

EZCORP, Inc(Q3 2024 Earnings)
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Corporate Speakers

- Sean Mansouri; EZCORP, Inc.; Investor Relations Adviser Elevate
- Lachlan Given; EZCORP, Inc.; Chief Executive Officer
- Timothy Jugmans; EZCORP, Inc.; Chief Financial Officer

Participants

- Brian McNamara; Canaccord Genuity; Analyst

PRESENTATION

Operator^ Good morning, ladies and gentlemen. Welcome to the EZCORP Third Fiscal Quarter 2024 Earnings Call.

(Operator Instructions) As a reminder this call may be recorded.

I'd now like to turn the conference over to Sean Mansouri, the company's Investor Relations adviser with Elevate IR.

Please go ahead, Sean.

Sean Mansouri^ Thank you. And good morning, everyone.

During our prepared remarks, we will refer 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.

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.

I'll now turn the call over to Lachie Given.

Lachie?

Lachlan Given^ Thanks, Sean. And good morning, everyone.

We're pleased to report that EZCORP continued to generate impressive operating and financial results for the third quarter of fiscal 2024.

Total revenue increased 9% to \$280 million, which was a record for Q3. And PLO increased 15% to \$265 million, the highest level in company history. Adjusted net income was up 14% from a bottom line perspective.

Beginning on slide 3.

We continue to be a global leader in pawn broking and preowned and recycled retail.

We operate 1,258 stores in the U.S. and Latin America, having added another 12 stores this quarter.

We're seeing growing demand for our pawn broking services to meet short-term cash needs as economic headwinds like rising living costs and limited credit options are impacting our customers.

Additionally, consumers are increasingly value-conscious, turning to preowned merchandise for its affordability and eco-friendly benefits.

We are continuously innovating and providing exceptional customer service to address these evolving needs.

Moving to slide 4.

During the quarter, we opened six de novo stores in Latin America and one de novo store in the U.S. as well as acquiring five stores in the U.S.

Our earning assets grew 14% year-over-year to help drive our record PLO balance, which in turn led to a 14% increase in PSC.

Our cash balance decreased to \$218 million due to the increase in PLO and inventory as well as our share repurchases of \$3 million in the quarter.

We continue to have substantial liquidity to fund additional organic earning asset growth to capitalize upon inorganic opportunities as they arise, repurchase shares and to fund near-term debt maturities as required.

Subsequent to quarter end, we paid \$34 million in cash and issued 77,328 shares in relation to our convertible notes that matured in July.

Slide 5 shows the continued growth of our business across all key financial metrics with total revenues up 9% year-over-year, merchandise sales up 6%, gross profit up 11% and adjusted EBITDA are up 15%.

As I mentioned earlier, strong consumer demand and excellent customer service continue to propel PLO and PSC.

Turning to our key business strategy highlights for Q3 on slide 6.

We are proud of the strides we've made in strengthening our core pawn operations.

Our accelerated PLO growth, driven by optimized pricing and lending model, has delivered an impressive 11% increase in gross profit. And in Latin America, our improved lending strategy and execution, combined with increased loan demand, has resulted in robust earnings growth in the region.

Further, we have continued to modernize our back-end POS, enhancing the scalability across our systems and processes.

In the U.S., we have expanded the availability of third-party payment programs, driving higher retail sales and reinforcing our commitment to servicing customers. Growing deeper relationships with our customer base is also reflected by the continued growth of EZ+ Rewards members, which grew 51% to 5 million members globally.

Our core pawn websites also experienced a 50% boost in traffic.

We continue to believe in fostering a culture that empowers and recognizes our team members as they are the foundation of our success.

We completed our annual company-wide engagement survey that serves as a scorecard of how our culture is transforming. With robust participation of over 80% of our team members this year, we scored 84 points, 10 points above the external benchmarks. This quarter, we also introduced a new tenure reward program to recognize and reward long-term team member commitment.

Turning to innovation and growth.

We experienced close to a 50% increase in U.S. online payment collections during the quarter as well as a notable rise in the adoption of online payments in Mexico, with 10% of extensions and layaways now managed online.

We also grew Max Pawn luxury e-commerce sales by 7x, primarily driven through eBay.

On slide 7, we highlight our sustainable and customer-centric approach.

By selling 1.2 million preowned items, we extended the life cycle of these goods and contributed to a more sustainable future.

At the same time, we provided access to critical financial services to hundreds of local communities.

At EZCORP, we're building a diverse and inclusive workplace through a range of initiatives.

Our commitment to a positive team member experience extends beyond the job.

We actively support employee resource groups as a platform for connection, professional development and celebrating diversity.

Outside the walls of EZCORP, we actively contribute to the communities we serve.

We continue to partner with charities tackling critical issues like financial literacy, food and security, youth development and poverty reduction, aligning with our commitment to make a positive social impact.

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 Jugmans^ Thanks, Lachie.

Slide 9 details our consolidated financial results for the third quarter.

As Lachie mentioned earlier, we ended the quarter with record PLO of \$265 million, up 15% and up 13% on a same-store basis. PSC revenue was up 14% over last year, with growth primarily driven by same-store PLO growth.

Inventory turnover was 2.7x with aged GM inventory at 3.2%.

Merchandise sales were up 6% to \$157.1 million, and merchandise gross profit increased 7%.

The company delivered another strong quarter of profitability with adjusted EBITDA rising 15% to \$31.6 million and adjusted EBITDA margin expanding to 11%. This increase was primarily driven by higher PSC, partially offset by a 10% increase in expenses.

Turning to our U.S. Pawn segment on slide 10, we delivered record third quarter total revenue of \$199.1 million, up 8% year-over-year. And earning assets increased 9%, driven by a PLO increase of 11% and 6% in inventory.

Slide 11 provides a map showing U.S. states in which we operate.

Our U.S. store count has grown to 541 stores with five stores acquired and the opening of one de novo store in the quarter. Average loan size grew 8% driven by PLO jewelry competition, which was up 100 basis points due to continued operational focus on this category.

Inventory general merchandise composition is up 200 basis points, driven by an increase in handbags, shoes and tools.

Slide 12 provides a financial overview of our U.S. segment. Total PLO balance increased 11% with 10% on a same-store basis, driving PSC increase of 13% year-over-year.

On the U.S. retail side of the business, merchandise sales were up 6% while merchandise sales gross profit was up 3%.

The imputed lower gross margin reflects our focus on inventory turnover. U.S. Pawn EBITDA for the quarter was \$38.5 million, growing 11% due to higher PSC, partially offset by an 8% increase in U.S. expenses. U.S. EBITDA margin improved 49 basis points to 19%, reflecting our focus on driving the bottom line.

Turning to our Latin American segment on Slide 13. Total revenues increased 13% to \$80.7 million, which is a record high for the third quarter. Earning assets increased 30%, driven by a PLO increase of 30% and inventory increase of 32%.

We increased our presence in Latin America to 717 stores this quarter, opening six stores in three countries. PLO jewelry composition is up 500 basis points with an operational focus on growing this category, especially in Mexico.

Higher jewelry PLO composition has also driven average loan size up 10% on a constant currency basis.

Turning to slide 15.

As I mentioned, our Lat Am region experienced significant PLO growth of 30%. This was primarily driven by our team's operational performance and the region's higher pawn demand. PSC was up 19%, driven by same-store PLO growth.

On the retail side of the business, merchandise sales were up 8%, while merchandise gross profit increased 18%, reflecting 200 basis points of margin expansion.

EBITDA grew an impressive 29% to \$11.9 million with EBITDA margin coming in at 15%, up 189 basis points. The EBITDA improvement was due to higher PSC, partially offset by a 16% increase in expenses with same-store expenses increasing 12%.

From a consolidated perspective, we anticipate that we will continue to see PLO growth year-on-year and expect PSC to mirror this trend.

Our ongoing emphasis on optimizing inventory turnover and minimizing aged general merchandise remains a core component to our retail strategy.

While we still operate in an inflationary environment, we are committed to prudent expense management and foresee the sequential same-store expense growth easing.

Additionally, the strategic expansion of our store footprint (inaudible) increased staffing levels, which contributed to higher operating costs.

A quick word on our capital stock and allocation priorities.

We continue to have a robust liquidity position with \$218 million of cash and \$368 million of gross convertible notes on our balance sheet as at June 30, 2024.

We believe the most effective uses of cash to drive shareholder value include reinvestment in our business to drive organic growth, acquisitions, share buybacks and debt repayments.

As Lachie mentioned earlier, the 2024 notes were retired in early July.

We have \$103 million of convertible notes that come due in May 2025.

We continue to explore a series of options to retire or refinance that note including by use of existing cash to traditional debt or other equity-linked instruments.

Looking ahead, we believe that our focus on cultivating PLO, coupled with our commitment to inventory management, streamline systems and exceptional customer service, will continue to be the driving forces behind our strong financial performance.

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

Lachlan Given^ Thanks, Tim.

In closing, I'd like to express my gratitude to the EZCORP team for once again delivering outstanding operating and financial results to our stakeholders this quarter.

Our record results are a testament to the team's dedication and hard work. The company has demonstrated robust performance throughout the first three fiscal quarters of 2024, and we remain well positioned to sustain this momentum and deliver returns for our shareholders as we close out the fiscal year.

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

Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Brian McNamara with Canaccord Genuity.

Brian McNamara^ Congrats on the results.

First off, it was great to see you settled the \$34 million in 2024 convertible notes in cash, and it's also great to hear you'll consider maybe a host of refinancing options for the \$100 million plus that's due next year.

It's also a bit of a tone change, I guess, relative to kind of what we've heard in the past or maybe absent of like maybe starting June in the conference circuit.

But I'm just curious what's driving that because I think these converts are obviously on top of mind for investors, so it's great to hear.

Lachlan Given^ Thank you, Brian. Yes. It was certainly a fantastic quarter.

Look, on the financing, I don't think we've changed the tone.

I don't think we deliberately wanted to continue to address that through Tim's comments today. And really, it's the same as we've always said.

We are -- the Board and the team are constantly reviewing all financing alternatives, as I've said in the past.

The very good news is that given our operational performance, which continues to get stronger and stronger.

Our alternatives and options grow. The terms improve.

So I think all options are on the table.

We've got time. But the best news is we've also got cash.

So I think we're in a very strong liquidity position. The balance sheet is strong, and we've got our scale opportunities continue to grow.

So there's a lot to do in the existing business organically. There's a lot to do on the acquisition front, but we're very -- I think we're in a real position of privilege here to have such a strong balance sheet from which to operate. And as you said, we paid back the '24.

We've got the '25 to deal with and all options there on the table, whether it's paying with cash, using debt instruments, all sorts of different debt instruments or some form of equity-linked product or a mix.

I think we will, over the coming six to 12 months, work out the best way to go there.

But it's certainly -- it's an incredibly exciting time for the company.

I'm very, very happy with the Lat Am growth.

I think if you look deeply at those results, you can see that that momentum is really accelerating. And what we've said from the outset here is that when this team took over and Blair got so much done in the U.S. and was able to then turn his mind to Latin America, you're seeing very similar things happen down there in terms of earnings momentum.

So look, it was a really fantastic quarter.

Brian McNamara^ You took the word enough on Lat Am.

I was really impressed to see the 30% PLO growth there.

I'm just like what's -- I think Blair took over early last year.

I'm just curious like, I know it takes time to train and all this stuff, but I'm assuming that this is a direct function of him kind of his influence given his vast experience in pawn broking.

Lachlan Given^ Look, I think it certainly has started with Blair, but he has built -- we've all built a really fantastic leadership team across Latin America now. And with Blair leading operations, I think it all starts there. And as you say, it does take time.

It's been a matter of a real training effort down there as to the 101 of pawn broking, which is all negotiation at the loan counter. And I think he led that transformation in the U.S. through people and through the People, Pawn and Passion mantra and was able to then turn his efforts to Latin America and do very similar things.

As we've said to everyone, we're in an industry that is very similar across these different geographies.

So it's very similar metrics, very similar people issues.

So we're able to do much of the stuff that we did in the U.S. down in Latin America, and it just takes time. And I think the team are incredibly excited and engaged about finally seeing the last couple of quarters gain such strong momentum.

And in particular, this quarter, the numbers are just very, very strong.

Timothy Jugmans^ I'd add to that that the investment that we've made into improving pricing in Latin America is really coming through. And also, the focus on building the jewelry part of the business, especially in Mexico is starting to come through in the numbers.

So that all does take time, and the execution from the stores has been improving all the time. And the combination of all those things we just talked about is driving these great results.

Brian McNamara^ Great. And I guess can you comment on -- I mean PLO hitting, I think, an all-time in Q3 is unusual. Usually, Q4 is the big seasonal quarter for PLO. And I think we've talked a lot about the lack of paydown during tax season for a couple of years in a row now. Any way to explain that in terms of like how sustainable that is?

Is it just a sense of the fact that paying back of pawn loans maybe not on the top of people's list at least in terms of your core loan income segment here? Any commentary on that would be helpful.

Lachlan Given^ Look, I think there's a lot of literature out there trying to work out why the last two years has been this way, but it seems to be a trend. And we can only talk anecdotally here, but I think your hypothesis is probably -- it's probably part of the issue that our customers have got other things to pay ahead of their pawn loan. And look, we're -- again, we're trying to do our best to forecast the year out for next year.

But look, it does seem to be a trend in the last two years.

Timothy Jugmans^ The other thing I'd add to that is what we've seen from the literature is that the dollars that people are receiving year-on-year hasn't really moved, but inflation has, and so everything is a little bit more expensive. And so, the dollars available to redeem loans, never mind pawn loans or any other things they do have, is less than they used to as a percentage. And so we think that is some of the driver.

Brian McNamara^ And then we've seen a whole host of consumer-focused companies over the last three months talk about low income weakness, middle to high-income trade down, like I mean the big banks were talking about it a couple of weeks ago in terms of low income pressure. Are you guys benefiting from this? Are you seeing new faces in stores? You have big retailers rolling back prices. Any sense for that?

Lachlan Given^ Look, we're certainly seeing some new faces in the stores.

But if you look at the sales results, we are still seeing pretty strong sales results across the board.

So I think, yes, there is this trade down going on.

But I think, really, our customer service just gets better and better. And I think that's a big driver here.

It's our people in our stores doing a much better job with customers to drive what we're seeing.

Obviously, super strong results on the PLO.

But on the sales side, we are still generating margins that we think are very strong, and we're seeing sales growth, as I said, across all geographies.

So I think in our situation, it's really coming down to fantastic customer service and engagement from our people in our stores.

Brian McNamara^ Great. And then I think last quarter, costs were a little bit of a surprise. Tim, any thoughts on maybe a directional color for Q4 and maybe how we should start thinking about preliminarily 2025?

Timothy Jugmans^ Yes. So I think we're definitely seeing a lot of that inflationary pressure come through.

What we do see is, from a sequential perspective that, that growth in expenses is going to slow down in the next few quarters.

Operator^ I would now like to turn the call back over to Lachie Given for any closing remarks.

Lachlan Given^ Look, thank you very much, everyone, for joining the call today.

We're obviously very proud of the results. And again, I want to thank our team for their tireless efforts to deliver these results for our stakeholders.

We look forward to talking to a lot of you guys throughout the course of today and next week; and look forward to producing another set of strong results in the coming quarter.

Thanks, guys.

Operator^ Thank you. This concludes the conference. Thank you for your participation.

You may now disconnect.