MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the EZCORP's Third 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 may be recorded.

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

Jeff Christensen, Vice President of Investor Relations

Thank you, and good morning, everyone. Welcome to EZCORP's third 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 investors.ezcorp.com.

Before we begin, I'd like to remind everyone that this conference call, as well as the presentation slides contains certain forward-looking statements, including 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 risk 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 Stuart Grimshaw. Stuart?

Stuart Grimshaw, Chief Executive Officer

Thanks, Jeff, and good morning everyone and thanks very much for joining us this morning. In particular, just a welcome to Danny Chism, who joins us in his first results, so if you go easy on the questions, I'm sure he'd appreciate that.

If I turn to Slide 3, the third quarter continued the momentum that we have established from another great result from our Mexican operations, as well as the strong contribution from U.S. pawn. It's been established within a controlled expense environment related to EPS being up 100% and profit before tax up 133% to $8.9 million. Well Danny will go into more details with pointing out a few notable items.

The U.S. recorded seventh consecutive quarter of positive PLO growth at 4%, which compounded from a 10% same time last year and is coupled with a merchandized margin of 37%, which was consistent with the same times last year. You will also note that we've got a market leading PLO per store of $289,000. And as we've always said, PLO is the lead into how this organization works. So we focus heavily on the PLO growth and it's pleasing to see we continue to exceed in that area.

Mexico also recorded its 12th consecutive quarter of PLO growth with same-store up 13%, supported by merchandised margin of 33%. And you will see that same time last year Mexico had a 19% PLO growth, and the strength of that business continues to please us and we're very happy with the management team with what they've been able to deliver over the past three years.

As a result of the initiatives that have been run, U.S. supported net profit before tax was up 18% and Mexico was up strong 56%. This is all done within a controlled expense environment and if you look across all the businesses, the corporate be the operations, we have been able to manage expenses to a very low level of single digit growth, while being able to drive some very strong PLO growth rates and revenue rates out of the two businesses.

While we were doing that we've strengthened the balance sheet. As you will see the cash balances at $114 million is a very strong position to be in and we also strengthened further post quarter-end with a convertible note issuance. You will see that we still continue to invest in the customer experience with product and customer analytics, as well as the store environment both in de novo's and Mexico with four opened last quarter, and the store refurb program, which is a better experience for our customers, as well as our staff.

So turning to Slide 4, we are about two years into the three year transformation and it's interesting to see the way the activity has changed over that period of time. We spent the first 18 months really fixing the company and getting a solid base from which to grow. We are now firmly in the building for growth phase. As you will see through the initiatives we have outlined on the right with, as I mentioned before, the de novo store openings, in Mexico we have opened six with the expectation we will open another four in the final quarter of this financial year.

The PoS system implementation continues to roll forward, products and customer analytics, the store refurbishment program, which we have talked about, which we anticipate to do 75 stores per annum. We continue to redefine the incentive programs at the store level to provide better execution and alignment.

When we look at the business and how we're moving it forward, we continue to evaluate the organic opportunities we have, and one of the things we are seeing is, we still see potential around the in-store execution of the programs we are running, and we will continue to focus on the operational excellence, which we are developing on a consistent basis as you have seen through the quarterly results.

With that quick overview, I'll pass across to Danny.

Danny Chism, Chief Financial Officer

Thanks Stuart. Good morning everyone. Great to be back with EZCORP and I'm excited to share with you the results for the third quarter. First, I did want to mention, I will be at the CL King Investor Conference in New York City on September 14 with Jeff Christensen. You can contact C.L. King or Jeff for details.

Now onto the results. I'll start with the consolidated GAAP results on Slide 5 of the deck. As Stuart mentioned, it was another strong quarter. EPS doubled to $0.10 per share and profit before tax more than doubled to $8.9 million on strong growth in both the U.S. and Mexico. The primary driver of the net revenue growth is the increase in pawn loans outstanding or PLO.

Both segments delivered market leading same store PLO growth, up 4% in the U.S. and 13% in Mexico. On a blended basis, same-store pawn loan growth was 5%. We managed our expense structure to leverage to 5% growth in net revenue into 133% improvement in profit before tax.

Slide 6 presents our results on a normalized basis adjusting for constant currency and discrete items. These are reconciled at the back of the presentation. As the trends are similar to our U.S. GAAP results, I'll highlight just a few items. On an adjusted basis, net revenue increased 6% with U.S. and Mexico pawn segment net revenue up 5% and 15% respectively.

At 36%, our consolidated merchandised sales margin remained consistent with the prior-year quarter and within our range of 35% to 38% target. We again drove significant savings in corporate expenses, down 9% this quarter and on track to be under $50 million in fiscal year 2018.

Net interest expense was slightly improved due to the interest income on promissory notes associated with the Grupo Finmart sale. And we expect our effective tax rate in Q4 will continue to be in the high 30s, similar to our year-to-date rate. Stuart mentioned our track record of execution since the announcement of our three-year strategic plan in 2015.

As you can see on Slide 7, we've delivered seven consecutive quarters of market leading same store pawn loan growth in the U.S. We believe we've organically grown our customer base and taken market share. The 4% same store PLO growth is compounded on top of 10% growth this quarter last year. That's great growth in a mature U.S. market and 27 percentage points higher than the competitions combined results over the same timeframe.

PLO is the most influential driver of revenue and profitability for the company that drives both pawn service charges and sales gross profit. Looking at Slide 8, both were up 5% in the U.S. on a same-store basis. In January this year, we modified our store incentive compensation program to be based on store contribution rather than just net revenue. Along with improved pricing and lending guidance that change helped deliver improved PLO net revenue and a renewed focus on store level expense management.

The net effect of those efforts was a 5% increase in net revenue and an 18% increase in profit before tax to $24 million. Ongoing initiatives to improve the customer experience include enhanced data analytics and an upgrade to a point of sale system. These changes will help us streamline the transaction and allocate greater loan values to our better customers improving our ability to meet their need for cash. We expect rollout of the upgraded PoS to be substantially complete by the end of the calendar year.

Looking at the chart on Slide 9, U.S. pawns operating expenses improved from last quarter as our investments in the field leadership and customer facing team have been successfully absorbed driving greater revenues. We expect the U.S. and consolidated operations expense in the second half of this fiscal year to be inside the same period of last year. The well-controlled operating expenses and recent enhancements in store level incentive compensation help to accelerate profit growth.

We've shown consistent improvement during the year with profit before tax moving from 9% decline in the first quarter to just about flat in the second quarter to an 18% improvement this quarter. The changes management put in place in the first quarter are clearly having the intended effects.

Moving on to the Mexico pawn segment results on a constant currency basis, you can turn to Slide 10. This segment delivered another outstanding performance in PLO net revenue and profit. The chart on the left shows the continued same-store pawn loan growth in Mexico. The 12 consecutive quarters of double-digit increases represent a fantastic achievement.

Our 13% same store PLO growth this quarter is compounded on top of 19% this quarter last year as Stuart had mentioned. Combined, that's 10 percentage points higher than the competitions reported results over the same time period. This segment continues to deliver very strong growth and opportunity. This is particularly pleasing as percentage growth rates are calculated on an ever-increasing base and per-store loan balances that are approaching parity with our primary competitor.

On Slide 11, you can see a 16% growth in total Mexico PLO drove similar increases in pawn service charges and sales gross profit. Similar to consolidated U.S. segment results the profit before tax increase was significantly higher in Mexico than its net revenue growth through effective leverage of the expense structure. The segment delivered a 15% increase in net revenue and a 56% improvement in profit before tax to $6 million.

Our Mexico segment is a terrific business with a low cost base, and we're pleased with the results on new stores. As Stuart mentioned, we've open six new stores year-to-date and expect to open four more by the end of September. We believe Latin America provide some attractive opportunities through organic growth, new store development, and through acquisition opportunities.

The chart on Slide 12 gives a quick visual of the earnings growth in Mexico with profit before tax up from $1.1 million in the same quarter of 2015 to $3.5 million in 2016 and $5.5 million in the current quarter. As you can see on Slide 13, we continue to strengthen our balance sheet and liquidity position providing greater flexibility to seize opportunities as they arise. The unrestricted cash balance of $114 million at quarter-end was almost three times higher than this point last year.

We continue to generate cash flow from operations and our receiving regular payments on the promissory notes associated with the Grupo Finmart sale, including a $6.1 million payment received in July, $5.2 million of which was an early repayment. Net debt to adjusted EBITDA was 2.5 times at June 30.

In early July, we issued $143.8 million of convertible notes, due 2024 as presented on Slide 14. This further strengthened our balance sheet, significantly extended the debt maturity profile for the company and a very attractive fixed coupon of 2.785% and is unsecured. We received about $140 million net proceeds.

We used just under $52 million of that to retire the secured debt facility, which carried a substantially higher cost of funds. $35 million was used to repurchase existing cash convertible notes, due 2019 reducing their outstanding balance to $195 million. And the remaining $54 million increased our cash balance providing funding for general corporate purposes and potential acquisitions.

We expect to record a debt extinguishment charge of about $5 million in our fourth quarter related to these transactions. We will pay $4.1 million cash interest annually on the new convertible debt that's $2.2 million less than the cash interest on just $85 million that was retired, plus it provides $54 million of additional liquidity.

With that, I hand the call back over to Stuart.

Stuart Grimshaw, Chief Executive Officer

Thanks Danny. Turning to Slide 15, which is a slide everyone has seen a few times before, but it does represent what we focus on, pretty much on a daily basis, and I'll just pull up a few things up out of here. We continue to look closely at product and customer data. This provides a lot of historical analysis, but doesn't take away the judgment that happens at the store level but provides more information for the people in the stores, how to deal both with the customer and if you look at below and the optimizing loan values gives us a better indication of how the processing of the product should work.

Those two we find as being quite critical to as we move into the next iteration of how we get the excellence of the store level providing relevant information at the time of dealing with the customer we think is quite critical and both of these will be linked into the point of sale system, which we continue to roll out at this point of time.

We continue to look at process analysis and improvements there is still a long way to go and being more efficient at the store level. Even in the pricing, we are finding ways of improving the pricing at store level and we're rolling out some new programs about general merchandise and jewelry, which we believe will assist in continuing to deliver the strong margins that we have seeing.

The other thing that we are finding with the – some of the customer data or how the customer data can be applied to new customers, as many of you all know the risk we run all the times and the customer we don't know.

So we're doing a lot of analytics based around many variables to try and better understand whether those transactions should be purchases rather than loans, and certainly in the last month we've started looking closely and we have seen purchases is up a reasonable amount, which is more capital efficient for us in the long term and better for the customer as well.

As Danny and I have talked about, we are looking at the de novo acquisitions in Mexico with six this year and another four to come in the final quarter. So turning to the last page, which is really a summary of what's happened. The industry continues to be an attractive one.

We've had a number of quarters now, which indicate that the customer leadership focus we have is working, the loan growth has been strong and you've heard the compounding of PLO growth quarter-on-quarter is actually very strong both in Mexico, which I think anyone would be ecstatic to have those PLO growth numbers. And in the U.S. we are in a mature market giving the growth rates we are is a great testament to the leadership we have in place.

The disciplined growth we have been consistent with, de novo is a mixed course there. We obviously look at to all geographies as our competitors do as well. And we do try to ensure that capital is used in the most efficient and effective way as possible, but overall I would say this is a quality result. All the metrics approve to us that we are doing the right thing.

We are getting solid and stable returns. We will obviously look for the growth where we can, but the metrics point to the fact that, I think management are supremely focused in a very disciplined way and in an organization now, which is very streamlined and efficient and providing returns to shareholders that we think is quite appropriate. And so with that, I'd like to open up to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Bill Armstrong with CL King & Associates. Your line is open.

<Q – Bill Armstrong>: Good morning everyone, nice quarter. In the U.S. you've seen obviously some nice growth for some time now and in PLO and now First Cash is also showing some better trends as well. Aside from your company specific improvements that you've implemented at the store level and then your operations, what sort of economic or demographic trends might you be seeing that might be starting to improve overall demand for pawn loans throughout your markets in the U.S.?

<A – Danny Chism>: Sure Bill. You must be looking at the different graph up, but First Cash being down 9% PLO, but I think you are stripping out Cash America, which I think still eyeing about First Cash.

<Q – Bill Armstrong>: Yes, that's right. That was just a legacy First Cash stores.

<A – Danny Chism>: Yes, so I got saying Florida. I think what we're seeing is that we're actually providing a better service to our customers. We are getting market share off. So if you are down 9%, the customers are going somewhere. These customers have an absolute need for cash. That hasn't changed. So, we think we are picking up new customers as a result of that. The other thing we're learning is, we're learning a lot more about our existing customers.

We have a bit of a feeling that we've been a little bit conservative in some areas and we are understanding, which is the right customer to lend to. The interesting thing is just trying to get transaction volumes up in the stores, which we're focused on, but overall we think with the greater knowledge we have with the customer, is a better understanding of the product and the stability in our stores will actually drive future traffic and future flow than we have, and we're seeing that with the PLO growth.

If it was one quarter, I think it would be a little bit hesitant to say that things have changed, but we've now had seven consecutive quarters in the U.S., which suggest that we are doing things right and customers are coming to us.

<Q – Bill Armstrong>: Okay, make sense. Could you comment on your aged inventory both in U.S. and Mexico currently, any trends to call out there?

<A – Stuart Grimshaw>: Now, we're pretty consistent year-on-year and certainly with, I think with the First Cash numbers in the U.S. we're consistent with where they are. We do like to have inventory on hand. We've just come off – we did a bit of scrapping as you would have seen during the year, so the jewelry came down a bit. In Mexico, it's about 6% that's a pretty healthy number to have there.

So, we're quite comfortable with those positions where we are, but like any other businesses we will continue to optimize, but we don't want to far sell our product where we think there is still value with the product and overall the levels are consistent with where we've been.

<Q – Bill Armstrong>: Got it. And then just one last quick one, I'm not sure if you can comment on this, but is there any color you can give us around the nonbinding letter of intent that you disclosed to core pawn shops in Latin America.

<A – Danny Chism>: Now as much as we'd like to, we are subject to an NDA bill, but as soon as something happens we will certainly be the first to let you know.

<Q – Bill Armstrong>: Okay understood. All right, thank you very much.

<A – Stuart Grimshaw>: Thanks Bill.

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

<Q – Kyle Joseph>: Good morning guys and thanks for taking my questions. Just wanted to make sure that we're in check with your expense guidance for the quarter, Danny I think you said, at least operation expenses would be sort of within your inside of the last fourth quarter, in terms of the admin expense, I know you talked about FY 2018, and that remained consistent, but at least just looking back, and I don't know if there is anything one time, but admin ticked up last fourth quarter, and I was just wondering if you could just give us sort of a sense of what you're anticipating there for the fourth quarter? And I know there are one-time items related to the convert and one not as well.

<A – Danny Chism>: Right. The only future guidance we've given as far as the G&A spend is 2018 that we expect to be under the $50 million. Although we've consistently been driving down the G&A expenditure I would expect to continue to see that trend as we march towards the $50 million.

<Q – Kyle Joseph>: Got it. And then you mentioned $6.1 million payment in July on the sort of Grupo debt, can you talk about the remaining balance on that and is all that going to be recognized as income or is some of that principal?

<A – Danny Chism>: No, the majority of that's principal. The figures that I'm talking about there are principal. Those are scheduled to be repaid within the next couple of years. So, in the remainder of this year we expect about $24.4 million to come in, another $24 million or so in fiscal 2018 and then another $18 million in 2019, which will be the end of that.

<Q – Kyle Joseph>: Okay. Got it. And then last question for you guys, you've mentioned the scrap activity in the U.S. picked up, was that inventory management, is that a good run rate on a go forward basis or was there anything one time in the quarter there?

<A – Stuart Grimshaw>: We, probably about last year I think, we had an active strategy of making sure we had sufficient stock in the stores through the peak periods. So, for instance, jewelry we made sure we had sufficient jewelry for Valentine's Day because we know that's a very big mover. In the past quarters, we are going back a few years you would have seen that, scrapping was reasonably consistent across the quarters. You would have see in quarter one, quarter two we're actually reasonably light on scrapping.

So, we took the opportunity to scrap some of the older product in the third quarter, but we did move a fair bit of jewelry through the Valentine's Day and one thing that pushed us into the third quarter was the fact that as you will recall the tax refunds were delayed pretty much just after the Valentine's Day towards the end of February. So, we held on to the product a little bit longer than we have in the past due to that delay.

<Q – Kyle Joseph>: And then just last question, any sort of update on cash converts and the outlook for equity income line item?

<A – Stuart Grimshaw>: We look at the consensus of the analyst and then we run pretty much on that basis. So, we watch it closely and we record that happens.

<Q – Kyle Joseph>: Got it. Well, thanks very much for answering my questions, and congrats on a good quarter.

<A – Stuart Grimshaw>: Thanks very much Kyle.

<A – Danny Chism>: Thanks Kyle.

Operator: Your next question comes from the line of Vincent Caintic with Stephens. Your line is now open.

<Q – Vincent Caintic>: Hi thanks, good morning guys. Just two questions. First on the Latin America acquisitions, I know you can't speak specifically to this particular NDA, but just kind of broadly if you maybe could discuss what the opportunities you're seeing in Latin America in Mexico, and is there an environment where there is more potential for consolidation where you can participate?

<A – Stuart Grimshaw>: I think it's south of the border in the Latin America, the growth rates that we're seeing very attractive, and some of the process we're seeing are reasonably attractive as well. The cost of de novo is much lower than the U.S. So, the supplementing of de novo's with acquisition makes a lot of sense for us with the deployment of capital. What we're seeing is that a number of regions and areas in Latin America are very strong in jewelry, but very underdeveloped in general merchandise and we have a lot of expertise and ability to bring knowledge into those regions.

So where we can see a high growth with good returns, we will look closely at and we see certainly more of those opportunities coming up before us than we certainly do in the US. So, our focus is looking closely at these to see whether there are opportunities and obviously there is one NDA there, we're looking closely at those, but the attributes are very attractive to us and as we've seen with that competitor in the First Cash will continue to invest down there, but they are getting some very good returns from the businesses.

<Q – Vincent Caintic>: All right makes sense. That's helpful. On a separate question, just on the technology front, if you could update us on how the rollout of the new point of sale system is going and any other initiatives for efficiencies and productivity growth?

<A – Stuart Grimshaw>: Yes, look the point of sale system is being rolled out. What we're rolling out carefully, as you move into each state, each state is like moving into a different country with a different regulations you have. And so while the DNA of the PoS system is very robust, we do still have change at each time we go into a new state, what we've always said is, we're not going to risk the business and being held kind of rolling at PoS system at the expense of looking after our customer.

So, we will be substantially complete by the end of 2017 calendar year and there will be a little bit of carryover, but for instance we don't want to be implementing a new pulse system during our peak sales periods of November into December. Because that's just detrimental to how we operate, but we're very comfortable with the way it's proceeding in the stores. We have got out too, they are running it very well, and we're trying to – we will be implementing and integrating the customer analytics starter into that module as well and we will be rolling out into Mexico, probably close to the end of this financial year into Mexico.

<Q – Vincent Caintic>: Okay great, and just one last one from me, so you spoke about taking market share from your competitors and we're certainly seeing a good growth there, is there may be beyond taking share, do you see, I don't know is the pie growing perhaps where there's more of an addressable market for you or is it really just kind of taking share that used to be yours and kind of optimizing the business?

<A – Stuart Grimshaw>: [indiscernible] hard thing to get data to look at the size of the pie, I mean First Cash and ourselves really had 13% of a market, which is dominated by moms and dads, so getting hold of the data to see whether it is increasing or not is different to understand, but what we do know is that the customers who have been with us, they actually talk to a lot of people and the referral programs work well.

We know that demographics of the people who use this, I think the uncertainty for me is, I think the segment is growing because credit accessibility for these, this customer group is getting harder to get hold of. So, I couldn't give you a hard fact to say it is, but I think with the environment we have got, I think we're starting to believe that this is a growing market.

<Q – Vincent Caintic>: Great. Very helpful thanks very much Stuart. Thanks guys.

Operator: [Operator Instructions] And your next question comes from the line of [indiscernible]. Your line is now open.

Andrew Oskoui, Blue Tower Asset Management

Good morning everyone. I noticed that compared to First Cash Financial average U.S. store level operating expenses are somewhat higher for EZCORP, do you have thoughts on the source of the difference? Is there actually a real difference in operating expense or is this just an accounting issue?

<A – Stuart Grimshaw>: It's hard to get like-for-like to understand what is included in the store expenses versus us, so that does make it harder. I believe that we probably have a bit more LIBOR in our stores than our competitors, but we actually do that because we are generating a much better PLO growth per store than our competitors. So, if the way I would look at it is, if we were not getting the growth out of PLO, and the metrics we're seeing at store level than you would look at the expenses and say well maybe we should be doing something there.

We've always had the view that investing in customer facing activities is the best way to drive growth in our business. So, we actually look at both revenue PLO growth, which starts the revenue, as well as the expenses to understand that. We have a smaller span of control as well and then our competitors, so we're investing heavily in the fabric of the customer and believe it's still the right thing to do. So, while it's not apples-for-apples we probably do have a slightly higher store expense, but I believe we're actually gaining a much more revenue stream from that investment then where perhaps our competitors are.

Andrew Oskoui, Blue Tower Asset Management

Got it. Thank you guys.

Operator: And there are no further questions at this time. I'll turn the call back over to the presenters.

Stuart Grimshaw, Chief Executive Officer

Thanks very much and I'd like to thank everyone who dialed and logged into the webcast. I'd certainly like to thank the team at EZCORP for a great quarter, and I know that Danny and Jeff are available for questions later this morning. So this concludes our call, thanks for those for getting up early to listen to it, and have a great day.

Operator: And this concludes today's conference call, you may now disconnect.