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EZCORP, Inc. (EZPW)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the EZCORP Fourth Quarter and Full-Year fiscal 2019 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 Michael Kim, Investor Relations. Please go ahead, Michael.

Michael Kim
Senior Vice President, ICR

Thank you and good afternoon, 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. And as noted in the 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.

Now, I'd like to turn the call over to Mr. Stuart Grimshaw. Stuart?

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

Thanks, Michael. Good afternoon and welcome to the fourth quarter results. If we turn to page 4 of the presentation, I'd like to highlight a few of the key themes for the quarter. The board has approved an up to $60 million share repurchase program of our Class A Non-Voting common shares over a three-year period. This decision reflects our commitment to driving shareholder value through the efficient and effective use of capital. Supporting the decision of the board has been the strengthening of our balance sheet with a cash balance of $162 million at September year-end. You will also remember that we repaid the $195 million June 2019 convertible note at maturity. Our next bond maturity is in 2024.

For the 2019 financial year, we opened 22 de novo stores in Latin America and are targeting a further 40 throughout the 2020 financial year. We also acquired seven stores in Nevada in June 2019. As we mentioned on the last call, we remain disciplined on the acquisition front. And while we continue to see attractive opportunities, the vendor asking prices do not reflect the desired returns and ROIC targets that we have for ourselves.

The new point-of-sale system was successfully rolled out across all stores in the US and Mexico in October of this year. From a management perspective, we've achieved a lot over the past four years with EBITDA more than doubling. LatAm presence expanding, resulting in a LatAm EBITDA CAGR of 36% since 2017.

Strong cash generation in fiscal 2019 with $112 million free cash flow in collection on notes receivable, a continued sound performance from the U.S. business, and importantly, simplifying the business with the sale of Grupo Finmart as well as the closure of our U.S. financial services business.

Turning now to slide 5. Simplistically, this chart shows that we've followed a disciplined path of growth that has seen an EBITDA CAGR of 20% per annum from 2015 to 2019. As we have highlighted, this growth has been driven by focusing the business back onto our core customer via the pawn business supported by strong operational performance, acquisitions, de novo store openings, and expense control.

On page 6, this shows the strong free cash flow generated by the business, as well as the collections of the notes receivable from the sale of the Grupo Finmart business. To-date, we've received $96 million from the purchases of that business. You can see the material change in free cash flow generated from fiscal 2018 of $59 million to $77.9 million in fiscal 2019.

On slide 7, we look toward the more strategic objectives. We continue to focus on serving and satisfying our customers' need for cash and we have seen this focus play up through a history of long-term PLO growth. As mentioned, we opened 22 stores in fiscal 2019, 10 in the fourth quarter of this year and plan to accelerate this to 40 in fiscal 2020. We remain disciplined on the acquisition front and coupled with an effective capital management strategy, have authorized a three-year up to $60 million share repurchase program.

Our digital platform is on the beta stage with anticipated public release by the end of this calendar year initially in Texas and Florida. We believe this platform now, called Lana, will enhance the retention and acquisition of pawn customers as well as attract completely new customers to this platform.

And with that, I'll hand over to Danny.

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

Thanks, Stuart, and good afternoon. I want to start by flushing out the share repurchase authorization we announced in conjunction with the earnings that Stuart mentioned a moment ago. At a high level, we remain focused on allocating capital to opportunities that can deliver the highest long-term returns to our shareholders. In light of the disconnect we see between the value of our core business and the stock's current valuation, we see EZCORP stock as one of the highest investment return opportunities with a favorable risk-reward relationship that also allows us to return capital to shareholders in a tax efficient manner. The board's approval of a share repurchase program of up to $60 million over the next three years reflects the strength of our balance sheet combined with a strong free cash flow generation of the business.

To that point, we ended fiscal 2019 with $162 million fiscal 2019 with $162 million in total cash on hand and our net cash from operating activities continues to build. Including collections on notes receivable, we generated $ 112 million of free cash flow in fiscal 2019, up 23% from the prior year. Looking back over the past three years, free cash flow plus AlphaCredit payments on those notes receivable have compounded at a 33% annual growth rate.

We maintain ample capacity for continued growth investment in the form of new store development, funding pawn loan growth, investments related to building out our digital capabilities, repurchasing shares, and capitalizing on M&A opportunities, all evaluated against our strategic and financial criteria. We're adopting an opportunistic methodology to repurchasing shares based on a number of factors consistent with our overall approach to capital management of maximizing returns and understanding that from time to time we may be precluded from repurchase activity when we have access to non-public information such as regarding potential M&A activities or during other blackout periods.

On the investment side, we plan to accelerate new store openings in Latin America, as Stuart mentioned, with around 40 new stores or nearly double the 22 stores we opened in fiscal 2019. From a return perspective, new stores typically carry returns on invested capital in the range of 30% to 35% by year five though related upfront costs typically pressure near-term earnings for the first six to nine months and reduce overall operating margins until the stores mature.

Turning to our financial results, on a GAAP basis, we reported a loss of $0.01 per share for the fiscal fourth quarter, representing $0.01 per share improvement from the prior-year quarter. Included in the GAAP results were $2.7 million of costs related to the build out of our digital platform, $2 million for our portion of discrete charges recognized by Cash Converters, $1.9 million, related to the expiration of a call option on an unconsolidated affiliate following their third-party capital raised, $1.7 million of due diligence costs on an acquisition that we ultimately walked away from and other smaller discrete items. GAAP results also include noncash interest expense related to our convertible debt, which is added back in our adjusted figures.

On an adjusted basis, we reported diluted earnings per share of $0.19 for the fiscal fourth quarter of 2019 and $0.90 for the full-year, up from $0.86 in a prior-year on an apples-to-apples basis.

Subsequent to fiscal year-end, on October 21, Cash Converters announced an agreement to settle its remaining class action lawsuit. As part of the settlement, Cash Converters is expected to pay AUD 42.5 million with cash on hand and cash flow from their operations. Based on our minority interest in Cash Converters and translation to US dollars, we will recognize an estimated $10 million noncash charge in our fiscal 2020 results once the settlement is approved by the court. We're pleased to see Cash Converters put this matter behind them, as are their shareholders indicated by the 70% share price appreciation since September 30.

As shown on slide 9, we grew EBITDA by 2% in fiscal 2019, and longer term trends remain favorable. Consolidated EBITDA compounded at an annual growth rate of 17% over the last three years, fueled by strong growth across Latin America, complemented by steady contributions from our U.S. Pawn operations.

While margin expansion took a pause in fiscal 2019, much of the downtick related to the rightsizing of aged inventory levels and the seasoning of new stores. I expect some continued pressure on short-term EBITDA margins in Latin America as we accelerate new store openings in fiscal 2020.

Turning to the adjusted highlights on slide 10, total revenues were up $9.4 million or 5% year-over-year, reflecting a 37% increase in scrap sales, 3% growth in merchandise sales, and a 2% uptick in pawn service charges or PSC, all of which contributed to the increase in free cash flow. Ending consolidated pawn loans outstanding or PLO was up 1% year-over-year, primarily reflecting acquisitions and new stores, with average PLO during the quarter increasing 2%, driving a similar growth rate in PSC, as related yields remained consistent with the prior period.

As noted on our last earnings call, PSC in the US and Mexico was negatively impacted during the quarter by a 24-hour system outage on July 9, as well as the knock-on effects related to system performance issues in the May to June timeframe, both of which were resolved by mid-July. We estimate the July system outage cost us about $0.03 to $0.04 EPS in the fourth quarter and the May to June system issues decreased the EPS another $0.03 spread between Q3 and Q4, as these issues affect not only sales but the loan portfolio in which pawn service charges are earned. Other than the outage, there were no further system performance issues in Q4 and POS improvements implemented mid-July significantly enhanced processing speeds and stability.

Merchandise sales grew 3% in total, while same-store sales growth came in at 2%. Same-store sales growth in both the US and Latin America slowed partially due to our system issues as well as some social welfare programs recently instituted in Mexico. Overall merchandise margins declined to 33% for the quarter as a result of our focus on reducing aged inventory year-over-year from 8% to 6%, optimizing loan-to-value ratios and improving the cash to cash cycle.

Turning to scrap, sales and gross profits during the fiscal fourth quarter were both up strongly year-over-year on a step up in related volumes. That said, our scrap gross margin ticked down due to liquidating older merchandise with a higher cost basis, as well as lower diamond prices and higher processing fees in Mexico, partially offset by higher gold prices. Adjusted corporate expenses of $12.1 million were 12% lower than the prior-year quarter on a reduction in incentive compensation and an unrelated $800,000 benefit. I would not expect to repeat.

For the quarter, EBITDA was down year-over-year primarily reflecting lower sales gross profits, higher operating expenses, higher loan loss provision at CASHMAX, and an $800,000 reduction in income from Cash Converters. Adjusted EBITDA was up 2% for the full year, compared to fiscal 2018. The adjusted effective tax rate for the quarter was 20%, leading to an overall tax rate for the year of 27%. Looking ahead, I expect the tax rate to be in the low- to mid-30% range for fiscal 2020.

Turning to the U.S. Pawn highlights for the quarter on slide 11, same-store loan growth came in at 1% for the quarter with ending pawn balances up 2%. In turn, PSC increased by 1% as growth in the average PLO balance for the quarter was partially offset by 170-basis-point downtick in yields. Merchandise sales in the US were flat year-over-year, while related margins softened 320 basis points to 35% given an incremental discount and to move aged merchandise. Aged general merchandise stands now at 6%, down meaningfully from 9% at the end of fiscal 2018 reflecting the effectiveness of our inventory management.

At a high level, operating expenses remain well managed in U.S. Pawn, which should drive margin expansion over time assuming reaccelerating revenue growth. More tactically, fiscal fourth quarter expenses were skewed by $0.5 million Workers' Compensation charge from a single large claim, compared to an $800,000 credit in the prior year quarter. While segment EBITDA was down year-over-year mostly reflecting lower merchandise sales growth profits and higher labor costs, full-year EBITDA in the US was up 1% versus fiscal 2018.

Now, focusing on Latin America on slide 12, PSC was up 3% compared to the prior year period on a higher average loan balance for the quarter and more favorable yields. In addition, merchandise sales were up 11% and same-store sales were up 8%, though merchandise margins decline as we remain focused on optimizing loan-to-value ratios, reducing aged inventories, and maximizing sales gross profits.

To support the company's efforts to reduce inventory and improve the cash-to-cash cycle, the Latin America segment conducted a deeper jewelry pull than in the past. While this created some margin headwind in the quarter, it increased the cash generated from jewelry scrapping sales by $1.9 million or 56%.

The ending PLO, which will affect the pawn service charges in the beginning of fiscal 2020, was down 1% year-over-year and the same-store balance was down 3%. The ending PLO reflects recent social welfare programs in Mexico, meeting the cash needs of some of our customers in the May to July system issues previously discussed with same-store Latin America loan balances up 2% outside Mexico.

Turning to expenses, Latin America operating costs were up 15%, reflecting store licensing requirements enacted in Mexico; higher labor-related and rent expenses; costs related to new, relocated, and expanded stores; and an increase in robbery losses and related security costs. Looking ahead, we recently hired a new Latin America divisional CFO partly to enhance oversight and refine focus on improving operating efficiencies.

For the fiscal fourth quarter, segment EBITDA was down year-over-year, primarily driven by lower merchandise sales gross profits and higher operating expenses. Full-year EBITDA in Latin America was up 5% versus fiscal 2018.

Finally, I wanted to provide some perspective as we enter fiscal 2020. At a high level, it will take a few additional quarters to begin to realize the full benefits of our investments in technology, distribution, and customer service. That said, we remain confident our strategic initiatives will drive long-term growth of free cash flows and higher returns on earning assets over time. More specifically, the flatter trajectory of PLO growth more recently, partially driven by recent system issues combined with a social benefit programs in Mexico, will likely continue to pressure PSC and related earnings in the near-term. Our ongoing focus on reducing aged inventory on our balance sheet likely remains a headwind for merchandise sales and margins in the coming quarters.

Turning to expenses, we believe the system issues are now behind us after mid-July, but we're still working and are making additional investments to ensure these do not recur. That said, as Stuart mentioned, we recently completed the rollout of our new point-of-sale system, providing a solid foundation to improve lending decisions, thereby driving higher yields, PSC, and net revenues over time, and enhancing our team members' ability to provide excellent customer service. While it's still early, in the stores that have had the system a bit longer, we've already seen some improvement in yields versus stores that got it later.

We remain focused on controlling expenses, enhancing productivity, and optimizing leadership structures in the field, which we believe will drive higher margins and EBITDA growth longer term, but these will take a bit of time to work through the system. From a cash flow perspective, receipts from the AlphaCredit notes receivable will reduce substantially in fiscal 2020 from the $30 million to $34 million we've received annually over the last three years. The total remaining balance due was down to $8 million at the end of fiscal 2019.

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

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

Thanks, Danny. And we'll now open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from John Hecht from Jefferies.

John Hecht
Analyst, Jefferies LLC

Q

Afternoon, guys. Thanks very much. Just trying to get a sense for some of these onetime questions. You talked about our RDC, the call options that – I'm not aware what that is. Can you tell us some background on that?

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

A

Yeah, RDC is a chemical-rich data corporation. We've got a 13% interest in that. That's facilitated a lending platform that goes with our Canadian operations. They did a capital raise during the year, and we had a call option that was attached to it which expired, and that was just the theoretical value of that call option being written off.

John Hecht
Analyst, Jefferies LLC

Q

Okay. And then, I understand the upcoming charge with Cash Converters to settle the lawsuit, but there were some – a discrete items charged this quarter. What's the background of that?

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

A

Yeah. Those were some that, actually, Cash Converters took on their books. So, they recently got a new CEO in there, wrote off a bit of software. They had increased the reserve on some loans receivable, a number of other things that – I think it was about AUD 12 million total that they took a charge. So, there's five or six unique items that they've specifically called out in their earnings preannouncement.

John Hecht
Analyst, Jefferies LLC

Q

And then, the final one is the digital platform, there's a discretionary investment. How are those aside from the [indiscernible] (00:20:41) – I guess, how are they discrete or different from some of the investments in the point-of-sale stuff?

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

Yeah. So, primarily around Lana, I think, is what you're – the section you're asking about. Yeah, it's some of the discrete investments in technologies where we're investing – what we've traditionally called Evergreen – yeah, that now...

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

Yes.

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

...is branded as Lana.

John Hecht
Analyst, Jefferies LLC
Q

So, I see. So, you're – just simply because it's discretionary, you're doing it as a one-off expense, not a recurring expense, is that the way to think about it?

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

Yeah. We've adjusted Lana throughout the year for the – in adjusted finance.

John Hecht
Analyst, Jefferies LLC
Q

Okay. And then, where do the four stores...

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

Yes.

John Hecht
Analyst, Jefferies LLC
Q

...for the next year [indiscernible] (00:21:31)...

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

Sorry, by the way, John, on that, I just want to let you know, we will – going into this next year, we would not plan on adjusting for Lana. So...

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

...that's one that – yeah, we'll – it should start producing revenue here fairly shortly. So, we'll...

John Hecht
Analyst, Jefferies LLC

Q

Okay.

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

A

...either put that into the other segment that we've got now or report it as a separate segment, probably. But I would not expect that to be an adjustment going forward.

John Hecht
Analyst, Jefferies LLC

Q

Okay. And then, you might have mentioned this in the call, the locations of store openings that you're expecting next year?

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

A

Yeah, that'll be in Latin America with the majority being in Mexico.

John Hecht
Analyst, Jefferies LLC

Q

Okay. And then, last question, and appreciate you guys addressing all these. We've heard about the impact of seven social welfare programs in the Latin America from your peers.

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

A

Yes.

John Hecht
Analyst, Jefferies LLC

Q

So, that's not terribly surprising. But I'm wondering if you can give us a sense for how long you think this would be sustained based on your knowledge of the political environment down in Mexico.

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

A

Yes. We're all surprised that the social welfare program is coming to place. As with the management team down there, I'm sure our peers were also. We're still seeing cash in the economy, so those programs are still working their way through and it's coming up to bonus time for most of the workers. So, we'll see sustained cash probably through till January, February of next year. We – I'm not an expert on Mexican politics and how [ph] AmLaw (00:23:11) thinks. We think it's – it should run its course by then. But as we were surprised by these programs, I couldn't give you comfort that they won't reappear again, John.

John Hecht
Analyst, Jefferies LLC

Q

Okay. Thank you, guys, very much.

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

Thank you.

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

Thanks, John.

Operator: Your next question comes from the line of Vincent Caintic from Stephens.

Vincent Caintic
Analyst, Stephens, Inc.
Q

Hey, thanks. Good afternoon. Actually continuing on that line of thought of the social welfare programs. If you could – is there a way to size, perhaps, the impact that that's had to this quarter's results, and maybe an idea if you can help us on how to think about that into the next quarter, what you're seeing so far?

And then, maybe just taking a step back. So, I know, First Cash has discussed this as well. But just in your words, if you could describe exactly what's going on and if – one of the debates is whether or not this is a one-time payment or an ongoing payment, I'm not sure if you could maybe elaborate on that?

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

Yeah. It continues to be a little bit more ongoing payment right now. So the question Stuart was alluding to is, how long do they continue to do it? I mean, if President López Obrador wants to continue it, it could continue for a good while, but I think a lot of that's probably an initial impact that they're looking for.

As far as sizing, that's a little bit more difficult to isolate it, but that was one of the things that I had tried to call out as well, and it's a little tough to parse it out. But we saw a 3% decrease in same store loan balance in Latin America overall, but when I look at Latin American territories excluding Mexico, it was actually a positive 2% same store loan growth. So, that doesn't tell you directly the income statement impact, but gives you an idea of kind of the impact on the portfolio that flows through the pawn service charges.

Vincent Caintic
Analyst, Stephens, Inc.
Q

Okay. Got you. And then, on the flipside, so you have the pawn business and you have the retail business, some more of your customers have cash in their pockets. Have you seen maybe an offset somewhere on the retail side and do you see there your customers having the propensity to spend more?

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

Yeah, we've seen a little bit of that. It's – the nice balance in the business that you generally see is exactly that. So, it's been nice to see that they – when they do have cash, they are actually spending it a bit on merchandise. I would not say I see it as a complete offset, but we've seen a bit of an offsetting improvement there.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. Got you. Okay. Shifting gears a bit to the Lana Platform, so maybe two questions. So, the discretionary strategic investment, I guess, that's an ongoing investment and maybe the size of that kind of stays – should we expect that sort of $1 million per month to continue along that that rate, and then, going forward now, you're going to have this – you're going to have revenues associated with that?

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

A

Yeah. I would expect the spend probably to slow a bit on that, Vincent. We're – last year, the total spend was about $13.6 million. About $6 million of that was CapEx, so that flowed through OpEx. I would expect next year the CapEx to slow fairly substantially, probably closer in $1 million range or so for the year. Depending on responsiveness from the customer, whatever we – or introduction development of new products, we may accelerate that sum, but that's in a current trajectory, current plan. And I would expect the OpEx or – yeah, OpEx to be somewhere around probably a $7 million to $8 million total spend. So, in total, probably a $6 million to $7 million spend versus the $13.6 million last year.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. Got you. And has the product offering changed much from when it was called Evergreen? So, it's going to be like an online sort of virtual pawn capability. Is that still similar? Is there any differences from what Lana is now?

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

A

It's – it still is writing, it's got a bank account with a debit card attached to it, and there's no minimum balance on the bank account. So, in the beta trials, that's had some very strong feedback, and we can also extend loans, extend the pawn loans without having to be in the store that's developed in beta trials as well. It will continue to roll out the functionality as we see how our customers react to the offerings. But we – as I said in my comments, we believe it's actually a really huge move to be able to renew the pawn loans without being in the store and we think it will also attract new customers to the business just through the bank account offerings.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. Got you. Last one quickly for me. So, on Cash Converters, it's nice to see that stock has improved a bit. Your stock has declined, I'm just kind of wondering how you're thinking – this is a similar question to maybe what I had last quarter – but how you're thinking about your ownership of Cash Converters, is it a core long-term owning for you or is it something that the stock has appreciated, maybe this stuff has now been settled and you've got a buyback on your own where maybe you can switch over to buying your stock? Just any thoughts.

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

A

Well, the boards look at it pretty much every quarter and assess it. We have a reasonably significant holding in that stock. We think the business model they have is actually a reasonably sound business model. The risks that we had seen in the business sitting around the class action have all been mitigated. So, we would actually – we're looking to see how that stock performs before rushing in and thinking about it in a way that – the one thing I will tell you is our board is having quarterly updates on it and assessing the usage of that capital in line with everything else that we do do as well.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. Understood. Thank you.

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

A

Vincent, the one other I would mention to you on the numbers on Lana also is, I would just point out, I would expect as we put that asset into use, we'll start depreciating that. So, I'd expect about $1.2 million, $1.3 million of depreciation to come through on that this next year as well.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Great. Thanks for the detail.

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

A

Yes.

Operator: Your next question comes from the line of Greg Pendy from Sidoti.

Gregory R. Pendy
Analyst, Sidoti & Co. LLC

Q

Thanks for taking my questions. Can you just remind us what the cadence throughout the year of on the digital line item was? Was it front loaded or was it roughly $2.5 million to $3 million per year – or per quarter?

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

A

It was pretty much a fixed charge of about $1 million a month. That was pretty fixed all the way through. We had a little bit at the start of the year.

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

A

Yeah. We had about $2.1 million in the first quarter that was all OpEx.

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

A

And then, it ran through at about $1 million a month and 65% of that was pretty much expensed.

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

A

Yeah. All right.

Gregory R. Pendy
Analyst, Sidoti & Co. LLC

Q

Okay. That's helpful. And then, can you just kind of give us a little bit of color, I guess, with – it's on track to launch, Evergreen, by year end.

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

A

Yes.

Gregory R. Pendy
Analyst, Sidoti & Co. LLC

Q

Is that going to be throughout just the US or is that going to be both US and Latin America, and is it going to – expected to be integrated with all your stores or is it just a gradual – is that going to be some gradual?

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

A

It will be a gradual rollout. It will be a gradual rollout, Greg. The – we're looking at Texas and Florida to start with, and that's 60% of our US stores. We haven't put it into Mexico as yet. We're looking at that, but we actually want to make sure that we have a fully functioning platform before any further migration. But we've got a little bit of a trial going on at the moment in the beta stages, and we'll continue to rollout during the course of the next calendar year.

Gregory R. Pendy
Analyst, Sidoti & Co. LLC

Q

Okay. And will it go product by product or is it going to be, I guess, all products or – any thoughts?

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

A

Yeah. As the platforms continues to develop its functionality, we'll roll out as the functionality keeps improving. So, it will – as it stands, it'll be rolled out across the states that apply. And as we add new states, there won't be a different offering unless there is some legislative requirements of the state that needs changes.

Gregory R. Pendy
Analyst, Sidoti & Co. LLC

Q

Okay. That's helpful.

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

A

Thanks.

Operator: [Operator Instructions] Your next question comes from Scott Buck from B. Riley.

Scott Buck
Analyst, B. Riley FBR, Inc.

Q

Hey. Good afternoon, guys.

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

A

Hey, Scott.

Scott Buck
Analyst, B. Riley FBR, Inc.

Q

Just a few from me. Back on the social welfare programs in Mexico, at what point do those extend far enough that you start to kind of reassess Mexico as a area of increased investment interest versus maybe the rest of Latin America or even up here in the States?

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

A

Yeah. I mean, we've got a long term commitment to Mexico, so there is always – when you operate in Latin America, there's always a degree of volatility as electoral cycles change. But it does still revert to the basics that these customers do have a need for cash over the long term and they will come and go. As they have cash, they will use it. So, one of the potential unintended consequences of social welfare programs is when they get turned off, customers will have a higher need for cash as they'll have to adjust their living standards. So, we think there is a potential unintended consequence that could benefit us, but we still see Mexico as a very attractive fundamental environment for us to operate within, as we do in other Latin American countries too.

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

A

And I'd say our changes that we saw is more in the rate of growth or the rate of earnings, but it still represents pretty significant earnings for us, earnings and cash flow.

Scott Buck
Analyst, B. Riley FBR, Inc.

Q

Great. I appreciate that color. Moving north now to Canada. Can you give us an update on kind of where you are with CASHMAX and what your thinking is there? It looks like we've gone a quarter now without any kind of store consolidation. Are you happy with the footprint and what's maybe the longer term opportunity there?

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

A

Yeah, Scott. But I mean, it's 22 stores. Bit of a rounding error in the statements. We were down from 27 earlier, so we have consolidated some of the stores. It operates reasonably well. It's not something core. We just keep it running. We tried to do – looked at it a while ago as to whether there's any opportunity to rationalize further. At this stage, it's in a bit of a holding pattern as – and we'll probably end up reviewing its relevance over the next 12 months.

Scott Buck
Analyst, B. Riley FBR, Inc.

Q

Okay. Perfect. Last one, any other kind of CapEx investments for 2020 or areas of increased investment besides what's already been noted between Lana and the new stores – store openings?

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

A

Some of the CapEx, we're doing a fair bit of work on the infrastructure of this company. We've got a – quite a legacy environment which we're using our microservices strategy to migrate ourselves off from a very old environment. We're trying to keep all that CapEx within the similar trend to what we've had for the last year or so. So, it's more a reallocation into fixing the infrastructure than – but we don't – it is actually the right thing to do. We don't believe it'll impact our business.

Scott Buck
Analyst, B. Riley FBR, Inc.

Q

Okay. Perfect, guys. Thanks a lot.

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

A

Thanks, Scott.

Operator: Your next question comes from the line of Aron English from 22 Northwest.

Aron Reid English
Founder & Portfolio Manager, 22NW LP

Q

Hey, guys. Thanks for the time here. I guess, can you just walk through what's the board's thought process was on the buyback and whether you guys intend to use that in the near term?

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

A

We just – as we've outlined before, we've been looking at acquisitions over the past two years or so. And what we've found is that the multiples then, if we applied capital as multiples, didn't provide a very efficient return for what we believe was the appropriate risk that would be taken. As the board looked at the alternatives, they determined that probably the most – the best efficient – effective use of the capital at this stage would be to embark upon a share purchase program.

Aron Reid English
Founder & Portfolio Manager, 22NW LP

Q

So, if the thought process is that easy, corp stock is now extremely undervalued, which seems to be objectively true because it trades under the valuation multiple that have traded in 2009, largely through self-inflicted issues referring to the multiple convertible offerings that were widely hated by your equity holders. Phil Cohen returning to the board, which alone reduced the market cap by a nine-figure amount, the ongoing disaster at Cash Converters.

Why not just aggressively tender for $60 million of stock right now, and then, instead of potentially using the buyback over three years and arguably missing the window if the stock trades up, you can reward your equity holders who have been just destroyed by the governance and management missteps of this company?

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

A

That's a very long statement, Aron. I'm not sure I can get around to all of it.

Aron Reid English
Founder & Portfolio Manager, 22NW LP
Q

Why not drastically buy stock right now? That's the question.

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

Well, the – one of the reasons is we're in a blackout. So, we can't do that.

Aron Reid English
Founder & Portfolio Manager, 22NW LP
Q

Okay. I mean, come on, guys. It's one excuse after another. You guys are destroying the stock. It just lost half its value. Are you – where is the shareholder value orientation of this company?

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

That's why the company's – the board are looking at the investment opportunities and they have said the share repurchase program is a priority for them. We're there to support the board and the board have a committee in place and they will determine the appropriate strategies around that.

Aron Reid English
Founder & Portfolio Manager, 22NW LP
Q

Well, what if it looks like to everyone on the outside that the board is not aligned with the rest of the equity holders. Because that's really the problem you guys have here, is a credibility problem, and announcing a buyback and then not using it, or using it tepidly, will not improve the governance or perceived governance problems at this company.

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

The strategy of that is determined as to how to embark upon the buyback program is actually one that we don't – we wouldn't disclose openly to the market. I mean, we're doing it rationally, we're using the resources, and we're doing it appropriately.

My discussions with shareholders have been that they have been banging the table that they believe the most efficient use of capital would have been a share buyback program of which the board has determined is an appropriate course. So, I would be surprised if the shareholders were disappointed by the board's actions.

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

And I would add to that, Aron, that the board's discussion there was not, hey, let's announce a plan and then not do any trades, right? It's not lip service on that. It's an intention to actually act.

Aron Reid English
Founder & Portfolio Manager, 22NW LP
Q

Well, I understand that, Danny. And I'm also aware that this is not your decision nor Stuart's alone in order to execute the buyback. But what I would say is your shareholders are looking for action. And if the shares cannot be purchased at this valuation, then I don't know when you guys could ever use the buyback. So, hopefully, we see some real action on that front. Thank you.

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

A

Yes. They're all good points, Aron.

Operator: And your next question comes from the line of Gary Steiner from Huber Capital Management.

Gary D. Steiner
Principal & Portfolio Manager, Huber Capital Management LLC

Q

Hey, Stuart and Danny. I just maybe wanted to follow up on the last question. So, I've covered you guys a long time, and I don't think you guys have ever announced a share repurchase authorization of the magnitude that you just announced. So, that's obviously positive.

During the quarter, though you did have some costs related to an acquisition that you considered, and it wasn't – it was not an immaterial amount, so I assume that the size of the acquisition wasn't immaterial either. So, I guess maybe you're saying you can do both acquisitions and buybacks at the same time. But, I guess, I'm just getting a bit of a mixed picture as to what the priority of capital is. And it would be hard for me to imagine that whatever you looked at would be cheaper than the EZCORP stocks. So, maybe you could just clarify that so I understand what the intentions of the board is with regard to capital allocation?

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

A

Yeah. I mean, the board, obviously, would be looking at the best use of those free cash resources. Sometimes the time horizons can be a little bit different. Some of the acquisitions really even look at a five-year to seven-year horizon rather than a one-year horizon. So, while a number of holders look at potentially a quarter to 6 months to 12 months, some of these acquisitions can actually be quite attractive over a longer period of time.

So, the board look at different time horizons as well. We do look at acquisitions all the time. The one, as you rightly pointed out, was an acquisition of some size given the extent of the due diligence cost we had. But the right thing was determined that it wasn't the appropriate course of action to follow through on. But we will continue to look at opportunities. But at this point of time, the share repurchase program is the priority.

Gary D. Steiner
Principal & Portfolio Manager, Huber Capital Management LLC

Q

That's great. So, can you confirm that once you're out of the couple of day period after the earnings report that you will no longer be in a quiet period?

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

A

After the – I think we're in blackout now till Q1. Thoughts, Danny?

Daniel M. Chism

Chief Financial Officer, EZCORP, Inc.

A

Yeah. Typically, current program is that we'd go into blackout generally a month before quarter end and we are within a month of the next quarter end. So, that would black us out for this period. Stuart and I have talked about potentially needing to reassess the timeframes that we self-assessed or self-imposed the blackout periods, but that would typically be from that point until, I believe, 48 hours after we announce earnings.

Gary D. Steiner

Principal & Portfolio Manager, Huber Capital Management LLC

Q

Got it. Thank you.

Operator: And that was our last question at this time. I will turn the call back over to the presenters for closing comments.

Stuart I. Grimshaw

Chief Executive Officer & Director, EZCORP, Inc.

Thanks, everyone, for being on the call. We'll be obviously liaising with many of the buy and sell sides over the next 48 hours or so, and we look forward to those discussions. Thanks very much.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.