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Corporate Participants

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* Timothy K. Jugmans

EZCORP, Inc. - Chief Financial Officer

Conference Call Participants

* Marla Susan Backer

Sidoti & Company, LLC - Research Analyst

* Sagiv Hartmayer

Jefferies LLC, Research Division - Equity Associate

Presentation

Operator [1]

Good morning, ladies and gentlemen. Welcome to the EZCorp Third Quarter Fiscal 2020 Earnings Call. [Operator Instructions] As a reminder, this [call] may be recorded.

I'd now like to turn the conference over to Jean Marie Young, Investor Relations with Three Part Advisors. Please go ahead, Jean.

Jean Marie Young [2]

Thank you, 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 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 due to a number of risks or other factors that are discussed in our annual, quarterly and other reports filed with the Securities and Exchange Commission.

And as noted in our presentation materials, and unless otherwise identified, results are presented on an adjusted basis to remove the effect of foreign currency fluctuations and other discrete items. Joining us on the call today are EZCorp's Chief Executive Officer, Lachie Given; and Tim Jugmans, Chief Financial Officer.

Now I'd like to turn the call over to Lachie Given, Lachie?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [3]

Thanks, Jean, and good morning, everyone. Our team continues to consistently execute on the strategic plan we announced to the market at the end of fiscal 2020, evidenced by another outstanding quarter of financial results. I'd like to acknowledge and thank our team of 6,800 staff for their tireless efforts in serving our customers in such a passionate, respectful and responsible way, and for delivering another very strong quarter of results from our shareholders.

Pawn loans outstanding, the key driver of our business, is at its highest level ever. On a consolidated same-store basis, it has surpassed pre-pandemic levels by 5%. Merchandise sales gross profit margin was 38% at the high end of our range, even while we were able to decrease aged general merchandise to less than 1% of total GM inventory. Adjusted EBITDA was up 100% versus the same quarter last year, and net income is 3x where it was at this time last year on a year-to-date basis.

Slide 3, we are a global leader in pawnbroking and pre-owned and recycled retail. We operate 1,163 stores in the U.S. and Latin America, with strategic investments in adjacent businesses which expand our geographic footprint worldwide. Across our diverse store base, we offer 2 core products to our customers, we make pawn loans and we sell secondhand goods. As we enter a more challenging macroeconomic environment globally, we expect increasing demand for both of these products.

On the lending side, our customers continue to be impacted by inflationary pressures, high gas prices and the tightening of credit availability from alternative lenders. We also expect the general demand for secondhand goods to increase as existing and new customers search for great value-for-money deals, while looking after the environment in which we all live.

Moving on to Slide 4. People, Pawn and Passion continues to be our core operating theme. Our diverse and engaged teams drive us success. We continue to invest in hiring, training and development so that we can continuously improve corporate culture and attract and retain the best talent. We believe that our team driving outstanding customer service, combined with our POS system, differentiated digital and IT platform, and strong and liquid balance sheet, make us the best choice for our customers' pawn and recycled retail needs.

Slide 5 shows our progression toward our 3-year strategic goals. I believe we have the most passionate, productive, committed and motivated team in the industry, and we continue to find new ways to enhance their experience. We are transforming the customer experience and modernizing the core pawn business.

Our points-based loyalty program and online payment options have been well received by our customers and have grown substantially again this quarter. We implemented 3D Secure for added customer protection and fraud prevention on card payments. Additionally, we ran our first national bonus points campaign in the U.S. to drive store sales and enrollment, and it was a great success.

Turning to our key financial themes for Q3 on Slide 6. As mentioned, PLO is the most significant driver for revenue and earnings, and it was up 30% year-over-year, leading to a 33% increase in PSC. As a result, we saw significant improvements in revenue, earnings and expenses as a percentage of gross profit, while keeping aged inventory under 1%. What we used to call net revenue, we now call gross profit, and it was up 20% year-over-year and EBITDA was up 100%.

Slide 7. You can see the total expenses increased year-over-year, primarily due to increases in store count and labor. However, for the past 12 months, total expenses as a percentage of gross profit decreased from 92% to 80%. Store expenses increased year-over-year with store count increasing, but decreased as a percentage of gross profit from 77% to 69%. G&A increased \$2.5 million year-over-year, but decreased as a percentage of gross profit from 15% to 12%.

On Slide 8, we talk about strengthening our core with a focus on people and systems. We conducted a global engagement survey of our employees last month and we were very pleased with the results, significantly beating global benchmark. Our commitment to investing in our people through ongoing training and development, and our focus on inclusion initiatives and cultural transformation, continue to drive improvement in our team member experience, which we believe contributes to our excellent operating and financial results.

We are hiring and retaining great people who are aligned with our corporate culture. Our team is enthusiastic and engaged. We continue to enhance our technology, infrastructure and modernize the company. This is transforming customer experiences, simplifying processes for our teams in the stores and increasing our operational efficiency.

On Slide 9, innovation and growth is the third pillar to our 3-year strategy, and we continue to be pleased with our progress here. Our EZ+ loyalty system now has over 1.4 million customers enrolled, versus over 930,000 last quarter. We collected \$7 million in online payments this quarter, providing our customers with

convenient options for both pawn and layaway servicing. We received more than 15,000 Google reviews in the quarter, averaging 4.9 stars in the U.S. and Latin America.

Our inventory showcase pilot continues in 183 stores in the U.S. We are also piloting the full e-commerce experience in 13 stores in Mexico. We're capturing new customers as the search for our products becomes much more convenient. From an inorganic perspective, we opened 8 de novo stores in Latin America during the quarter and acquired 3 stores in the Dallas area. We've increased uptake in cash converters from 39% to 41%. And the acquisition pipeline remains robust, and we continue to remain disciplined when evaluating these opportunities.

Slide 10 outlines our ESG highlights. Our business, by its very nature, makes us part of the circular economy. We have a significant recycler of secondhand goods in hundreds of local neighborhoods. We do not use factory, distribution facility or heavy trucking. We are extending the useful life of millions of items and saving them from landfill. This quarter, we procured over 1.6 million pre-owned items and sold approximately 1.4 million items, ranging from consumer electrics (sic) [electronics], cameras, household goods, tools, musical instruments and jewelry.

In addition, we provide an essential, simple, regulated and transparent financial resource for those who are underserved by traditional sources. Diversity and inclusion remains a significant focus. In this quarter, we launched our third Black Empowerment Affinity Group. As I've said, we continue to invest in global training and development programs, and talent review and succession planning processes, and this quarter introduced the first Career Week for all of our team members.

In addition, over the past few years, the EZCorp Foundation has awarded \$180,000 in scholarship funding to families of our team members. But we're always in search of innovative and genuine ways in which we can positively impact our team members, customers and the communities in which we serve.

I would now like to turn the call over to Tim Jugmans, our CFO, to provide more details on our financial results. Tim?

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [4]

Thanks, Lachie. Slide 11 details our consolidated financial results. PLO ended the period at \$204.7 million, up 30% on a year-over-year basis, which is the highest in EZCorp history. We are now above the Q3 FY '19 same-store PLO balance by 5%. PSC revenue was up 33% over last year, with growth driven by both increased same-store PLO growth and acquisitions.

Merchandise sales was up 19%, with same-store sales up 14%, but as expected, margins falling back to the high end of our normal range of 38%. Our focus on selling inventory in the first 90 days has kept inventory turnover strong at 2.8x. It was another great quarter with consolidated EBITDA of \$25.1 million, up 100%.

Turning to our U.S. Pawn operations on Slide 12. PLO rose 36%, driven by continued focus on our enhanced pawn operating model and better serving our customers' needs. PSC was up 35% year-over-year, primarily driven by same-store PLO growth. On the retail side of the business, merchandise sales were up 11%, with merchandise sales gross profit down 3% due to the expected 500 basis point drop in sales margin. Store expenses increased 6% with increased store activity. U.S. Pawn EBITDA for the quarter was \$32.3 million, up 56% on the prior year.

Slide 13 focuses on our Latin American Pawn operations. Segment PLO grew 13% for the third quarter or 10% on a same-store basis. As a result, PSC was up 28%, driven by higher average PLO coming from same-store PLO growth as well as additional stores. Merchandise sales was up 47%, 29% on a same-store basis. Merchandise sales gross profit was up 24% due to the increased sales, offset by margins down 600 basis points.

Store expenses were up 21% year-over-year, mainly due to the 128 pawn store acquisition that occurred during June last year. Even with the increase in the same-store transactions, we have kept same-store expenses under control, only up 6%. Latin America Pawn EBITDA improved by \$2.4 million or 5% primarily due to higher PSC and increased merchandise sales gross profit, offset by increased expenses.

As we reported last quarter, our Board has approved a 3-year \$50 million share buyback program. We were unable to execute any repurchases in this quarter given our trading window restrictions. We reached a tentative settlement in a litigation matter in early May, and took the cautious approach of delaying share repurchases until the settlement agreement was finalized and announced. We are now in a position to begin share repurchases and, as announced previously, we'll look to execute this program in an opportunistic and responsible way, taking into consideration general market conditions, liquidity and capital needs and the availability of attractive alternative investment opportunities.

Looking forward, on a consolidated basis, we should see PLO levels continue to increase beyond these record levels as we move back to pre-COVID seasonality as well as seeing the effects of our improved business model. As we have suggested in prior quarters, we are likely to continue to see a further reduction in the sales gross margin as inventory levels increase in line with PLO and sales discounting practice continue to return to normal levels. Also, as we have seen this quarter, expense growth is likely to continue on a sequential basis as inflationary and wage pressures continue to rise.

We are pleased that the execution on our strategic initiatives continues to be seen in strong, consistent financial results each quarter. We are excited to see our business reach record PLO levels and pre-COVID levels of profitability, but with superior operating model that has put us in an exciting position to scale the business from here.

I will now turn it over to Lachie for a few closing comments.

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [5]

Thanks, Tim. The EZ team is proud of the excellent financial results we are consistently delivering on behalf of our shareholders. Our operating mantra of People, Pawn and Passion continues to resonate with our team and deliver excellent operating and financial results for our shareholders.

And with that, we'll open the call for questions. Operator?

Question And Answer

Operator [1]

[Operator Instructions] We'll take our first question today from Sagiv Hartmayer of Jefferies.

Sagiv Hartmayer, Jefferies LLC, Research Division - Equity Associate [2]

Congratulations on another great quarter. On the PLO, you had a big increase in the outstanding amount, now past 2019 levels, some of which may still be normalization, some from inflationary pressures. At a store level, in terms of customer behavior trends, are you guys seeing customer behavior changing as a result of inflation? Or are there other factors at play?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [3]

No worries. Let me take a crack at that, Tim.

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [4]

Sure.

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [5]

I think as you said, PLO has recovered to prepandemic levels, and we think there are a bunch of different forces at play here. Firstly, seasonality seems to be returning to what we would expect. But as you mentioned, there are other factors, including inflationary pressure, higher gas prices that's had a really significant impact on our customer. And then thirdly, the availability of credit from alternatives, we think, is tightening as the economy begins to turn.

So look, I think all of those factors have impacted our customers at the store level, overlaid by the fact that we think that post this stimulus world that we were living in through COVID, our customer behavior seems to be returning back to that normal seasonal -- that seasonal demand. So I think there are some really positive factors at play here driving our loan balance sheet.

Sagiv Hartmayer, Jefferies LLC, Research Division - Equity Associate [6]

It's very helpful. And one more question. Despite the large growth and return to seasonality, you mentioned contained G&A. With inflation in mind over the next few quarters, how should we be thinking about that?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [7]

I think it's a key challenge. I mean I think you've seen it across the world, not just in our business but all businesses. And I think it is a significant challenge. I think the team has done a very good job in the past of containing those costs. But going forward, I think you're going to see them rising. Tim, why don't you give it a shot as well?

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [8]

Yes, that's correct. We've done an extremely good job of trying to contain these. But eventually, there is -- these pressures do start coming in as contracts renew, as salaries come up at year-end and stuff like that. So all those kind of wage pressures are coming through. So those will see sequential rises as we move forward. Obviously, we're doing the best we can in this situation and trying to keep these contained as much as possible, but there is going to be that growth, which we haven't seen in prior quarters. .

Operator [9]

Our next question today comes from Marla Backer of Sidoti.

Marla Susan Backer, Sidoti & Company, LLC - Research Analyst [10]

So given the trends, the macroeconomic trends we're seeing with inflation and interest rates rising, but also given other trends that you've alluded to in terms of rising interest in the circular economy, are you seeing shifts in your customer base, not at the pawn space, but the purchasers, shifts that you believe will be sustainable?

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [11]

Thanks for the question. Look, I do think it's a sustainable trend in secondhand goods retailing. I think that with more pressure on our customers given this inflationary environment and challenging macro economy, I think people are looking for a deal. And people are looking to shop in thrift shops, pawn shops, to get a better deal than buying new. And I think, as we've discussed before, the younger demographic is actually very attracted to secondhand goods, particularly in clothing, shoes, luxury handbag, because it's good for the environment.

So I think that this macro environment as well as the younger demographic coming through, I think we will see sustained demand for our secondhand goods. It's just the margins here -- as Tim said in his remarks, I think the margins will be coming under pressure, because as PLO grows, so does your inventory. And we are very, very focused on turning that inventory quickly. But as a result, you'll see, as Tim said, pressure on our margins. But the top line in sales, I think we're really well positioned for some sustained growth there.

Operator [12]

There are no further questions at this time. So I'd like to hand back to the management team.

Lachlan P. Given, EZCORP, Inc. - CEO, Director & Chief Strategy, M&A and Funding Officer [13]

Thank you, operator. Look, we thank everyone for joining us this morning. As I've said earlier, we're very proud of these results. We're proud of their consistency. And I thank our team, our shareholders and our customers for a great quarter. We'll talk to you soon. Thanks.

Marla Susan Backer, Sidoti & Company, LLC - Research Analyst [14]

Thank you. This concludes the call today. You may now disconnect your lines.