PARTICIPANTS

Corporate Participants

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

Other Participants

John Hecht – Analyst, Jefferies LLC
William R. Armstrong – Analyst, C.L. King & Associates, Inc.
Richard Gregg Hillman – Analyst, First Wilshire Securities Management, Inc.
Christian S. Hoffmann – Associate Portfolio Manager, Thornburg Investment Management, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, my name is Scott, and I will be your conference operator today. At this time, I would like to welcome everyone to the EZCORP First Quarter Fiscal 2017 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Jeff Christensen, Vice President, Investor Relations, you may begin your conference.

Jeff Christensen, Vice President-Investor Relations

Thank you, Scott. And good morning, everyone. 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 viewing or 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 by 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 Securities and Exchange Commission.

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

Stuart I. Grimshaw, Chief Executive Officer & Director

Thanks, Jeff. Good morning and welcome everyone to our first quarter results. This quarter has seen a continuation of our focus on meeting our customers' desire for cash, with strong results being posted in the U.S. and continuation of a truly outstanding performance from our Mexico business. As Joe Rotunda would say, it all starts with a PLO. And if we turn to slide 3, we can see that we continue to capture market share and lead the market in PLO growth in both the U.S. and Mexico, with total PLO up 5% to $165 million, U.S. PLO up 4% and Mexico PLO up 17%.

That continues the impressive track record of positive results we have seen with five consecutive quarters in the U.S. of positive PLO growth, the last quarter being 3%, and 10 consecutive double-digit quarters in Mexico with 14%. And when you consider that, that's compounding on a double digit and really is quite an extraordinary result.

This quarter, we have continued to deliver profitable growth. Total revenues up 6%, profit before tax up 12%. EBITDA was flat excluding the impact of Other International segment. And as we've always said, we will continue to invest into our pawn operations, and we've used the corporate expense savings to reinvest into the stores, with corporate expense savings of 13%, which suggests we're on track for the $15 million we outlined in FY 2018.

And we've had significant investment in field leadership notably adding 224 new Team Members during a peak sales season, and this is – this will be used to offset some of the staff turnover that we will incur during the course of the year. And we do continue to upgrade the technology and the point of sale system, which we will start rolling out in March and April of this year.

So, with that summary I'll pass over to Mark Ashby.

Mark Ashby, Chief Financial Officer

Thanks, Stuart, and good morning, everybody. Just turning to page 4 of the presentation. This shows the GAAP results for the first quarter. I'll summarize a couple of highlights from this and then spend a bit more time on the adjusted results. Overall, total revenue was up 3% reflecting, as Stuart mentioned, the focus on serving our customers' need for cash. Total revenue being up 3%, U.S. Pawn up 3% and Mexico up 4%, but on a constant currency basis, up 26%.

Net revenue was flat for the quarter, but as you'll see, it's actually up 2% on an adjusted basis. Corporate expenses on a GAAP basis were down 30%, but on an operational basis, were down 13%, as Stuart mentioned, really reflecting some restructuring and restatement costs that were incurred in the first quarter of last year.

EBITDA growth of 33%, you can see on the chart, and also reduction in interest expense reflecting the interest income from the sale of Grupo, we have the notes receivable, where we received interest income, more than offsetting the $50 million facility that we entered into with Fortress last financial year. This all led to an increase in continuing ops net income of $5 million for the quarter.

We turn to page 5. This is the adjusted results reflecting constant currency and other discrete items which are reconciled in the back of the pack. You see total revenue growth of 6%, U.S. Pawn 3%, Mexico 26%. Net revenue growth of 2% for the quarter. The gross margin in U.S. Pawn was 36.5%, which is consistent with our target range. We had a 6% increase in operations expense, as Stuart mentioned earlier, reflecting the investment in the store Team Members and support structure, as well as the commencement of a preventative maintenance program as part of our reinvestment into stores. This cost increase shall abate over the course of the year.

Other expenses reflects mainly the low income flow through the – our equity accounting of the CCV investment, all leading to an EBITDA of slightly under minus 3% compared to last year. Depreciation and amortization is down on last year, 14% giving us EBIT growth of 2% for the quarter. And after interest expense, profit before tax was up 12% to $13.4 million.

If you turn to page 6, looking at the U.S. Pawn business, we had continued growth in total PLO of 4%, driving PSC growth of 4% and the same-store PLO growing 3% and the same-store PSC also up 3%. Sales were up 3% with gross profit at 36.5%, really reflecting a more mature inventory profile and, as I mentioned earlier, within our target range.

The investment in the field team and the commencement of the preventative maintenance program did drive up store expenses for the quarter. Our inventory growth has been consistent with the PLO growth over the last 12 months, and overall, there was a reduction in profit before tax for the quarter of 9% to $27 million for U.S. Pawn.

We turn to page 7, the Mexico Pawn business, this continued strength in Mexico with PLO up 17%, 14% on a same-store basis. Pawn service charges up 19% and 16% on a same-store basis. Net revenue was up 18% and leveraging the expense growth of only 2% drove a 76% increase in profit before tax. We continue to invest in the Mexico Pawn business and anticipate opening approximately 10 stores by the end of the fiscal year.

Just also broadly just to add, there was some riots that took place in Mexico, which affected around 10 of our stores. We're still working through, understand what the net impact will be as we work through it with our insurers, but we don't expect it to be material.

And based upon that summary, I'll hand back to Stuart.

Stuart I. Grimshaw, Chief Executive Officer & Director

Thanks, Mark. Turning to page 8. While we remain focused on the meeting the customers' desire for cash today, we know that we can improve further by investing in the pawn fundamentals. While we've outlined with a slide, there are a number of initiatives that we're undertaking continuously while we support the drive for future growth.

In terms of refining the incentives coupled with the training and coaching, as Mark has outlined, we've invested quite heavily in not only the store staff, but also the coaching and mentoring that sits around the staff with the two additional Divisional Vice Presidents, six District Managers, and nine Human Resource Managers out in the field. And we believe with this support, we'll be able to support the team's growth initiatives that we have.

We do the – we are looking at the product and customer data and with the analytics that comes with that to better refine how we understand our customers' desire for cash and when, where they need it. Technology, we've mentioned with the POS system. Mark has eluded to store refurbishment program, which we'll be undertaking over the next three years.

Process analysis and improvements, we're embarking on a number of programs in that space, which is all designed to try and ensure that we're not distracted at the store level from serving our customers with non – what we call non-customer-facing tasks which sometime interfere with the service standards we aspire to.

We are looking at the dynamic pricing mechanism through the inventory that we do hold. Our liquidity position remains strong with $64 million cash on the balance sheet and $50 million on undrawn credit line. And notwithstanding strong liquidity position, we are quite disciplined in the way we will utilize that liquidity and we're disciplined in store acquisitions and certainly with the de novo openings as we're seeing in Mexico.

Finally and turning now to slide 9, which is just a bit of a summary as to where we are. I'm sure a number of you know the attractive industry dynamics, so I won't spend any time for that. But I will reiterate that we have established a strong track record of execution, past consecutive quarters of same-store PLO growth in the U.S., 10 consecutive quarters double-digit same-store PLO in Mexico. Corporate expenses, as we've mentioned, are on track, the $50 million, and we've completed the sale of Grupo Finmart and closure of U.S. Financial Services Business on time and on budget.

We remain intensely focused on customer leadership. We have a number of initiatives in play, as I mentioned previously, that will assist us to further enhance our capabilities in this area, supplemented with the increase in support numbers around our stores to ensure that we can execute as we do.

And while we continue to grow, it will be in a disciplined way. Acquisitions will be assessed rigorously and a disciplined manner. The 10 de novo stores we are opening in Mexico, we believe they will be strong adjuncts to our business down there, and the liquidity position gives us a position of strength from which to operate in.

With that, I'd like to pass it back and open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of John Hecht with Jefferies. Your line is open.

<Q – John Hecht – Jefferies LLC>: Hey, guys, thanks very much for answering my questions. First question, you guys have expressed over the past few quarters, same-store sale expansion, I guess, it's slowing a little bit. Industry trends have been challenged. And just, I guess, maybe can you give us a little bit more color on what you're seeing in terms of new customer intake? What are you seeing at the recurring customer level? Maybe give us a little bit more color on the end market trends.

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah. We actually think the market is actually reasonably sound. We're still seeing good growth from our customers. Good demand for cash. I mean, we're posting positive growth year-on-year, we've had some strong growth. So I think, in this environment, getting in that 3% to 5% growth that we've seen in our book, I think that's a pretty good outcome. I know there has been some comments on a sort of a challenging market, but we believe that, with the processes we have in place and being close to our customer, we are meeting their desire or need for cash. And we're seeing that through the results both in Mexico and here.

I think, in Mexico, we have seen an influx of cash from the repatriations that have come across the border as a result of the devalued peso. So we have seen some strength in sales. But with the increased gasoline prices coming in, we believe that will actually change, and we'll see our customers have a desire for cash with the change in their disposable income. So, with Mexico, I think we continue with that.

And with the U.S., all the initiatives that we're doing certainly in the training, understanding the customer better, we think we're in a very good position to continue what we've seen in the past.

<Q – John Hecht – Jefferies LLC>: Okay. And then you discussed a little bit of organic expansion, you're evaluating acquisition opportunities. What – there just hasn't been a ton of acquisitions domestically or in Mexico lately, maybe give us a sense of what you see as market trends and market characteristics for acquisition multiples?

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah. I think there are always sellers, and there's always buyers, it's just the thing called a gap between expectations which restricts execution. And so, what we're seeing is we believe that there is – and we're seeing there is an appetite for opportunities to acquire. But as we say, we're disciplined and we won't transact at levels which we believe are uneconomic for us to make a return for our shareholders.

Mexico is a little bit different as there is a mix between small format and large format stores. So, there, it is – [ph] isn't these cotton dryers (14:06) perhaps it looks in the U.S., but we're still looking, John. We've probably in the past had a track record where capital hasn't been managed as tightly as we are now, and we're very cognizant of ensuring we return shareholder value.

<Q – John Hecht – Jefferies LLC>: Okay. And then I think you guys have mentioned to a little bit of disruption impact in Mexico. Could you just give us a little bit more color on that?

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah. The gasoline prices jumped 20% about three weeks ago, and there's a lot of rioting particularly in the [ph] District Federal (14:41) in Mexico City. We had about 8 to 10 of our stores impacted as a result of that with substantial looting, and I think that was a number of the industry participants had similar experiences. And that basically meant the people ransacked our stores and took everything out of it.

So, as Mark said, we are working with the insurers to understand what is the net position on that, but it was unfortunate to have such unrest. And the gasoline prices went up again but we didn't have the same impact on our stores.

<Q – John Hecht – Jefferies LLC>: Okay. Okay. Thank you. And the final one, what's the proper tax rate to account for you guys for, yeah, I guess, this coming year here?

<A – Mark Ashby – EZCORP, Inc.>: In the mid-30s, John, is where we're expecting it to finalize.

<Q – John Hecht – Jefferies LLC>: Thanks so much, guys.

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

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

Operator: Your next question comes from the line of Bill Armstrong with C.L. King & Associates. Your line is open.

<Q – Bill Armstrong – C.L. King & Associates, Inc.>: Good morning, gentlemen. Nice job again on the top line. My question is on the retail margins. You had good top line growth and you've obviously worked hard and had success in reducing your aged inventory. So I was just curious what drove the 300 basis point to 400 basis point declines in retail margins in the U.S. and Mexico?

<A – Mark Ashby – EZCORP, Inc.>: Yeah. Thanks, Bill. It's Mark here. What we had I suppose a reference point is really last year where we were at 40% margin. And the margin in the first quarter last year was very high predominantly because we had claimed out pretty much all the old inventory at that point. So our inventory profile at that point was probably more forward weighted in terms of aging. So we haven't – now we have a more normalized profile.

And if you go back over the last few quarters, you'll see we've been sitting in a range of around that 35% to 38%, and that's where we think it will settle. So, our aged inventory is still pretty tight, but I just think we've got a more normalized profile or more mature inventory profile at this particular point in time as compared to where we were 12 months ago.

<Q – Bill Armstrong – C.L. King & Associates, Inc.>: Okay. Yeah. I did recall that last year's margins were high. So I guess, the levels from last year really were kind of unsustainable and were more to – at a more normalized level now, is that fair to say?

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah. I think that's fair to say, Bill. This business is really about balance. Sometimes, if we try to overshoot on a margin, it can mean that we're [ph] under-landing (17:26) on the PLO. So, getting the balance right is very important. That's why we think the margin, that 35% to 38%, allows us to actually continue with the PLO growth, whereas, if we didn't, I think we'd struggle to get the growth rates that we could on the PLO.

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

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

Operator: Your next question comes from the line of [ph] David Diamond with Rovida (17:51). Your line is open.

<Q>: Yeah. Hi. Good morning. I was interested in letting us know how investors can gauge the impact of these new self-help measures, the improvements in technology in point of sale. How should we follow this and what sort of timeframe should we expect in terms of improvements? I'm just wondering from our perspective as we follow the company, what are some of the goalposts we should look for and what do you think the impacts can be to your business lines?

<A – Stuart Grimshaw – EZCORP, Inc.>: Well, the point of sale system should be fully rolled out by August, September. And like any rollout, you've got to be very careful that we don't go too fast and forget the training that's required. So [ph] risk mitigate we have as we're going to parallel past (18:47) both the point of sale systems so that we don't put risk into the business. So, on the point of sale, it will probably be start emerging towards – in the next financial year onwards.

All the improvements that we're looking for, [ph] David, (19:01) are actually around productivity. Can we actually get better at serving our customers more quickly and understand them better, which should mean that we should have a much more efficient system. So it's more an operating leverage type outcome. If we can reduce costs and increase the top line, I mean, that's the ultimate goal for many technology solution that would come through. And that's what we'd be aiming for. We know that, for instance, the point of sale system, we haven't really changed our point of sale system for 15 years. So we know that it's sort of a non-current-type system, which is potentially holding us back with too many clicks to get through to the end of the transaction. So a lot of it is about efficiency and productivity, and we will see those appear hopefully through the cost line as well as through the revenue line.

<Q>: Okay, great. And one last question on Mexico. How is the new – you mentioned the gasoline price hikes and causing some rioting. But what is your assessment, do you think, of this new Trump craziness that's going on in terms of the – your consumer in Mexico and their demand for cash? What sort of trends are you seeing in the last couple of months as the political situation unfolds over here?

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah. I mean, there's a lot of uncertainty down in Mexico, and that was into the run-up to the elections as well with some of the [ph] rhetoric (20:29) that was going on. As I mentioned previously with the [ph] rhetoric (20:34) caused the devaluation of the peso, and that increased the repatriations into Mexico. So we saw a number of our consumers have more cash in their hand than we have seen for a while, so the sales were relatively strong.

We think the increase in the gasoline prices will probably take some of that cash out of the hand of the consumer and provide opportunities for us to lend to the consumer. It's still a bit early to see. There's another hike, it's just come through. So we'll probably know more in the next 30 or 60 days as our customers typically take that period of time to adjust to such pricing changes that affect their wallet.

So we think there are some mildly positive attributes to what is happening, but it's a fairly uncertain market down there at the moment, and we'll just have to play a wait-and-see game, but we think there might be some positives out of it.

<Q>: Great. Thanks very much. Have a good day.

<A – Stuart Grimshaw – EZCORP, Inc.>: Thanks, [ph] David. (21:34)

Operator: [Operator Instructions] Your next question comes from the line of Gregg Hillman with First Wilshire Securities. Your line is open.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Yeah. Good morning. Hey, could you talk about the payments from Grupo? They're supposed to be due in 2017 or is there any schedule or is any additional cash coming in on that? Could you talk about that a little bit, please?

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah. Hi, Gregg, it's Stuart here. We're expecting through the 2017 year, we're expecting about $42.5 million in principal payments to come in and $3.2 million in interest payments over the next 12 months.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay. And how much is actually – I mean, how much has come in so far since the last time we talked?

[indiscernible] (22:28)

<A – Stuart Grimshaw – EZCORP, Inc.>: In the last quarter?

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay.

<A – Stuart Grimshaw – EZCORP, Inc.>: [ph] $3 million (22:36).

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay. Great. In the quarter that you're reporting – you're just reporting today?

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

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

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay. And then you expect that $42.5 million and $3.4 million in interest over the next 12 months.

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

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay. Got it. Thanks.

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

Operator: Your next question comes from the line of Christian Hoffmann with Thornburg. Your line is open.

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

<A – Stuart Grimshaw – EZCORP, Inc.>: Good morning.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Just a clarification from me on the EBITDA flag excluding the impact of Other International. Can you just remind me what business that refers to and how that impacts results going forward?

<A – Mark Ashby – EZCORP, Inc.>: Yeah. We've got a 32% equity hold in Cash Converters International in Australia and we equity account their profit. And the equity accounted profit this year was down on last year to the first quarter, so that's what flows through in that line, that's the bulk of it.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Is that likely the headwind going forward or is it just, who knows, depends on their results?

<A – Stuart Grimshaw – EZCORP, Inc.>: It depends on their results, Christian. We're more a recipient of that outcome.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: Got it. And can you remind me of seasonality in the business, particularly kind of what I want to back into is, again, there's a lot of moving parts in the financials the last couple of years. If I take...

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

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: ...1Q results and annualize them, is that a decent snapshot of the business?

<A – Stuart Grimshaw – EZCORP, Inc.>: No. No, because you've got currency impact in there as well, so it's not only the business, but the currency impact. So, for this year, it will be probably more towards the first half or probably they'll have a higher run rate than the second half. So you'll see a gradual slowdown. Some of the regulatory impacts that have occurred in Australia will actually slow the earnings stream more towards the second half of the year.

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: I see. I mean, if we annualize, we're at kind of $88 million EBITDA, I think last year you reported $65 million, is that [indiscernible] (24:38)?

<A – Stuart Grimshaw – EZCORP, Inc.>: You're talking about Cash Converters or you're talking about when you [indiscernible] (24:42)

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: I'm talking about whole business now.

<A – Stuart Grimshaw – EZCORP, Inc.>: Well, typically, the first half of the year is sales season and the second half is the loan. We pick up that loan, so it will have a bit more of a skew towards the first half with a bit of more of a slowing in the second half so...

<Q – Christian Hoffmann – Thornburg Investment Management, Inc.>: I mean, is $60 million to $100 million EBITDA kind of the – a very wide, but kind of the bandwidth [indiscernible] (25:07) right now?

<A – Stuart Grimshaw – EZCORP, Inc.>: All I can do, Christian, is – all we can do is point you to consensus. We don't give guidance in these – you just pick up the analyst results and you can average that out, and that's consensus. And we don't comment any further than that.

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

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

Operator: Your next question comes from the line of Gregg Hillman with First Wilshire. Your line is open.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Yes, Stuart, just a question about Cash Converters. Basically, the question is, are things getting better there and are you currently the Chairman to that organization, Chairman of the Board?

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah, I am. Gregg, thanks for reinforcing that with me, but yes, I am the Chairman of that. And it's – what's happening in Australia was the – like the payday lending is not to dissimilar to what's happening in all developed countries. So they're putting some constraints on that, which will see a slowing in the income as they move away from the short-term lending more into the medium-term lending. So I think, over the period of time, it should improve, but in the short term, they will have a slowdown while they transition their book.

<Q – Gregg Hillman – First Wilshire Securities Management, Inc.>: Okay. Okay. Thank you.

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

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

Stuart I. Grimshaw, Chief Executive Officer & Director

Thanks, Scott. I would like to thank everyone who dialed in or logged into the webcast for their participation today. Mark and Jeff are around for questions later on. So this concludes our call. Thanks for dialing in for the interest in the company, and have a great day.

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