## MANAGEMENT DISCUSSION SECTION

Operator: Good day ladies and gentlemen, and welcome to the EZCORP Second Quarter 2017 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. As a reminder, this call maybe 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, EZCORP, Inc.**

Thank you, and good morning, everyone. Welcome to EZCORP's second quarter fiscal 2017 earnings conference call. During our prepared remarks, we will be referring to slides which are available for viewing or download from our website at www.investors.ezcorp.com.

Before we begin, I'd like to remind everyone that this conference call, as well as the presentation slides contains 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, EZCORP, Inc.**

Thanks, Jeff and good morning, everyone. Joining me here today, I have Mark Ashby and Danny Chism. As you would've seen last night when we filed our 8-K, today is Mark's last call and he has been replaced by Danny who is fortunate enough to have secured and has joined us. And I think it's worthwhile spend a bit of time just looking back to in May 2015. We actually made two very significant hires for the company. One was Mark Ashby and the other was Jerry Rotunda.

And if you turn – if you have a look at page 18 of your slide deck, you'll see exactly how far we've come from a company with multiple businesses that was focused on multiple geographies, to a much more streamlined, business-focused, customer-focused institution. And through the period of time that Mark's been here, we've achieved a lot.

What we haven't got in there is we also went through a restatement, and for those of you who have been through a restatement, it's not an easy process. But like most things with EZCORP, we try and make it more difficult than possible, so we thought we deal with two orders rather than just one. And so getting through that was much more complex than any of us anticipated, and to get through that period of time was a fantastic outcome, and it was driven by Mark and the finance team.

So we certainly have a lot to thank Mark for. He effectively has done himself out of a job, and in some executive's way, they see that as a great outcome. But for us, we're always heading by, but there's some great things ahead for Mark as he returns back to Australia and furthers his next step of his working career.

Danny joins us. He's well known to a number of the investors. He's been with us for over 12 years up from 2011 where he's Vice President of Finance and a Chief Accounting Officer at the same time. He actually started life auditing the account and enjoyed the industry so much, he decided to join us.

So, we're very pleased to welcome Danny back into the fold. He's great, over 20 years worth of pawn experience. He speaks a little bit different to most Australians because he's American, but we'll teach him a few other linguistic skills over the time. But, Danny, we're very pleased to welcome you here, for us today.

What I mentioned when we look at slide 18, I think it's very important when we turn to slide 3 to start what we believe has been very strong quarter driven by momentum that's been gained over the two years since we initiated the strategic shift. We said we want to be the market leading – leadership position. And I think these results clearly established ourselves as continuing to trend that we've been on for a period of time.

The EPS is up 200%. The EBITDA is up 9%. We've strengthened the balance sheet considerably. We have a large cash balance of $120 million. If you put the restrictive cash in there, it's $127 million. We're actually receiving regular payments on Grupo Finmart was received a subsequent $5.2 million through April. So that's being received on time and further enhancing the strength of the balance sheet and then Mark will touch on them, slide 12.

The track record of PLO growth continues. It appear where the deferred tax refunds seem to have confused the number of results. We still had positive PLO growth in the U.S. of 2% and Mexico continued to show some enormous strength doing double digit comparisons in PLO. And so we're actually thrilled to see how our Mexico is performing.

And probably in the last one, I think what you'll see there is that we're not resting on our laurels. We continue to invest in the customer experience. The point is our system [indiscernible] (05:28) really operating one of our stores. But we'll be watching it closely. We'll roll that further. We have the store refresh commencing very soon. And we're just looking at better way to be more efficient and more productive in the store. So this quarter is a very strong one around the momentum that has been established over the periods since we announced the start. So, that's very high overview. I'll pass across to Mark.

**Mark Ashby, Chief Financial Officer, EZCORP, Inc.**

Thanks, Stuart, and good morning, everybody. I'm going to start on slide 4. As Stuart have mentioned, it was a very strong quarter. EPS was up 200% to $0.15 per share. These are the key drivers as you can see from the financial summary on the page, there was a 2% increase in PLO, that led to a 4% increase in – on service charge revenue, and which was somewhat offset by softer sales due to the tax refund delays versus last year that Stuart mentioned.

Operations expense was up 3%. As our quarter one additional investment in store team members begins to be absorbed. Over the second half, we expect the operations expense to be broadly in line with half two of FY 2016. Corporate expense reduction continues, 15% down in this quarter and was certainly on track for the $50 million corporate expense level that we called out for FY 2018. Combined with the reductions and depreciation in interest tax, our continuing operations net income increased by 219% to $8.4 million.

If we turn to page 5, looking at the chart which shows the result of adjusted to constant currency and some discreet items. We saw a strong profit growth of 19% for the quarter. Pawn loans outstanding up 3% on the similar level, as our net revenue, they also grew by 3%. Operations expenses was up 5%, offset by a 15% decrease in corporate expenses which just to reiterated on track for the $50 million in FY 2018.

After the CCV profit share and other expenses, EBITDA was 5% for the quarter, supporting the increase in profit before tax of 19% If you turn to page 6 which focuses specifically on the U.S. pawn business. Same-store PLO grew again up 2%, it's now six consecutive quarters of positive same-store PLO growth. Pawn service charges were up 5% on the same store basis.

Net revenue was up by 1% somewhat subdued by the delayed tax refunds versus last year which affected sales and our inventory levels for the quarter. We continue to invest in initiatives as Stuart mentioned including upgrading our point-of-sale [indiscernible] (08:31). And I'll just reiterate again that we do expect the operating expense in the second half to be similar to the second half of last year. Overall, our profit before tax in the U.S. pawn business was flat for the quarter of $30 million.

If we turn to page 7, this points out a couple of graphs showing the continuation of the growth from the left hand side of the pawn loan balance. And the dotted line the vertical line there shows as Stuart mentioned in his introduction the time we announced our strategic plan. And you can see the improvements in consistency both in the growth in the same store pawn loan over that period with six consecutive quarters of positive same-store PLO growth year-on-year. And also we have some consistency in our merchandise margin and aged inventory levels on the right hand side.

If we turn to page 8, and as you're aware and Stuart mentioned early on when he's referring to page 18 in the deck there's been substantial changes to the business since the July 15 strategic announcement. And on page 18 for your reference. But during that time, we've managed to keep the focus on the pawn business and in particular in serving our customers when serving our customers need for cash. That's the [indiscernible] (09:53) market leading PLO growth over the subsequent two years as the chart clearly demonstrates.

If we move to page 9, just turn to the Mexico pawn business and again, another strong performance. As a matter of fact, it's outstanding performance. Same-store PLO, up 10%; same-store pawn service charges up 10% which is now 11 consecutive double-digit quarters of PLO growth in Mexico in a constant currency basis.

Sales were up 13%. Gross profit on the same-store basis was up 12%. And if we exclude the cost of the impact of the looting which took place in January where we had 12 stores significantly impacted by the looting, expenses were up 8%. That led to a profit before tax increase of 25% for the quarter, also excluding the impact of that looting.

Page 10. Also shows the impacts on the business in strategic plan announcement and you can clearly see the same-store PLO growth with this quarter being 10% on top of 28% last year, on top of 15% the year before. We now have consistency in merchandise margin over the period and a very healthy [indiscernible] (11:15) inventory level at 6%.

Page 11 shows a similar chart [indiscernible](11:23) for the U.S. pawn business. There's been significant same-store PLO growth over a long period of time now. And when you add the 10% to the 28% plus the previous 15% from the year before, that compound is to a very strong level. And as a result, we're seeing very strong growth in profit over that period of time.

Page 12 Page 12, just touching on the balance sheet and liquidity. The balance sheet continues to strengthen, we had a $127 million in cash at the end of the quarter versus $76 million last year. And we also have $50 million in undrawn facilities available to us for use. This strengthening has seen a significant improvement in net debt-to-EBITDA ratio and we expect that to continue over the ensuing periods.

Turning to page 13, and finally just a recap of Grupo Finmart and the amount of sale, the receivables due to us. Over the quarter we received $15 million plus an additional $5.2 million. So over the half, we received just $15 million after the end of March. And we received an additional $5.2 million since end of March until now. That leaves an expected $25 million to be received in FY

2017, a further $26 million to be received in FY 2018 and $18 million to be received in FY 2019, by which time we received $90 million from the proceeds of the sale.

So in summary, very strong financial quarter it really positions the business for continued growth and investment. And I'll hand it back to Stuart.

**Stuart I. Grimshaw, Chief Executive Officer & Director, EZCORP, Inc.**

Thanks, Mark, and turning to page 14 while the results have been very strong, we're certainly not resting on our laurels, we're investing into the long term growth of the business. And as you see there, the rates are distinct areas that we're focused on. We've touched on the point-of-sales system that we value the system as it is very easy to use, it's highly visual and it's much more efficient for our people in the store to actually transact. So it's going to be great for us so the productivity will be able to get out of the stores By the early June, we hope to have 10 stores operating across two of our key states, being Texas and Florida, operating on the system. We are running a very risk-focused approach to rolling the system out. We do have a parallel system. So the old system is still available should there be a requirement to use it, but in the initial trial on the current store, we haven't had need to actually refer back to that system for any issues. That's sitting in the point of sale platform. So we're very pleased with the way it is rolling out, and we're very pleased with the risk [indiscernible] (14:24) we have around to the rollout of that.

We've talked about the pricing customer data analytics in the past. We're starting to see also a very interesting information out which is helping us to understand the customer behavior much better which is allowing us to look at how we actually lend to the customers. And as Joe Rotunda has talked to many of you about, this is a loan business first. And if we can get the processing right and understand the customer behavior, particularly in terms of redemptions, we can actually enhance the experience that the customer has and drive a greater profitability to the organization.

With the incentive program, we continue to involve one at the store level. In the past, we've used net revenue as one of the determinants of the bonus consideration for the stores. We've now moved that to the operating contribution at the store level, which means that the store manager is actually accountable for the full operation of the store with such things as overtime as well as just revenue. And we've been rolling that out and we expect to see some benefit of the focusing of the bottom line and the customer experience through those programs.

We are starting to roll out a store refurbishment program. This is just not a coat of paint that we're putting on the stores. We're looking at the capacity we can actually achieve at the store front. As you've seen front. As you've seen, as the PLO grows, so does our inventory as a direct correlation to that and we need to have the capacity in the store to be able to move the inventory and allow our customers to see what product we do lend against as well sell. We believe we can get some double-digit capacity growth in terms of space utilization as we move through the program which as we've said is a three-year program and we'll be starting that this month.

With the process analysis and improvements, we're looking very closely again, not just as a point of sale for productivity improvements, but just some of the process improvements and we've done a lot of work to understand that we have been inefficient in certain areas of our operations. And then we're taking steps to start standardizing the processes. And for those of you run businesses, it's very hard to understand, how to start your business if you have inconsistent processes. So by standardizing processes, we believe we can get some efficiencies through labor over time which will benefit, benefit that's going to allow us, our people to have more time serving customers than doing useless processes which sometimes you put in place.

We talked about the optimizing of the loan values and the target range of our sales margin around the 35% to 38% and we've seen – be hitting those targets very well. The pleasing thing this quarter is seeing the strengthening of the balance sheet and with a very strong liquidity position and we do like strong balance sheets,

And finally, the disciplined store acquisitions with – it's always a question that comes up. We're still seeing multiples in the U.S. at a reasonably high level. So there's buyer/seller gap at the moment. We will not enter into a transaction which we think is not accretive to the organizations. So while we're still kicking tires and we are just running the way we do it and as you've seen in Mexico, we've taken the step of doing [indiscernible](17:41) trying to open that trying to open that tendency able to that we have already opened. So we believe there's still a lot to be done in our business. And we extremely focused on executing on these projects that we've undertaken.

So in summary, looking at in page 5. I think the [indiscernible] (18:01) is quite aware of the industry dynamics. So I won't spend any time on that. But the pleasing things that it continue to come out is that we are successfully leading the market in customer market leadership. It is a key focus to all people in the organization for myself down to every team member in the store. The customers make us successful. And we do everything we can to make the experience as positive for them as we can.

We have market leadership and PLO growth which we have consistently shown over the two years since we have initiated the strategic plan. And we have a very disciplined growth and performance about how we are managing. The company is in a much stronger position today than where we were two years ago. There's been a lot of hard work done. And the focus and discipline we now have in the organization across all parts of it [indiscernible] (18:51), we are putting ourselves in a very strong position to continue to compete.

So with that overview, let's open it up for questions.

  

## QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first 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, everyone. Nice quarter. I have a question on retail margins. They were down in the U.S. almost 200 basis points and they were up in Mexico about 100 basis points. I was wondering if you could just run through the factors that impacted margins in both those markets?

**<A>:** Yeah. Thanks, Bill. In the U.S., the delay in the tax receipts did impact the margin a fair bit. What we find with the customers and we've experienced in the past is when they are flushed with cash, the negotiation on product pricing is not as robust as when they're short of cash. So what we saw is with the delay in the tax refunds coming through, the retail margins wasn't actually under pressure, but it wasn't as we didn't receive the same returns we did in the last year. So that was pretty much a timing issue due to the tax refunds.

However, I would say it still fits well within our target range. So we've got to be careful that we don't pursue gross margin for the sake of gross margin because we can get into a lending situation which we've been in the past where we start under-lending to our customers and we start losing it.

We also have the – last year, you'll recall, we have a tax refunds coming in around Valentine's Day as well. Most of the tax refunds were actually received after Valentine's Day, so that put a bit of pressure into the gross margin that we would have received a benefit from last year.

With Mexico, we've actually been looking closely at how we price across the ageing buckets, and we've taken some positive measures through there. So the Mexico one is a strong management position about how we're managing the products through the age cycle.

**<Q – Bill Armstrong – C.L. King & Associates, Inc.>:** Okay. Great. And with the tax refund season now pretty much over, are you seeing maybe more normalized margin comparisons now year-over-year in the U.S.?

**<A>:** Yeah. We always find the third quarter is a little bit more difficult because we're getting into the lending season. What we do get is a small kick you get through Mother's Day, but it's not much. So the next two quarters are always a bit of a lower margin because the customer has a need for cash. And as I mentioned before, the price negotiation of the store gets a little bit more intense at that stage. So we still think we'll hit within their target range but it's principally loan season from now on.

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

**<A>:** Thanks, Phil.

Operator: Your next question comes from the line of Charles Nabhan with Wells Fargo. Your line is open.

**<Q – Chuck Nabhan – Wells Fargo Securities LLC>:** Hi. Good morning, guys. Given your liquidity position, I was wondering if you could just give us some color on how you think about your various avenues for capital deployment and if you would ever give consideration to returning capital to shareholders?

**<A>:** Thanks, Charles. It's a good question. One of the things I've learned at EZCORP is having liquidity is actually a real strength for us. We have deployed capital somewhat inefficiently in the past. We believe we want to keep as much flexibility for potential opportunities which come up. We have looked at our capital management strategies but the business historically has been reluctant to deploy capital back to the shareholders if we see avenues to invest being much more positive to the company than pushing back to shareholders. But just to be – for your own benefit, we do talk about it quite a lot, so it's not something that we disregard but we believe that having flipped the company in current position of strength and customer leadership, we believe there'll be opportunities in the industry to continue to expand and much rater keep that flexibility in our back pocket.

**<Q – Chuck Nabhan – Wells Fargo Securities LLC>:** Got it. Just as a quick follow-up, I was wondering if you could provide some color around inventory, your outlook for inventory turns, whether you see them at stable levels currently in the U.S. and Mexico and the impact that conversion might have on turns over the long-term?

**<A>:** Yeah. I mean, I'm sort of a little bit – I don't mind turning the inventory a little bit quicker because it gives us better capital utilization. We've seen a slight tick up in our inventory in terms of – just proportion to our PLO balance. We're carrying a bit and also carried a bit more inventory through the second quarter than we have in the past due to the delay in the tax refund. So one of the core tenants we put in place was [indiscernible] (23:58) have inventory on hand when our customers have cash with the delay in the tax refund.

We probably carried a bit of a higher inventory balance since to the end of the second quarter than we typically would like. So I think we'll – you'll see that we'll try and enhance the turnovers, but the absolute pursuit of turnover for the sake of it isn't necessary the right outcome. But from a capital position, we're always aware of trying to ensure that returning our products in the first 60 days as much as we can to enhance the margin.

**<Q – Chuck Nabhan – Wells Fargo Securities LLC>:** Got it. Thanks guys. Appreciate the color.

**<A>:** Thanks, Charles.

Operator: Your next question comes from the line of Kyle Joseph with Jefferies. Your line is open.

**<Q – Kyle Joseph – Jefferies LLC>:** Hi. Good morning guys, and thanks for taking my question. First one is just on the cash converters. Apologies if I missed it, but just sort of an update on that business and any potential outlook on the valuation or potential monetization of that asset.

**<A>:** Cash converters as you know, we're on 32% off. It's publicly listed in Australia. It operates to a degree in the same area as ourselves and more so in the unsecured financed area. It's going through a bit of a tough time with the regulatory framework that has come into play from Australia and also there's a class action – two class actions against the company. The outlook is reasonably – I think reasonably positive. It is serving the needs for the cash-constrained customer. It is able to do that pretty well. It's a difficult – it's an inherited position. It's at 32%. There's not sufficient liquidity in the stock to be able to move it quickly.

So our strategy is to actually try and maximize the value that we can contribute to the business to see it back – at one stage, it was back at $1. It was $1.40 a share. It's currently trading at just under $0.30 a share. So, our sort of strong belief is try and get that share price back towards the dollar and get the value back into the business which we believe is there.

**<Q – Kyle Joseph – Jefferies LLC>:** Yeah, thanks. And then just turning to Mexican pawn, I think we saw a lot of the jewelry-only stores shut down there when gold prices sort of fell off the cliff a couple of years ago. Can you just describe the competitive environment there? Have you seen any new capital enter that market?

**<A>:** No, no really. I mean, obviously, first cash is a very strong operator in that market. Jewelry for us is really only about 9% of that portfolio. So the gold price doesn't really have much impact. I think the real shift we're seeing is the shift from small format stores to large format stores where general merchandise is becoming a core pawn product for the consumer.

So, not so much for the capital but more the shift in pawn strategy where some of the smaller format stores are struggling to meet the overheads while the large format stores are getting more popular in there and their concept now to taking customers away from the small formats.

**<Q – Kyle Joseph – Jefferies LLC>:** Great. Thanks for answering my questions.

**<A>:** Thanks.

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

**Unverified Participant**

Okay. Thanks very much. Thanks very much for all who are in the call this morning. We appreciate the time that you've given to listen to the story which we believe is a compelling story I'd also like to thank Mark Ashby for everything he's done and to assist the company through that. So on behalf from EZCORP, Mark we wish you well and thank you for all your – all the hard work that you have done.

Mark and Jeff will be around to take calls later on. And obviously we'll introduce Danny to you over that period of time as well. But we are very grateful for everything the time that you've given us and we wish you have a very great day today. Thanks very much.

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