PARTICIPANTS

Corporate Participants

Jeff Christensen – Vice President, Investor Relations, EZCORP, Inc.
Stuart I. Grimshaw – Chief Executive Officer & Director, EZCORP, Inc.
Daniel M. Chism – Chief Financial Officer, EZCORP, Inc.

Other Participants

Kyle Joseph – Analyst, Jefferies LLC
Gregory R. Pendy – Analyst, Sidoti & Co. LLC
Michael Cohen – Director of Research, Opportunistic Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the EZCORP Fourth Quarter and Full Fiscal Year 2017 Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being 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-Investor Relations, EZCORP, Inc.

Thank you, Kelly, and good morning, everyone. 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 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'd 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. I'd just like to start by acknowledging that we've probably had a quarter of unprecedented natural disasters and sometimes it's actually great to be involved in an industry that responds to the customers positively after such tragedies occurred. And I think both ourselves and FirstCash in particular had a great job in meeting the needs of our customers in a timely manner and we are there for them in their time of need. And I think being part of an industry [ph] such as that (02:02) is something that I know that our team feel very proud of. So I'd just like to mention that go into it.

We started this journey in July 2015 where we said to each of you that we wanted to be the leader in responsibly and respectfully meeting our customers' desire for access to cash whenever they need it. Over that period of time, I think we've delivered really well, and this quarter that we've just entered into continues the trend and represents a very strong outcome in light of some of the natural disasters that we have confronted through this period of time.

So if we turn to page 3, I think there are four key highlights that we just want to touch on. The first is the U.S. Pawn stores have had a terrific year, which is a big scale business to deliver outstanding performance. In those areas unaffected by the natural disasters, same-store PLO is up 3%. Our PLO per store unadjusted continues to lead the market and we've maintained their constant yield around 14% on their PLO indicating that it is a quality portfolio that we have been driving for quite a period of time. U.S. Pawn is now 83% of total pawn profit before tax. That was 87% in 2016.

So when we drop down to the extraordinary performance our Mexican business has achieved, we've seen the Mexican Pawn contribution is now 17%, up from 13% in 2016, and growing rapidly. Same-store PLO is up 11%, 13 consecutive double-digit quarters, so we're compounding on double-digit numbers, which is quite extraordinary. Profit growth, up 80% CAGR in a two-year period, which we'll refer to in slide 5. We actually opened 10 new de novo stores in FY 20l 7 and we believe there's future capability within that geography for both acquisition and more de novos.

Further, the third point is we acquired further growth potential in Latin America through the GuatePrenda acquisition, which we'll touch on later in the presentation. But now we have 41% of total pawn stores in Latin America, which is significantly different than where we were some years ago. This market is a compelling proposition to us. We've talked about this previously, but for us, this represents a very attractive growth market for us, and we are very happy with the acquisition, and I'll touch on that a little bit later on, as I said.

Importantly, all this activity has continued to lead to strong earnings growth. EBITDA is up 39% to $88.5 million, which is a strong performance over the period of the year. Our GAAP EPS is up to $0.21 a share in the fourth quarter and continues to impress, from our perspective. We continue to achieve operating leverage through the businesses, which Danny will talk, and I'll point to as well. Our corporate expense, which we indicated some two years ago, which was close to $65 million, is tracking towards our set target of $50 million appropriately and we have continued to strengthen the balance sheet with a very strong liquidity position.

Turning to slide 4, what you're seeing in slide 4 is the continued excellent performance in U.S. Pawn. Over the two years, our growth is quite impressive and particularly when you compare it to the only public listed competitor that we do have. We continue to achieve positive PLO growth and, as you'll recall, when we started down this journey, our business was one of lending first, and we continue to focus on that heavily. And when we look at what that equates into, the operating leverage you can see on the right hand side of that slide, particularly in the first quarter where net revenue growth was up 1%, we're able to translate that into a 20% profit before tax outcome through managing our expenses in a very disciplined manner.

Onto slide 5, which is the Mexican Pawn and it's very unusual to see such strong growth numbers in any industry. But if you look at the last four quarters over two years, the compound growth on strong double-digit numbers where we're achieving 31% to 48% per annum is very impressive in anyone's language. And then when you look over to the page just to how that again equates into profit before tax, these numbers are very, very solid 76%, 25%, 56% and 64% improvements in profit before tax are outstanding. We still believe we have potential to continue to leverage that business in Mexico to continue the strong outcome-driven approach.

On slide 6, we focus very heavily on what are the margins we're achieving out of this business. On a consolidated basis using continuing operations as the basis for the calculation, the organization has achieved 36% CAGR growth in EBITDA over the three years. The EBITDA to net revenue margins improved from 12% to 23%, and when we track across to both the Mexico and the U.S., you can see how the U.S. scale proposition holds well with a stable margin of 31%. And then you see the growth potential and the growth actualization we're getting out of Mexico where the EBITDA to net revenue margins improved from 23% to 35%.

As I touched on previously, the diversification that we've achieved actually provides strength to the business with 41% of our total stores based in Latin America and we see the growth there being very, very attractive to us.

So, with that introduction, I'll pass over to Danny.

Daniel M. Chism, Chief Financial Officer, EZCORP, Inc.

Yeah. Thanks, Stuart, and good morning, everyone. First, I do want to mention our upcoming Investor Day with analysts and institutional investors in Las Vegas coming up on December 14 with a reception the evening before.

Now onto the results. Our U.S. and Mexico Pawn segments, as Stuart had mentioned, delivered solid net revenue expansion in the fourth quarter and the full year, despite several natural disasters. We further leveraged this into significant earnings increases through two key actions: first, by effectively executing our strategic initiatives to create long-term profitable growth; and second, by managing our cost structure.

Let's take a closer look at how this happened starting with the consolidated GAAP results on slide 7. As Stuart mentioned, it was another strong quarter. EPS increased $0.52 to $0.21 per share. EBITDA rose $28 million to just under $19 million on strong growth in both the U.S. and Mexico Pawn segments and 98% of that EBITDA growth flowed through to the profit before tax line.

For the full year, we reported a 91% growth in EBITDA and net income from continuing operations of almost $34 million. Pawn loans outstanding, or PLO, was up 1% to $169 million at the end of the quarter. The U.S. Pawn segment delivered market-leading same-store PLO growth. This rose 3% in stores unaffected by the hurricanes.

Mexico PLO jumped 19% or 11% on a constant currency basis. We estimate that the hurricanes reduced the U.S. Pawn loan balances by about $5 million at the end of the year. I'll give you more details on this and its estimated impact on earnings in a few minutes.

We effectively managed our expense structure leveraging the $1 million increase in net revenue into a $28 million improvement in EBITDA. Net interest in the quarter included $2.3 million of discrete items. The most significant was a $5.3 million debt extinguishment charge, partially offset by a $3 million gain on the restructuring of the promissory notes related to the Grupo Finmart sale.

Two favorable items decreased our income taxes in the quarter. First, we were able to utilize a capital loss carry-forward on which we had previously recorded a valuation allowance, providing a $3 million tax benefit. The Grupo Finmart note restructuring generated the capital gain that allowed us to utilize this carry-forward. Second, the company experienced lower state income taxes. The income tax rate in the quarter would have been approximately 36% without these discrete items. And I expect the 2018 tax rate will remain in the mid to upper 30% range.

Slide 8 presents our results on a normalized basis after adjusting for the estimated impact of natural disasters, other discrete items and constant currency. The trends are similar to the U.S. GAAP results with adjusted EPS of $0.22, $0.01 higher than the GAAP results. You can see the reconciliation of GAAP to non-GAAP figures on slide 24.

There are a few items worth noting. On an adjusted basis, net revenue in the fourth quarter increased 1% in the U.S. and 13% in Mexico. Our consolidated merchandise sales margin was 36%. This remain consistent with the same quarter last year and within our target range of 35% to 38%. Operations expenses improved to 70% of net revenues in the quarter and 69% for the full year. We expect operations expenses to represent a similar percentage of net revenues in fiscal 2018 based on our current forecast.

We again drove significant savings in corporate expenses, as Stuart had mentioned, which were 38% lower this quarter than this quarter last year. Although the current year's results improved dramatically, incentive compensation expense was lower in fiscal 2017 due to the higher target hurdles in the 2017 plan. Adjusted net interest improved slightly due to the interest income on the promissory notes associated with the Grupo Finmart sale. All said and done, adjusted EPS improved $0.39 to $0.22 per share.

Turning to slide 9, this presents our U.S. Pawn results adjusted for the estimated impact of natural disasters and other discrete items. As we said many times before, PLO is the most influential driver of revenue and profitability. In U.S. stores unaffected by the hurricanes, PLO was up 3% on a same-store basis, driving a similar increase in pawn service charges.

The merchandise margin remained consistent in the U.S. at 36%. Efforts to manage our expense structure enabled us to leverage a 1% increase in net revenue into a 20% increase in profit before tax to $26 million.

As you know, we're investing in a number of initiatives to improve the customer experience and further increase our operating efficiencies. These include enhanced data analytics and an upgraded point-of-sale system. Among other benefits, those improvements will help us streamline the transaction process and allocate greater loan values to our better customers. This enhances our ability to meet their cash for needs, a key for EZCORP, while limiting the amounts on loans less likely to be redeemed.

Turning to the graph on slide 10, you see a healthy growth in net revenue over the last four quarters and our cost controls magnify the impact on profit before tax on U.S. operations. Our efforts have resulted in consistent improvement during the year. Profit before tax steadily moved from a 9% decline in the first quarter to ultimately a 20% improvement this quarter over the prior year.

Slide 11 shows you the double-digit growth in Mexico same-store PLO, which drove a similar percentage increase in pawn service charges. The segment delivered 13% higher net revenue, even higher on a constant currency basis. Leveraging our expense structure allowed us to drive a 64% improvement in profit before tax, reaching $5 million in the quarter and now representing 17% of our total.

We opened four new stores this quarter for a total of 10 during the fiscal year. We believe Latin America provides many attractive growth opportunities and we plan to tap those through organic growth in existing stores, new store development and further acquisition opportunities.

The graph on slide 12 shows you the continued strong compounding growth in net revenues. The real story here is how dramatically we've increased profit before tax this quarter and for the full fiscal year. Merchandise margins were healthy, up 100 basis points from this quarter last year.

Turning to slide 13, you see the impact from the two hurricanes in the U.S. and a major earthquake in Mexico during the quarter. The effect was an estimated $2.9 million reduction in profit before tax in 2017. We estimate the U.S. PLO balance experienced about a $5 million reduction as of September 30 as a direct result of the storms and related temporary store closures. This represents about 3% of our consolidated PLO balance. The ripple effect will depress pawn service charges, fresh inventory available for sale and sales until the PLO return to normal levels. We expect that will happen after the annual tax refund season in 2018. The earthquake in Mexico luckily had only about $100,000 impact and is not expected to materially affect fiscal 2018.

As you can see on slide 14, we continued to strengthen our balance sheet and liquidity. This will provide flexibility to seize opportunities as they arise. Our cash balance is up 150% to $164 million and our leverage ratio is down to only two times adjusted EBITDA. The improvement came from three primary sources. First, we continue to generate cash flow from operations; second, the convertible notes issued in July increased our cash on hand and allowed us to pay down shorter-term debt; and third, we're receiving payments on the promissory notes associated with the Grupo Finmart sale. We restructured the notes in September and I'd note that the first payment of principal and interest due under the restructured notes was timely received in October. Restructuring the notes is a great outcome for us, it enhanced our security profile as well as our return and we'll receive monthly payments rather than annual lump sums. On slide 19, you can see the details regarding the restructured notes.

We removed some risk from the balance sheet as well. In early July, we issued convertible unsecured notes due 2024. This provided about $140 million in net proceeds at a very attractive fixed coupon of 2.875%. Almost $52 million of those funds were used to retire all the secured debt, which carried a substantially higher cost of funds. In addition, we retired about $35 million of convertible notes that come due in 2019. Those actions significantly extended our debt maturity profile. About $54 million of the net proceeds were used to help fund our recent acquisition of 112 pawn stores in Latin America.

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

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

Thanks, Danny. And to follow on from Danny's points just made on slide 15, we acquired GuatePrenda post balance date, but I just want to touch on it again because it is a significant acquisition for us. It's our largest acquisition in terms of store count and we spent probably over four months doing the due diligence on this business, and each month we spent close to the business, we got more and more excited about the opportunity. We have had ownership for about a month now and everything we've seen in that month supports our decision to purchase this business. We now have 46% of our Latin American pawn stores located in the geography of Guatemala with 72 stores; El Salvador 17 stores; Honduras 12 stores; and Peru 11 stores, and we continue to see opportunity to expand in those geographies and in adjacent geographies.

It's a very fragmented market. We're fortunate that we've actually been able to inherit with the acquisition a very high quality management team with a lot of in-country expertise. And the important thing that we do highlight, which is in the last dot point, the compelling financial benefits is the business of GuatePrenda has an average per store loan balance higher than our existing stores in Mexico. And what we're acquiring is a very high quality portfolio with a high quality management team. And we remain very excited about the opportunities that this presents to EZCORP and to our shareholders.

Turning to slide 16, when I look at the strengths, I'd probably highlight the four points that we try to or that we made at the front is that we have a very strong profitable and performing U.S. business, which is scalable and is being leveraged efficiently and effectively through not only the new [ph] partner (19:00) systems that we're putting in place, such as the POS and data analytics, but a very high quality store team, which continues to focus on meeting the customers' needs for cash.

We have a Mexican business, which continues to outperform, and everything we see in Mexico continues to see the opportunities that can come out of the geography. And we also have a very high quality management team there. And as you saw really around the growth in PLO balances with double-digit compounding is quite unusual. And it's great to see.

The acquisition of GuatePrenda gives us access to further growth markets and we believe that that will leverage the business to greater levels than we have seen and the diversification we see is being very positive towards the way we look at our business and, most importantly, those translating into outstanding financial returns for our shareholders.

With that, I think we'd like to open up to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, Mr. Grimshaw. [Operator Instructions] Our first question comes from Kyle Joseph from Jefferies. Please go ahead.

<Q – Kyle Joseph – Jefferies LLC>: Hey, good morning, guys, and congrats on a pretty good quarter, given everything that happened during the quarter. So just touching base first, in terms of the outflow restructuring, can you give us a sense for sort of the run rate of interest income we can expect going forward or [indiscernible] (20:46) a little bit lumpy?

<A – Danny Chism – EZCORP, Inc.>: Yeah. Actually, if you take a look on page 19 of the deck, we've tried to lay out there for you, both the GAAP as well as the cash interest income that we would expect from the revised Grupo notes. There's [indiscernible] (21:02) that shows GAAP interest income and then that's comprised of the two primary components: amortization of the deferred compensation fee and the cash interest income. So you can look at both the impact on the income statement as well as statement of cash flows.

<Q – Kyle Joseph – Jefferies LLC>: Yeah. Perfect. I see that now. Apologies for missing that. And then going back to the Latin American acquisition, in terms of the additional stores, can we assume sort of similar store economics and just any sort of sense of what the margins at those stores were versus your existing base in Mexico?

<A – Stuart Grimshaw – EZCORP, Inc.>: We haven't disclosed that, Kyle. I mean, what we have disclosed is the average PLO balance per store is higher than in Mexico. I think it would be logical to assume that some of the inherent behaviors and traits we see in our Mexican business are translatable into the economics of the Latin American business. So that would be the way I would sort of point towards that.

<Q – Kyle Joseph – Jefferies LLC>: Got it. And then in the new geographies that you guys are now in as a result of that acquisition, could you give us a sense of the size of those markets as it relates to Mexico?

<A – Stuart Grimshaw – EZCORP, Inc.>: Mexico is a fairly big market and what we're dealing with is Guatemala, which has a population of probably around 15 million people; El Salvador and Honduras around 7 million people each; and then you have Peru, which is obviously of a much larger population. So we see Peru as being very interesting due to the scale that you can achieve in that area. I think with the other three geographies, we believe there's opportunity to do de novo openings, but not to the same extent we can probably get out of the further South geography. So certainly, de novo through the Honduras, El Salvador and Guatemala, and we'd look to both de novo and acquisitions should something come up in adjacencies over in those regions.

<Q – Kyle Joseph – Jefferies LLC>: Got it. And I really appreciate the color you guys gave in terms of the impact of the hurricane and whatnot. But even when we ex out the impact there, it does look like retail sales in the U.S. were a little bit – the growth is slowing a bit. Can you give us any sort of color there? And I'd just point specifically to the inventory turns, the number you provided in the slides, is it demand, is it competition or is it even just one quarter we can't even call it a trend?

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah. Well, I mean, as an analyst [ph] a trend is your friend (23:38) but I don't think one quarter sort of makes the trend that [ph] you don't want to (23:42) follow. I think there's a couple of things. I don't think our sales performance was good as what we would have liked and so we're implementing strategies at the store level to improve that. The other thing I would say, though, is that we were probably focused more on achieving a stable gross margin through that period of time. And I think you'll see that our competitor actually had negative sales through that with a decline in the gross margin at the same time. So even though our sales are roughly maintained, our margins we think is quite important. We think we should be getting greater volume of sales out of our storefront. So we don't think what you've seen is a trend. We believe that we have the right strategies in place to return that growth to a positive region.

<Q – Kyle Joseph – Jefferies LLC>: Got it. Well, thank you, guys, very much for answering my questions.

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

<A – Danny Chism – EZCORP, Inc.>: Thanks, Kyle.

Operator: [Operator Instructions] Your next question comes from Greg Pendy from Sidoti. Please go ahead.

<Q – Greg Pendy – Sidoti & Co. LLC>: Hey guys, thanks for taking my call and congratulations on a good quarter. Just wanted to understand, you mentioned sort of the ripple effect and kind of how you think that will alleviate around taxes. Can you kind of walk us through that so we better understand why taxes and specifically and why the lingering effect will continue to that point? Thanks.

<A – Danny Chism – EZCORP, Inc.>: Yeah. So, as you know, pawn is a portfolio business, right, in that either shrinking or growing that takes time to move that portfolio and the earnings follow that time growth or time shrinkage. A smaller PLO is both going to generate smaller pawn service charge revenues until you rebuild that and it will also generate less fresh inventory through loan defaults that then generally turn into sales at a fairly high margin as that's the youngest bucket that requires the least discounting to move that merchandise.

Some of the rationale for the timing, actually the – the timing we have I think is reasonable to even possibly a bit aggressive. As we look back, I mean, these were unique storms, right, even between each other, between Harvey and between Irma. One was more of a flood event whereas the other was more of a wind event, which had somewhat different effects. Also it has a different amount of relief money coming in from FEMA or other organizations that alleviate some of our customers' need for cash from us, which we think that demand will return. But there is some temporary effect of that and then it takes time to rebuild it.

As far as the timing, the largest impact that we see on this next year is suppression of pawn service charge revenues, probably two-thirds of the effect that we ultimately will see, and about a third of the effect would be through sales gross margin or gross profit. And as far as looking at the timing, the best historical point of reference that I could see was back Hurricane Ike in 2008. That actually took us about nine months to recover the full loan balance at that point. We have actions in place that we think will deliver that return in more like the six-month timeframe and I think a lot of the relief funds will dry up long before that and give us the ability to rebuild that portfolio by that point. Hope that helps provide a little color for you.

<Q – Greg Pendy – Sidoti & Co. LLC>: Yeah. And then, I guess, just one follow-up. Is that going to change, I guess, temporarily the mix of inventory out there in the system? Are you seeing that impact, I guess, because some people saw some of their pawnable merchandise most likely damaged and sort of leaves with the system, so is there going to be sort of a merchandise mix in some of those stores?

<A – Stuart Grimshaw – EZCORP, Inc.>: No, I think what we've seen is obviously the sales activity has been heightened due to exactly the reason that you've seen, but we have sufficient inventory in the system to be able to meet the customers' demand and we think that will become pawnable [ph] and will remain (27:57) within the local community pawn cycle as a result of that. So if we weren't able to meet those demands, I think what you were saying is right, but we have sufficient inventory around to be able to do that.

<Q – Greg Pendy – Sidoti & Co. LLC>: That's helpful. Thanks a lot.

Operator: [Operator Instructions] Our next question comes from Michael Cohen from Opportunistic Research. Please go ahead.

<Q – Michael Cohen – Opportunistic Research LLC>: Hi, guys. Thanks for taking my question. Just a quick rather mundane question. In terms of looking at the G&A/corporate expense and the OpEx on a kind of sequential quarter basis, was there anything that shifted from one bucket to the next because G&A seemed abnormally low and OpEx seemed a little high? Am I missing something there?

<A – Stuart Grimshaw – EZCORP, Inc.>: No, we're not that creative, Michael. We actually – corporate expense is being managed down consistently so there is no change in the buckets. But what I do like to see is actually if we can invest in the operating business rather than the corporate center, I think that's a really good outcome because I know that the dollar I invest into the stores returns revenue versus the dollar I invest into the corporate center sometimes doesn't have the same return. So the markets are actually quite exclusive.

<Q – Michael Cohen – Opportunistic Research LLC>: Great. Thank you. That's good to hear. And then, can you just give us an update on the point-of-sale and specifically kind of what percent of the stores are fully rolled out and what your initial impressions are at this point?

<A – Stuart Grimshaw – EZCORP, Inc.>: Yeah, sure. We're in 180 stores at the moment. We have slowed the rollout [indiscernible] (29:30) as we have dealt with our customers through the hurricane and Mexico through the earthquake. So we've always said that the customers are the most important [indiscernible] (29:38) distract our store people from meeting the needs of our customers, particularly a time like this. We're about to go into a pretty big selling season as well, so we've slowed it through into the new year. The performance of the system has been sound. It takes about two days for our staff to get trained up. So that's pretty good. But we're not risking the business by holding ourselves saying that we have to get it rolled out within a week. We'll get there. And with the new acquisition, we're looking at how we integrate it. So we have a consistent point-of-sales system across the whole company. Up-to-date, it's been a successful rollout and we will continue to keep it going.

<Q – Michael Cohen – Opportunistic Research LLC>: Can you comment on the 180 stores that have seen it rolled out and what type – if the lift is consistent with what your expectation has been?

<A – Stuart Grimshaw – EZCORP, Inc.>: It's a productivity issue. What we're actually seeing is the processes can be actually achieved in a much quicker timeframe than what we have had. There have been slight uplifts, but it's still too early to – for instance, we rolled out 100 stores in October, so it's still too early to see what the exact uplift is. What we do know is we can get more face time with our customers that will generate long-term revenue for us and give a great interaction. So we're hopeful that it will provide a lift both in the lending and sales, but the magnitude of that it's still too early to actually document.

<Q – Michael Cohen – Opportunistic Research LLC>: Great. Thank you for taking my question.

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

Operator: I am showing no further questions at this time. I would now like to turn the conference back to Mr. Grimshaw for closing remarks.

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

Thanks very much. Thanks, everyone, for dialing in this morning. Apologies, if you're on the West Coast listening to this because it's still very early morning, but we appreciate your interest in the company. Danny and Jeff are available for questions later this morning and we welcome any interaction you'd like to have with us. But thanks, once again, and have a great day.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may now all disconnect.