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TEXT version of Transcript

Corporate Participants

* John Blair Powell

  EZCORP, Inc. - Co-Interim CEO & President of Global Pawn

* Lachlan P. Given

  EZCORP, Inc. - Co-Interim CEO & Chief Strategy, M&A and Funding Officer

* Timothy K. Jugmans

  EZCORP, Inc. - Chief Financial Officer

Conference Call Participants

* Brian William Nagel

  Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

* John Hecht

  Jefferies LLC, Research Division - MD & Equity Analyst

* Marla Susan Backer

  Sidoti & Company, LLC - Research Analyst

Presentation

Operator [1]

Good morning, ladies and gentlemen. Welcome to the EZCORP First Quarter Fiscal 2022 Earnings Call. [Operator Instructions] As a reminder, this call may be recorded.

I would 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 or implied by these forward-looking statements 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 Co-Interim Chief Executive Officer, Lachie Given and Blair Powell as well as Tim Jugmans, CFO.

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

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

Thanks, Jean, and good morning, everyone. We are delighted to have started fiscal 2022 with a strong quarter. Our team has continued to successfully execute on the strategic plan put in place at the end of fiscal 2020 and have significantly exceeded expectations for the quarter. Beginning on Slide 3. We are a global leader in pawn broking and pre-owned and recycled retail. We operate 1,149 stores in the U.S. and Latin America and a strategic investments and adjacent businesses that expand our presence across the globe. On this slide, we talk about building shareholder value by satisfying the short-term cash needs that our customers with an industry-leading customer experience that is fueled by continuous innovation.

We take pride in every one of our stores and have an intense focus on our people and the furthest they provide to our customers. During fiscal 2021, we added 139 stores in Mexico and U.S. And we commenced this year with an investment in a business that owns 20 pawn stores in the Caribbean and we will continue with our disciplined approach to pawn store acquisitions, both in the markets in which we currently operate and other advantageous regions that allow us to expand our geographic footprint.

Moving to Slide 4. People, pawn and passion is our overriding theme in all that we do. My colleague, Blair Powell, is responsible for devising this theme and has been an inspiration to watch our 6,500 team members rally so strongly behind over the last 18 months. I think that this refocus on what we do best, which is simply to develop our people, serve our customers, make pawn loans and sell secondhand goods has been critical in driving the operating and financial momentum we are now seeing from our stores. Our team drives all of our success and so we continue to invest in training, incentives and cultural alignment to motivate and retain our best talent.

We have an exceptionally strong balance sheet as we maintain liquidity that is essential for growing our pawn books across all of our regions, pursue substantial opportunities for pawn store expansion across the globe in a disciplined and a focused way. We are a compelling ESG platform given the very nature of our core business. We extend the life of millions of secondhand items that are sold in our stores, and as a result, promote recommerce at the neighborhood level. We believe that ESG is core to what we are and what we do, and Blair will go into it in more detail in a few minutes.

To Slide 5, this outlines the key components of our corporate strategy, which we announced to the market almost 18 months ago. I'm pleased to say that it continues to gain traction with our people and to drive strong financial results for our shareholders. We have invested time and resource into developing our team members, and I believe we have the most passionate and productive team in the industry. Our fundamental business model enhancements, driven by Blair and his team have realized improved metrics on all subs, including operational efficiencies, bottom line growth and stronger return on capital. Improving the customer experience remains a core priority. And we have implemented a new points-based loyalty program and online payment options for pawn loans that are seeing strong early success with our customers.

As I've said, we continue to focus on growing both organically and inorganically and have increased the geographic diversification of our pawn business this quarter.

On to Slide 6, turning to our key financial themes for the quarter. PLO, the most significant driver for revenue and earnings was up 20% year-over-year, leading to a 20% increase in PSC. Net revenue was up 22% year-over-year, and EBITDA was up 81%. Bottom line performance is particularly pleasing with diluted EPS up 69% from $0.13 to $0.22. This quarter's diluted EPS was affected by a change in the accounting standards related to convertible debt which Tim will discuss in a few minutes.

On Slide 7, you see that as expected, total expenses, store expenses and G&A were all up as we increased labor costs in line with the increase in transaction volume and store growth. But these metrics compare favorably when viewed as a percentage of net revenue when looked at on a trailing 12-month basis. Total expenses as a percentage of net revenue decreased to 84% in the last 12 months versus 92% from a year ago. Similarly, store expenses were 31% compared to 77% a year ago and G&A expenses are 12% compared to 15% a year ago.

With that, I will turn it to Blair.

John Blair Powell, EZCORP, Inc. - Co-Interim CEO & President of Global Pawn [4]

Thanks, Lachie. On Slide 8, we talked about strengthening our core with a focus on people and systems. We have invested a tremendous amount of time transitioning to an operating culture of people, pawn and passion and certainly conceptualizes who we are, what we do and how we do it. Having been with EZCORP over 30 years, I can honestly say that teams from the field to support center have really embraced this transition with a great amount of pride. We've implemented a robust talent and succession plan to identify and develop our high performers and identified opportunities for a clear career path with steps and checkpoints along the way. We remain committed to the inclusion initiatives and cultural transformation to ensure team members alignment with our guiding principles of leadership, customer service, accountability, respect, diversity and sustainability.

We have strengthened our core pawn strategy by better managing our inventory, focusing on more streamline and accurate pricing and allowing managers more flexibility and discounting, which has resulted in reduced aged inventory and increased margins. Customer focus is essential, and we continuously strive to improve their experience. Our points-based loyalty system was rolled out earlier this quarter and have successfully incentivized customers to transact with us. We have completed updates through our proprietary point-of-sale system to fully support our integrated EZ+ loyalty program and have been continuing to modernize IT throughout the organization. Innovation and growth are essential to our strategy.

We are providing customers with convenient options for pawn and layaway servicing. Online payment extensions grew at 13% of total extensions paid, which is up another 200 basis points for the third consecutive quarter and over 9,000 layaway payments were made online in Q1, up 50% from the previous quarter. Our EZ+ loyalty plan was launched in the U.S. and Mexico during Q1 and already has over 500,000 customers enrolled. This increases the propensity of our customers to return with us, which is particularly important that customers who use multiple pawn stores as we look to drive an increase of share of wallet. We've received our 12,000 Google reviews this quarter, averaging 4.9 stars. And finally, the EZ+ branding will replace Lana next quarter as we streamline the digital customer experience. After launching our inventory showcase test in May, this quarter, we had over 33,000 items in 140 stores listed online nearly doubling last quarter.

We believe that this is helping us capture new customers as for certain items become more convenient. Both organic and inorganic growth is an important element of our strategy. In October, as Lachie mentioned, we've invested $15 million in a company that owns more than 20 pawn shops primarily in the Caribbean.

We also increased our stake in CCV and invested $3 million in an artisan repair platform. The integration of our FY '21 acquisitions in Mexico and the U.S. are going well, and the acquisition pipeline remains robust. To look at the ESG, we contribute to the circular economy, extending the useful life of recycling millions of items. According to the EPA, the U.S. had nearly 300 million tons of waste in 2018. That's nearly 5 tons of waste per person per day. This quarter, we procured over 1.7 million pre-owned items and sold over 1.4 million items, ranging from consumer electronics, cameras, tools, household goods and jewelry items, saving those items in a landfill.

We promote health and safety, including providing vaccine awareness, communications and paid time off for team member vaccinations. We continue to execute on our diversity inclusion strategic plan. We provided an essential, simple, regulated and transparent financial resource for those who are underserved by traditional resources.

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

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [5]

Thanks, Blair. Before discussing the results, I would like to point out that we have adopted the new accounting standard for convertible notes. The new guidance simplifies the accounting for consumables by removing the requirement to bifurcate the embedded equity conversion and debt components. As a result, our reported GAAP interest expense has decreased in the quarter by approximately $3.4 million by removing the noncash interest related to the equity conversion feature. We note that in prior periods, we were eliminating all noncash interest related to the convertibles from our adjusted accounts. The new standard also requires the application of the if-converted method for calculating diluted earnings per share and the treasury stock method will no longer be available.

This method requires us to add the after-tax interest related to the convertibles back to net income, which in the quarter was $1.9 million. The calculation also assumes the notes are converted at the beginning of the period resulting in an additional 25.2 million shares being included in the weighted shares outstanding. The application of these converted method only applies if the impact is dilutive and is not affected by whether the convertible is within or out of the money.

We have adopted this standard from a prospective basis only, and as such, historical results have not changed. The adoption of these rules in the first quarter lowers the GAAP and adjusted diluted EPS by $0.02 and $0.07, respectively.

Moving to our consolidated financial results on Slide 12. PLO ended the period at $177 million, up 20% on a year-over-year basis. We are now within 14% of FY '19 same-store PLO balance compared to 16% at the end of FY '21. Following suit, PSC revenue was up 20% over last year with growth driven by both increased store count and high average PLO. Merchandise sales gross profit margin remained high at 40%. Our focus on selling inventory in the first 90 days has kept inventory turnover strong at 3x and our aged GM inventory improved to 0.4% from 5% of total GM inventory a year ago. Consolidated EBITDA was $31.2 million, up 81% year-over-year, resulting from higher PSC and increased merchandise sales gross profit, offset by increased expenses.

Turning to our U.S. pawn operations on Slide 13. PLO rose 16% year-over-year, driven by the focus on our enhanced pawn operating model and serving our customers' needs. On a same store basis, PLO increased 15% year-over-year and 4% sequentially. PSC was up 13% year-over-year, driven by higher average PLO. On the retail side of the business, merchandise sales was up 24%, with merchandise sales gross profit up 29% year-over-year, with related margins expanding by 177 basis points due to effective inventory management. Aged GM inventory continues to decline and accounted for just 0.4% of total GM inventory in U.S. at the end of the quarter versus 3% a year ago. Store expenses were up 4% year-over-year, mostly related to increased labor costs associated with higher transaction volume.

Turning to the bottom line. U.S. pawn EBITDA was up 58% compared to the prior year quarter primarily due to higher PSC and increased merchandise sales gross profit, partially offset by increased expenses.

Slide 14 focuses on our Latin American pawn operations. PLO in this segment grew 40% compared to the year ago level with 20% growth on a same store basis. As a result, PSC was up 27%, driven by an increase in store count of 26% and high average PLO. Merchandise sales was up 41% and 16% on a same store basis. Merchandise sales gross profit was up 17% due to increased sales, offset by margins down to 29%, in line with our longer-term margin expectations for this segment. EBITDA improved $2.5 million on higher PSC and merchandise sales gross profit, partially resulted by increased expenses. Store expenses were up 29% year-over-year with 131 additional stores and increased labor costs in line with higher transaction volumes. Same store expenses were up 6%. In conclusion, EZCORP's PLO levels have continued to increase, reflecting more favorable pawn demand trends accelerating transaction volumes and a focused team. In Q2, we expect to see a paydown of the PLO with the normal seasonality of tax savings. In late December and through January, stores have been affected with the spike of COVID-19.

We had approximately 10% of stores reduced hours due to staff shortages due to COVID. With fewer team members in stores, we are seeing a negative effect on [sales]. As we have seen in quarter 1, PSC continues to play catch-up as PLO increases. As we have previously said, we expect to continue to see some sales margin contraction as inventory levels increase and sales discounting practices rise to standard levels. Also, with transaction volume increasing and increasing inflationary pressures, we will see expenses continue to rise. We performed well through a difficult economic cycle for the industry, and we'll continue to execute on our strategic initiatives throughout fiscal 2022.

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

Lachlan P. Given, EZCORP, Inc. - Co-Interim CEO & Chief Strategy, M&A and Funding Officer [6]

Thank you, Tim. We began fiscal 2022 with excellent results driven by our dedicated team members who have a deep passion for pawn and for customer service. We believe that our differentiated platform, proprietary point-of-sale system and commitment to enhancing digital capabilities are leading the industry. Blair and I are honored to be serving as interim co-CEOs for a company that we both care very deeply for.

We have been partners here a long time and are excited to continue to serve our team members, customers and shareholders to drive strong results for us all.

We are planning Investor Day in Dallas at the end of March and look forward to hosting a store tour as part of that program. We will be providing further details on that shortly. We remain focused on meeting our customers' needs for cash and affordable pre-owned and recycled merchandise across the U.S. and Latin America. People, pawn and fashion is our overriding theme, and we will continue to execute on our strategic initiatives to further strengthen our core pawn business and drive shareholder returns.

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

Question And Answer

Operator [1]

[Operator Instructions] Your first question is from the line of John Hecht from Jefferies.

John Hecht, Jefferies LLC, Research Division - MD & Equity Analyst [2]

So Tim, just so I'm clear on the accounting change. Going forward, the recurring quarterly interest expense should be, it sounds like about $1.9 million. And that 81.9 million shares, is that pretty consistent? Or does that depend on the share price? Just want to make sure I get that modeling accurate.

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [3]

Yes. So that number of shares does not change based on the share price. So that's just assuming that all the shares are converted -- all the convertibles are converted. So that 25.2 million stays constant. And then adding back the interest expense, yes, that's pretty consistent on both going quarter-to-quarter as well.

John Hecht, Jefferies LLC, Research Division - MD & Equity Analyst [4]

Okay. Then so a couple of other questions. The -- clearly, you're growing nicely with the PLO and the revenues and the same store sales. How much of that is tied to kind of recovery from COVID in your opinion, just kind of reestablishing a normal demand set. And how much do you guys think is just secular growth, like what you'd see in a normal area. And then how much is from acquisitions?

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [5]

So the -- from an acquisition point of view, we definitely look at same store sales growth. And if you look at the LatAm portion for the quarter, probably half of that growth is coming from acquisitions. In the U.S., we haven't had that many acquisitions. So a lot year-on-year -- the -- from the point of view of what [Audio Gap] that we have made to the business model with a lot more focus on that retail side of the business with much better turnover results and much more consistent margins, even though we do say margins will come down over time. But that side of the business has significantly improved over time. On the PLO, it's a little bit of both, but it's a much longer one to the cycle.

John Hecht, Jefferies LLC, Research Division - MD & Equity Analyst [6]

Okay. And then you said you had invested in the Caribbean stores recently. Did you buy a minority stake or a controlling stake? And how will that be kind of forward? And then maybe just touch on the overall opportunity set in terms of the pipeline? And what -- is it competitive in the acquisition market? Or is it pretty stable or price is favorable. Maybe just some comments on that.

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [7]

Sure. Lachie, do you want to take that one?

Lachlan P. Given, EZCORP, Inc. - Co-Interim CEO & Chief Strategy, M&A and Funding Officer [8]

Yes, sure. So on the Caribbean question, we bought a minority position there. We're excited about that, given we're not in the Caribbean and it's a very strong local management team that are backing there. So we're excited about things to come from there. On the pipeline itself, look, it remains strong. I think the global opportunity remains very, very large in or -- and in our markets, look, we're seeing the Latin American markets pretty stable from a pipeline perspective. And in the U.S., look, it's pretty similar to the way it's always been. So we're working hard on that pipeline. We feel as robust and looking forward to getting more deals done. But as we've said before, in a very focused, disciplined way.

Operator [9]

[Operator Instructions]

Your next question is from the line of Brian Nagel of Oppenheimer.

Brian William Nagel, Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst [10]

Nice quarter. Congratulations. The question I have, looking at the results and taking into consideration your comments. We stepped back, how should we think about the internal drivers, all the improvements you've made to the business is a factor here versus an improving economic backdrop particularly as the economy now begins to pull away from the COVID crisis. How would you think about the split in what we're seeing in the results today? And then, I guess, as a follow-up to that, how much is left? I mean, kind of what are we playing for here in this continued rebound of results.

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [11]

Lachie, you want to take that...

Lachlan P. Given, EZCORP, Inc. - Co-Interim CEO & Chief Strategy, M&A and Funding Officer [12]

My perspective is here it's a very much [indiscernible]. Blair and his team set out with a new operating model 18 months ago. And you're seeing this quarter, we're starting to see real improvements in almost all the operating metrics. I think we've got further to go there. And I think -- look equally, I think we've got a large opportunity in driving more customers to our stores as we invest in digital. So I think, look, from a runway perspective, I think we've got more runway in both areas, both in what we do within our stores and the external environment and how many customers we can attract.

Timothy K. Jugmans, EZCORP, Inc. - Chief Financial Officer [13]

And from a recovery point of view, obviously, we're still on a same store basis, still a little bit below FY '19 on a PLO basis. So there's still a recovery mode going on, on top of that growth that we are creating by better processes in store as well.

Brian William Nagel, Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst [14]

That's helpful. Just a follow-up then. So as we're watching the business and really gauging the recovery against what you described there, is PLO really the metric we should be watching as far as probably the best indication of the underlying improvement?

Lachlan P. Given, EZCORP, Inc. - Co-Interim CEO & Chief Strategy, M&A and Funding Officer [15]

Yes. PLO has always been a good leading indicator for us to look at what's going to happen at the business for the business. The earnings do come a little bit later than that PLO number. So we track that very closely.

Operator [16]

Your next question is from the line of Marla Backer from Sidoti.

Marla Susan Backer, Sidoti & Company, LLC - Research Analyst [17]

A couple of follow-up questions. First of all, the Caribbean acquisition is interesting from the perspective that it's outside of the core markets. And I'm wondering if you have any color there as to like what characteristics are there that made that an attractive opportunity for you and if we should expect to see additional M&A potential in moving outside of your core?

Lachlan P. Given, EZCORP, Inc. - Co-Interim CEO & Chief Strategy, M&A and Funding Officer [18]

Look I think on the Caribbean, first and foremost, it's a strong local management team. I think that's -- we're very focused on that as a primary driver of our M&A. So first off was a strong management team. Second, as you said, we are diversifying geographically. And in a regulatorily relatively stable environment in that region. So that's there. The second -- yes, expect to see more than -- we're looking at geographic expansion in pawn.

Marla Susan Backer, Sidoti & Company, LLC - Research Analyst [19]

Okay. And then one other question, which is about the online showcase. So as I understand that at the moment, the online showcase is basically it's a place for people to do a bit of window shopping and see what merchandise is available in store, but not actually to purchase. Is that correct? And is that how you intend to maintain that. At some point, are you thinking you might evolve it to an e-commerce platform?

Lachlan P. Given, EZCORP, Inc. - Co-Interim CEO & Chief Strategy, M&A and Funding Officer [20]

Yes, I'll take. I think that this is very much still in the test phase. We're really addressing some of the baseline capabilities there in terms of the product searches and making really the process efficient for in-store posting and for the customer. So right now, I would say that we're in a test and learn environment with that. But ideally, yes, we do want to try and advance that as soon we can -- that the results are favorable, but to answer your original question, yes, right now, it is just a browsing kind of showcase as there is no ability to purchase online directly.

Operator [21]

There are no further questions. Presenters, please continue.

Lachlan P. Given, EZCORP, Inc. - Co-Interim CEO & Chief Strategy, M&A and Funding Officer [22]

Look, thanks, everyone, for your time this morning and look forward to speaking to you all either later today or again. Thanks.

Operator [23]

And with that, this concludes today's conference call. Thank you for attending. You may now disconnect.