EZCORP, Inc.
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<<Larry Meisler, Managing Director, Head of Equities, at CL King>>

Joining us is Danny Chism, Chief Financial Officer of EZCORP and Jeff Christensen, Vice President of Investor Relations of EZCORP.

Danny Chism is at the podium. Please go ahead Danny.

<<Daniel Chism, Chief Financial Officer>>

Thanks, Larry, and thanks to CL King for hosting us today. Appreciate everyone's interest in the stock. I look forward to walking you through the EZCORP story and some of the growth opportunities that we have ahead of us. I would point you to Slide 2 on the forward-looking statements and other information just for a quick reference.

Turning to Page 3 gives a quick overview of EZCORP overall, about 85% of our revenues come from U.S. Pawn, another 14% from Mexico; so really 99%, we are basically a pure pawn play, and then another 1% or so in a small payday lending operation in Canada that we call CASHMAX.

From a market cap standpoint, we're about $500 million, and about $750 million in total revenue, and last year's profit before tax about $23 million for just a quick view overall on the company. On the store count, we had 759 pawn stores at the end of last quarter of pawn shops, about two-thirds of those in the U.S. and about one-third in Mexico. Although the stores in Mexico are a bit smaller, so the revenues from the U.S. are a larger proportion between those two.

Turning to Page 4, kind of migration of the company we had a bit of a transformation. Back in 2015, Stuart Grimshaw joined the company as Chief Executive Officer; and Joe Rotunda, our Chief Operating Officer rejoined the company after having been with the company for a fair number of years and a good run in the company's results. In 2015, Stuart put in a transformational three-year strategic plan that really focused the last 18 months on fixing some underlying issues in the business, simplifying the business model, and really setting us up for future growth.

That's where we are now, moving into building for future growth and putting in a lot of initiatives to accelerate growth. That is what you see are those individual activities on the left side of this slide and the right side of this slide are some initiatives that we've got in place now to drive future growth. We'll talk in a little bit more detail on some of those.

Turning to Page 5, the U.S. Pawn market is a pretty sizable market, the target audience is about 27% of the U.S. population that's unbanked or under banked, and really provides pretty significant opportunity not only for existing stores but for continued growth with acquisitions in the U.S. as valuations moderate a bit. You'll see about 87% of the total 13,000 stores in the U.S. are independently owned. Valuation expectations from sellers remain a bit high at this point, but as those moderate, I believe we're going to see a fairly significant opportunity in the U.S. over some future years for some acquisition opportunity. The new store growth opportunities in the U.S. are a bit more limited because of the longer ramp to profitability of new stores in the U.S. So it's more an acquisition strategy than new store growth in the U.S. And, we're really concentrating on meeting customers need for cash is the core of the business.

With acquisitions, we can provide our focus on customer service, on systems, as well as infusing capital. A lot of the smaller operators don't have access to some of the capital they need to be able to grow their loan balance to set them up for future profitability. Those are some of the enhancements we can make to acquisitions.

Page 6 gives you a quick view of where we operate today in the U.S. You see concentrations in certain states, and a complete absence in other states, largely due to the fact that states regulate pawn rather than being regulated federally. So you'll see certain states where they're very favorable pawn regulations and other states where it just doesn't make sense to enter. I would say though the fact we're across a number of states both in the U.S. as well as Mexico gives us some geographic diversity that helps diversify some of that risk.

The pawn loan is fully collateralized. If you think of most other lending operations such as payday lenders or auto title lenders where there has historically been regulatory pressure. There is no personal recourse to the customer in a pawn loan. A customer can fully satisfy their debt just by forfeiting their collateral if they choose not to repay the loan. No collection activity or collection calls. Again, an attractive proposition from the customer standpoint as well as from a regulatory standpoint.

Page 7 shows Mexico is a large market about 130 million people, and about half as many pawn stores as in the U.S. and it's also a fairly fragmented market. The two publicly traded companies represent about 13% of the total pawn stores in Mexico, similar to the percent in the U.S. That provides some significant opportunity for adding value through acquisitions and enhancing those operations as well as some continued new store growth in Mexico, where the economics make a lot more sense. The path to profitability for a new store in Mexico is much faster due to the low cost structure.

The other opportunity in Mexico is a lot of operators are concentrated in smaller format pawn stores that are largely in jewelry. We can add value to acquisitions in Mexico through our expertise in large store format, we can introduce general merchandise with a little bit larger store footprint along with our systems to support that and our knowledge of the customer.

Page 8 is the states that we operate in Mexico, you see concentration in Southern and Central Mexico, largely just due to contiguous growth rather than jumping around a bit. Mexico continues to be a pretty significant opportunity both for infill as well as acquisitions as we complement the stores that we have today.

Turning to Page 9 is a quick look at the overall economics of the pawn industry. You see central to this is the store manager. We try to maximize the tenure of the store manager.

If you think about yourselves going to a bank, a lot of that is you've got a relationship with that personal banker that you may have banked with for years and you have a comfort level. Our customers gain that same comfort level and our employees gain that same comfort level with the pawn store manager. So we focus a lot on making sure we're putting in the right training and incentives to maintain tenure of our store managers.

So moving to economic measures, the single biggest driver for the company is the loan balance. In the top left box, you see we focus a lot on growing our loan balance. And from that loan balance, we typically earn pawn service charges akin to interest income. If the customer repays the loan, we earn pawn service charges, and they get their merchandise back.

For customers who do not redeem their loan, their collateral becomes our inventory that we are able to sell for sales gross profit. We make 35% to 38% merchandise margin on sales which is not bad for most lenders to get that kind of profit margin on essentially bad debt.

There is a bit of a misconception with pawn. Most people walk into a store and they see the retail front which is only about one-third of the square footage. Most people will see retail as the primary driver or the primary business, and certainly that's a nice profitable piece of the business for us. However, about 60% of our net revenues come from pawn service charges from pawn lending. Our focus is driving loan balance rather than the retail piece of the business.

Turning to Page 10, that focus on the loan balance translates into fairly good results over the last several years. On the left side of the slide, you see EZCORP's U.S. Pawn operations have had seven consecutive quarters of market leading pawn loan growth. This slide includes comparisons to our primary competitor. We think we've not only grown organically but also taken some market share although it's a bit tough to get exact figures since 87% of the pawn operators in the U.S. are independent and don't report publicly.

We've seen a similar results in Mexico on the right side of Page 10, we had 12 consecutive quarters of double-digit pawn loan growth. Pretty significant.

And if you look at the compound annual growth rate in the U.S. over the same quarter for last couple years, a compound rate of 14% in a pretty mature market has been a very nice return on already a pretty sizable loan portfolio. And in Mexico where our per store loan balances are pretty close to parity with our primary competitor, we continue to drive over the last couple of years 32% growth in that loan balance. Again, fantastic growth in that market and the earnings are growing along with that. So we've been very pleased with the operations in Mexico, and see some pretty significant continued growth opportunities in Mexico as well as other regions in Latin America.

Turning to Page 11. You can see that the net revenue growth has been fairly healthy both in the U.S. as well as Mexico, we're leveraging the expense structure and driving a larger percentage growth in profit before tax compared to net revenue growth.

Turning to Page 12, the natural question is, okay, you've moved this two years through your three year strategic transformation, where to from here, where are the growth opportunities? Page 12 gives you a quick look at some of the initiatives we put in, specifically around the growth opportunities. If you look at the left side of the page, the four in there really focus primarily on understanding the transaction, understanding the customer and better insights into the products that we lend on as well as sell in our stores. So looking at customer behaviors, past behaviors as an indicator of future results and who may repay their loan or who may not. And really focusing on the customer experience and meeting the customer's need for cash. So that's kind of the central theme of all four those of driving that experience for our customers.

We can then use that insight to make larger loans to our better customers, customers more likely to redeem the loans. And lower level of loans to customers who are less likely to redeem the loan so if they fail to pay the loan, then we can recognize a bit larger gross profit on those sales of forfeited collateral.

Looking to other initiatives on this page, in January of this year we also modified our store incentive program. The bonuses in our stores were previously based on net revenues, in January we shifted that to the store contribution focus. Our store managers are now more focused on expense management where they're held more responsible for their entire four-wall P&L. We've seen the results a slide or two ago when we looked at the operating leverage.

We've also started a store refurbishment program this year. This fiscal year we will do about 75 stores, where it's providing a fresher look for customers, really cleaning up the look overall as well as reorganizing the sales floor so that we end up having a pretty significant gain in merchandise display space. And we also continue to have activity on acquisitions and de novo stores particularly in Mexico. We have signed a non-binding letter of intent for an acquisition in Latin America. We have a non-disclosure agreement that obviously limits some of what we're able to share at this point, but we're excited about some of the opportunities in that territory.

Page 13 gives a quick look at the strengthening of the balance sheet and liquidity. We have about three times the cash balance at the end of the June quarter relative to last year. We de-risked the balance sheet a bit too. We pushed out some of the maturity of our debt and raised a little bit more capital since the end of the quarter. At the end of the June quarter, we improved our net debt to EBITDA ratio to 2.5, so a fairly low levered business at this point.

Page 14 gives you a quick look at the convertible debt that we issued in July shortly after the last quarter end. It was almost $144 million capital raise, it pushed out the maturity to a seven-year maturity on that debt, added additional liquidity and also provided a fairly healthy cash interest rate, the coupon is relatively low, and strengthened the balance sheet. That convertible debt issued in July provided about $140 million of cash, we utilized about $52 million of that to retire all the secured debt that we had on our balance sheet. We purchased about $35 million of the convertible notes that come due in 2019 and added about $54 million of additional liquidity to the balance sheet.

Page 15 gives a quick summary of what's happened. I think we've had some pretty good quality results from the initiatives that we put in place or seeing/ We're doing the right things to drive the business both from a top line as well as bottom line. We're focused on the customer's need for cash, streamlining operations, streamlining the transaction for the customer, making the customer experience more pleasant and faster. We are about two years into the three year strategic plan that we put in place in 2015, and are now in the building phase for future growth, so laying that groundwork for acceleration.

So with that I'd like to open it up to any questions that you all may have.

Q&A

<Q>: There was recently a relatively large acquisition by First Cash of Cash America, curious how the competitive landscape has changed. Are there still opportunities of size within the U.S.? Kind of curious what exactly are you looking at in terms of opportunities given the fragmented nature of the U.S. market?

<A – Daniel Chism>: The next largest chain in the U.S. is about 32 stores. So you're absolutely right, the size of the opportunity from an acquisition standpoint remain relatively small. You have a lot of the mom and pop or onesie-twosie, but there are a few chains still out there that provide some good economics. We add a lot of value to acquisitions with the implementation of our systems, our processes, and capital that we're able to deploy into that as well.

Some of what we're seeing is we're picking up some of the business from some of the growing pains of First Cash digesting Cash America. We've always competed quite well with Cash America. I think we will continue to see some of that. I believe it's a little bit different philosophy between FirstCash and Cash America.

I think there will remain some acquisition opportunities. Again, we need the valuation expectations to get back in check to make economic sense. Our approach has always been to be very disciplined in looking at those acquisitions and make sure that if it's a mature business that it's immediately accretive, and if it's an immature business that it provides a platform for us to be able to accelerate future growth and drive accretion in the future. Did that answer your question?

<Q>: Could you please address the effects on your business from the hurricanes and earthquake. I think you have the distinguished position of being the only company here that's affected by all three natural disasters in the last two months. I think 60% of your store account is in Florida and Texas combined, that's a pretty big deal. And when stores are affected how exactly are they affected? My first thought is that, whether it's collateral or retail inventory, it just seems that a lot of that opportunity set, it is just – it's now in dumpsters. And I don't mean to be crude on that, you know people's goods are just completely ruined and they can't do anything with them any longer. Is there a longer-term effect on your business as a result of that?

<A – Daniel Chism>: I appreciate the question. So, there's obviously some effect, we do have some stores in those territories. However, the most affected are right along the coast

in Houston which is about 70 stores or so that were in that territory, but clearly not every store is going to be affected by it. And I would say it's premature for me to comment on specific numbers or specific effects of the storms particularly with Hurricane Irma still developing. I think some of the largest impact that we expect to see is some of the power loss in Florida. So the question is how quickly can they get power back up and get stores back operating again on the stores that needed to be closed.

We plan to share more information as we report our September quarter. But our primary focus at this point is luckily the safety of our employees, from that standpoint we had no physical issues with our employees, then it's focusing on the customer's need for cash as well because we know as they move back into their homes or apartments they're going to have some need for cash.

<Q>: I understand that, I understand the stores will be opening in short order and imagine there's insurance, I'm more concerned of the lingering effect on the business in that significant footprint due to your customers experiencing all the loss; yes, they may have a need for cash, but they also may not have any collateral as they did before which prevents the whole business venture from ever happening.

<A – Daniel Chism>: That's a great question. It's too early to be able to tell the full impact of that, but I would say just looking at past hurricanes as they may give us some indicator, if I think about Hurricane Ike back in 2008, the lingering effect certainly there was a little bit, but it was not nearly as significant as one might expect. So again, I can't give you a whole lot more information about the current ones. If there's some lingering effect, I think the loan demand tends to return relatively quickly. So hopefully that helps some understanding there.

<Q>: Danny, you discussed Latin America, could you give us just an update on the potential acquisition in Latin America, why that market? Could you give us some more color on Latin American opportunities for you?

<A – Daniel Chism>: The broader comment we've covered, I think there are significant opportunities not just with the letter of intent that we signed currently which I would point out is non-binding, but we're still in due diligence subject to an NDA. So unfortunately, I can't share a lot of information about that. But I do think both within Mexico as well as certain territories in the remainder of Latin America, there are some pretty significant opportunities in the pawn market. That will provide us the chance to get in, acquire some good companies and enhance our operations similar to what we've traditionally done.

I think about Mexico, we have 244 stores there at the end of this last quarter. In the 2005 or so timeframe, we entered there with just a few stores and really got a big start with acquiring 20 stores. And that was kind of a big leap for us to be able to build that base of operations to then expand to what has now become over 240 stores. And I see that opportunity in some of the other Latin American countries, similar demographic, certainly it's going to be somewhat unique country to country and the regulations will be unique in each one. That gives us a lot of opportunity and not just within Mexico.

<Q>: Just kind of curious, what are the differences maybe in terms of the Mexico market relative to the U.S.? And if can you just talk about the challenges specifically for Mexico, what do you see in terms of the difficulties and trying to really expand that business there?

<A – Daniel Chism>: I'd say the U.S. currently has limited acquisition opportunities that are significant in size or priced correctly, and limited new store opportunities because of the higher cost structure. I think we've got significantly greater opportunity in Mexico on both of those fronts. And from a regulatory standpoint, it's seems very stable and have been very comfortable with that.

So even though Mexico represents about a third of our stores it's about 15% of the total revenues, some of that is because of average store size, and the fact that the cost structure is lower in Mexico as well. So even though it's lower revenue, it's also lower expense structure that still makes those very economical.

In the U.S., you see much more general merchandise in almost every store where it's not just jewelry only. There are more of those competitors in Mexico that have traditionally focused just on jewelry or concentrated on jewelry with a far lower concentration in general merchandise. We can add significant value to acquired companies in Mexico by introducing the ability to get into general merchandise as well.

<Q>: Just talk about what you're seeing within the industry with regards to the sub-prime credit availability trends. Are things tightening or loosening. Just if you could talk about that as well. Thank you.

<A – Daniel Chism>: If you think about credit overall, seems to be loosening a little bit in the general market. Although, I'd say for our customer and our market segment, we've actually seen a little bit of tightening on our customers, which seems to be translating into some loan growth for us. Unfortunately, our customer seems a little bit more challenged, traditional lenders would not be as willing or excited about lending to them at this point. We've always filled that gap and think that that is growing for us, again, almost a third of the population is unbanked and under banked. And that's been a relatively consistent percentage over the years. Any other questions I can answer?

I appreciate everybody's interest and enjoy the rest of the conference. Thank you.