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Strategic Update Conference Call

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CORPORATE PARTICIPANTS

Jeff Christensen, *Vice President, Investor Relations*

Stuart Grimshaw, *Chief Executive Officer and Executive Chairman*

Danny Chism, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Andrew Oskoui, *Blue Tower Asset Management*

Greg Pendy, *Sidoti & Company, LLC*

David Diamond

Jordan Hymowitz, *Philadelphia Financial*

Vincent Caintic, *Stephens, Inc.*

PRESENTATION

Operator:

Good morning. My name is Julianne and I will be your Conference Operator today. At this time I would like to welcome everyone to the EZCorp Strategic Update Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. If you would like to ask a question at this time, please press star, followed by the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key. Thank you.

Jeff Christensen, VP Investor Relations, you may begin your conference.

Jeff Christensen:

Thank you, Julianne. Good morning everyone. Welcome to EZCorp's Strategic Update 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, contain certain forward-looking statements regarding the Company's expected operating and financial performance for future periods. These statements are based on the Company's current expectations. Actual results for future periods may differ materially from those expressed or implied by these forward-looking statements due to a number of risks and other factors that are discussed in our Annual, Quarterly and other reports filed with the Securities and Exchange Commission.

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

Stuart Grimshaw:

Thanks, Jeff. Good morning everyone. Thanks for taking the time to dial into today's conference call. It's almost three years that I've been at EZCorp and in that time a lot has been achieved particularly the re-fi (inaudible) our customers need for cash and in particular the focus that we brought back into the core remaining business. As a key to that today, we are pleased to announce our largest, by store count, acquisition and our first in Central and South America. This acquisition includes 52 stores in Guatemala, 17 stores in El Salvador, 12 stores in Honduras, and 11 stores in Peru, and as you can see these are displayed on Slide 4 of the pack that you've got. This is a profitable pawn service operation that originally commenced as a gold jewelry only business in 2002, and has only recently expanded its focus into general merchandise. We believe there are terrific opportunities for us to leverage this acquisition further through, firstly, implementing our systems and processes; secondly, in expanding our general merchandise pawn lending with increased focus and coaching and training from our U.S. and Mexican operations.

Looking at expanding di novos, extending our presence in these countries, and there are also potential complementary acquisitions that may arise.

We paid $60 million which was made up of $53.4 million in cash at closing and a further $6.6 million of debt retirement. An earnout of a further $2.25 million is contingent on future performance.

(Inaudible) we believe underdeveloped opportunity, the average PLO balances are higher than those we enjoy in Mexico, and the acquisition is immediately accretive to earnings. This acquisition is a significant strategic platform in continuing to build our Latin American business which now encompasses the additional markets of Central and South America. We now have 358 Latin American stores and are excited about the potential this acquisition creates for us.

Turn on to Slide 5 and we deal with a further—an issue that we released to the market a bit earlier which was the restructuring of the repayment arrangements with AlphaCredit. Prior to the first note payment due on 27th of September, 2017, we were approached by Alpha to consider the renegotiation of the payment structure. This request stemmed from their valuation of the strategic financing of their business as it continues to grow across geographies and across product. For reference, we'd received $34.1 million in payment through the course of 2017 with all being made on or ahead of time. Given the support they were asking from us, we were able to negotiate the deal favorably for us as follows: a material increase in interest rates in the U.S. from 4% to 10%, with the small Mexican debt from 7.5% to 15% per annum; all note payments to be received within the original payment timeframe through to September 2019 - they are paid on a monthly basis rather than an annual basis, which we found to be quite attractive; a deferred compensation fee of between $10 million to $14 million. We also obtained a guarantee from the Grupo Finmart parent AlphaCredit. We had to erase (phon) a $4.1 million in escrow being held as a condition of the Grupo Finmart sale. We also achieved the termination of our indemnification obligations under the Grupo Finmart sale agreement. A make-whole payment was also organized should pre-payment occur.

This is a strong outcome for us as we have enhanced our security profile as well as the return associated with this financing that we provided to AlphaCredit. We have seen good growth from the AlphaCredit. The cash flows that we had received have been timely and we believe this business is going from strength to strength.

With that brief update, I'd like to open it up for questions if I could.

Operator:

At this time, if you would like to ask a question, please press star followed the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from the line of Andrew Oskoui from Blue Tower. Your line is open.

Andrew Oskoui:

Hello everyone. I was wondering, what is the total PLO of the 112 stores acquired?

Stuart Grimshaw:

Andy, the closing—the PLO is just over $13 million.

Male Speaker:

Yes, that's correct.

Andrew Oskoui:

Also, I was wondering, the issuing of the convertible notes earlier in this year, in June, was that intended in part to raise capital for this acquisition?

Stuart Grimshaw:

We stipulated at the time of raising the convertible that we would have surplus available for strategic purposes such as acquisitions like this, so that's correct.

Andrew Oskoui:

Thank you. I had no other questions.

Stuart Grimshaw:

Thanks.

Operator:

Our next question comes from the line of Greg Pendy from Sidoti. Your line is open.

Greg Pendy:

Hello, guys. Just wondering, it's—I guess in the press release, the company was founded primarily focused on gold and jewelry pawn. Can you just tell us what the mix is from general merchandise and jewelry at these stores?

Stuart Grimshaw:

Hi Greg. It's pretty mixed. It depends upon the geography. It's more than Mexico and it's less than the U.S., and it's pretty well split across the whole lot, so to average it out can be a bit misleading but what we can say is that they are underdone, in our view, of what we can achieve out of the general merchandise and the knowledge that we have, so we'd look to grow that quite rapidly.

Greg Pendy:

Okay, that's helpful. Then I guess just one follow up. What is the average loan size there with these compared to, say, Mexico?

Stuart Grimshaw:

Danny, do you have that number?

Danny Chism:

I don't have that number on an average loan size.

Greg Pendy:

Okay. Thank you.

Danny Chism:

We can take that …

Stuart Grimshaw:

Thanks, Greg.

Operator:

Our next question comes from the line of David Diamond from Robida (phon). Your line is open.

David Diamond:

Hi. Good morning. Stuart, if you wouldn't mind just taking a step back and letting us know sort of how the deal came about. Was it a competitive process? What sort of due diligence you guys did, obviously, because it's a new area? My second question is in terms of the $60 million that you paid, what do you think are the proper financial metrics investors should look at in terms of the price to work out kind of what you paid for it? Then, the last question is in terms of loan recovery in Guatemala, obviously that could potentially be an issue, so how we should think about recovering loans in a place like Guatemala? Thanks very much.

Hello?

Danny Chism:

Stuart, you want to take that?

It sounds like Stuart must have dropped off the line. He'll join back in with us in a second. As far as the metrics, we look at any of the acquisitions from making sure that they are accretive to our earnings, David. But from competitive reasons and from a standpoint of confidentiality with the seller, in not telegraphing those multiples to our competitors or other potential sellers, we'd prefer not to go into details of that.

David Diamond:

Was this a competitive process or was it just a negotiated deal?

Danny Chism:

It's one that certainly they—I'm sure they were out talking with other potential suitors as well, but it is one that we believe we negotiated a favorable deal for us as well as them, and one that we were able to source in our own that I think will be very accretive to our business and be a great platform for future growth.

David Diamond:

Right. How should we think about the accretion? I mean is that something you guys are going to go into at a later date? I'm just trying to get some specificity around it.

Danny Chism:

Again, it's not one that we really want to go into details from other deals that we may look at. So from our perspective, it's looking at it and making sure that from an EPS standpoint this would be additive and so that's how we would look at the accretion. As we look out over the next year we do believe it'll be accretive to EPS and continue to grow from that point forward.

David Diamond:

Right. I would be interested, if you want to follow-up about the loan recovery in Guatemala and if Joe or Stuart are on the line, if they wanted to just address. Obviously (inaudible), Guatemala, I'd be interested to hear how you guys …

Danny Chism:

I missed that part of your question, David. Could you repeat the question?

David Diamond:

Loan recovery, obviously how that works in a place like Guatemala? What's been your experience in Mexico and how does that apply to Guatemala, which obviously has a lot of potential but, you know, in terms of loan recovery it could be (inaudible). I'm just curious.

Danny Chism:

They're fully collateralized pawn loans, just like in U.S. or Mexico, and actually, their redemption rates are quite healthy, so very pleased from that standpoint.

As Stuart alluded or mentioned, they are a little bit more heavily weighted towards jewelry at this point, which tends to be a higher redemption rate anyway, but we're very happy with the redemption rates that we see there and think that'll continue.

Stuart Grimshaw:

Danny, it's Stuart. The redemption rates in Guatemala are actually surprisingly high and we see the opportunities on obviously the lending as well as the expansion of product range, which will add to the further growth we can get in the EBITDA line. But the recoveries are very similar, it's very similar to Mexico so we've encountered nothing that would suggest there's an issue in the (inaudible) we've undertaken.

David Diamond:

So Stuart, this was a process—obviously one thing the market looks at with you guys when you make new acquisitions is the due diligence process. Can you just sort of walk us through with kind of due diligence? It's a new country, a new set of countries for you. What was involved? How you guys—how you are thinking about the (inaudible)?

Stuart Grimshaw:

Yes. No, the markets are fairly similar to what we've experienced in Mexico and we involved a number of our Mexican team through the due diligence process, which has taken a number of months; it's not something we have rushed into. We signed a non-binding LOI in May. We did a bit of work before then, so from May through to now we've had a number of Asset Protection Team, our Operations Team, Finance Team, Human Resources Teams, the Technology. We've been working very closely with the parties down there. We like the Management Team that is in place down there. I think the real attraction to us is the owner has been a privately held company and so the access to capital has been somewhat restricted. What we can bring to the Management Team down there is more capital, more systems, more processes, which we've seen to be—we believe is going to be very immediate in its impact upon the operations.

We have our Asset Protection Team going down there very quickly, just to make sure everything is in place as we've done through the due diligence, so there's been a very thorough process. A Special Committee of the Board has been over the top of it, external accountants and consultants. It's been very rigorous as you rightly suggest, David, this is really the first deal that we've gotten into of this size and we've done it carefully. We've done it conservatively, and we've done it with a high degree of rigor.

David Diamond:

Great. Thanks very much, it sounds great. Have a good day.

Stuart Grimshaw:

Thanks, David.

Operator:

Again, if you would like to ask a question, please press star, followed by the number one on your telephone keypad. Our next question comes from the line of Jordan Hymowitz from Philadelphia Financial. Your line is open.

Jordan Hymowitz:

What would you say the average total loans outstanding was?

Stuart Grimshaw:

Just over $13 million.

Jordan Hymowitz:

So if it's $13 million times 112 stores, you're at $1.4 billion in total loans outstanding that you just bought?

Stuart Grimshaw:

No, $13 million in total.

Jordan Hymowitz:

Oh, $13 million in total. Okay.

Danny Chism:

Yes.

Stuart Grimshaw:

It would have been a great deal if it had been the other way around.

Danny Chism:

That would be a heck of a deal.

Jordan Hymowitz:

Okay. I was going to say these numbers didn't make any sense.

Stuart Grimshaw:

No, you're right.

Jordan Hymowitz:

Okay. Thank you very much. That makes a lot more sense now.

Stuart Grimshaw:

Thanks, Jordan.

Operator:

Our next question comes from the line of Vincent Caintic from Stephens. Your line is open.

Vincent Caintic:

Hey, thanks. Good morning guys.

Stuart Grimshaw:

Good morning, Vincent.

Vincent Caintic:

Morning, Stuart. I guess just the way on how to think about the accretion over time from these Latin America acquisitions. Should we—and I understand that you don't want to necessarily multiples, but should we be thinking about this similarly to your existing Mexico stores in terms of the returns, or is there sort of a hurdle rate when you make the acquisitions that we should be thinking of?

Stuart Grimshaw:

Yes, I mean we obviously look at the costs of and making sure our returns as cost of capital. We look at the accretion. We look at the growth. I mean this is as I tried to outline, we think that there's a strong growth platform that we have acquired here which makes it very exciting for us. I think as we get through the first year, I think you'll be able to see more about it as well. There's a lot of work that we have to do to make it work, but all the analysis that we've done on every measure makes it a very strong acquisition for us.

Vincent Caintic:

Got it. Then, when you think about the growth, so understanding that there's a lot to do within those stores but beyond that, is there a plan to grow further in Latin America? Is there any other products or expansion opportunities that you were contemplating when you made this acquisition?

Stuart Grimshaw:

It gives us a great beachhead into Central and South America, and if you look at Peru, for instance, there's only 11 stores there and we see that as a substantial opportunity to grow further. Guatemala, there's some di novo opportunities still there as there are in El Salvador and Honduras. We still think there's existing di novo growth that we can get and Peru is probably the one that looks very promising. Also, we'll keep our eyes open for any complementary acquisitions that could get us there quicker. With what we've seen in our due diligence there it's an attractive region for us to continue to expand.

Vincent Caintic:

Okay, got it. Very helpful. Separately, on the restructuring of the notes receivable, I mean it seems like just from the way it's been restructured that you're maybe a significant creditor or that it's quite a bit of compensation you're getting, but I'm just wondering what may be the thought process here. Maybe any concerns you have on that or if this is just kind of normal course. Thanks.

Stuart Grimshaw:

I don't think it's a normal course. We've seen the growth of this business and the AlphaCredit team came to us and we understood where they wanted to go with it, but given that the funding was to expand and to grow the business, we felt that given our degree of forbearance it deserved more an equity type sort of return than perhaps a pure debt return, and it was obvious to us that we should start getting the interest rates back up, raise a few bit more and I think the deal that was struck which Alpha agreed to is a great one for our shareholders.

Vincent Caintic:

Great. All right, two great deals. Thanks very much, Stuart. Appreciate that.

Stuart Grimshaw:

Thanks, Vincent. I appreciate it.

Operator:

Our next question comes from the line of Greg Pendy from Sidoti. Your line is open.

Greg Pendy:

Hey guys, just one more question, if I can.

Stuart Grimshaw:

Sure.

Greg Pendy:

When we look at that $13 million additional PLO balance, just the blended rate—I know there's several countries involved here.

Stuart Grimshaw:

Yes.

Greg Pendy:

Would be the blended rate be a little bit higher service charge than your company average?

Stuart Grimshaw:

The rates are slightly behind where we are in Mexico, Danny? I think that's correct, isn't it?

Danny Chism:

Yes.

Stuart Grimshaw:

Yes, just slightly behind what we're achieving in Mexico but not significantly different.

Greg Pendy:

Okay. Thank you.

Stuart Grimshaw:

Thanks.

Operator:

We have no further questions at this time. I turn the call back over to the presenters.

Stuart Grimshaw:

Thanks very much, everyone. I appreciate the short notice. This is a very exciting day for the Company. We believe it's a wonderful acquisition. We're thrilled with the integration that we're about to go through. I think it's a great outcome for shareholders and we appreciate the time spent at such short notice.

Certainly, Danny and Jeff will be around later this morning for any questions that you may have, but appreciate your interest in the Company, as always, and we look forward to talking soon. Thanks very much and have a great day.

Operator:

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