:07).

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.