EZCORP, Inc.(Q1 2024 Earnings)
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Corporate Speakers

- Jean Young; Three Part Advisors; Investor Relations
- Lachlan Given; EZCORP, Inc.; Chief Executive Officer
- Timothy Jugmans; EZCORP, Inc.; Chief Financial Officer

Participants

- Ibrahim Kargbo; Jefferies; Analyst
- Madison Callinan; Canaccord Genuity

PRESENTATION

Operator^ Good morning, ladies and gentlemen. Welcome to the EZCORP First 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 Jean Marie Young, Investor Relations with Three Part Advisers.

Please go ahead, Jean.

Jean Young^ 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 Given^ Thanks, Jean. And good morning, everyone.

We began fiscal 2024 with an outstanding quarter. Total revenue of $293 million was the highest in the company's history.

Our PLO continues to grow, with our highest first quarter PLO ever. Bottom line net income also grew very strongly to $28 million, up 30% on Q1 2023.

Beginning on slide 3.

We are a global leader in pawn broking and preowned and recycled retail. We operate 1,237 stores in the U.S. and Latin America, having added another six stores this quarter. The macroeconomic environment continues to be a challenge for our customer base, with inflationary pressure increasing the demand for pawn as consumers seek cash to satisfy their short-term needs.

In addition, consumers seek value by purchasing preowned merchandise and jewelry, which also represents a more environmentally responsible way to shop.

We strive to provide an industry-leading experience to our customers through continuous innovation.

Moving to slide 4.

We opened five de novo stores in Latin America and acquired one store in Texas during the quarter. Record-setting Q1 PLO balance of $238.4 million was up 14%, driving a 13% increase in PSC. When comparing the first quarter with the fourth quarter, earning assets are typically impacted by strong holiday sales, lowering inventory as well as consumers in Latin America receiving additional compensation in December, applying downward pressure on PLO balances.

Our cash balance was up to $219 million, primarily due to strong cash inflows from operating activities, partially offset by increased PLO and inventory, strategic investments, share repurchases and new store acquisitions.

We repurchased $3 million of shares and invested $15 million in Founders to fund SMG acquisitions in Central America.

Slide five shows our excellent financial metrics for the quarter, with total revenues up 11%, merchandise sales up 7%, gross profit up 11% and adjusted EBITDA up 21%. Strong consumer demand and excellent customer service continues to propel PLO and PSC up 14% and 13%, respectively.

Turning to our key business strategies for Q1 on slide 6.

We continue to strengthen our core pawn operations during the quarter, investing in people and technology. In addition to launching a rebuild of intelligent pricing systems globally, we continue to upgrade merchandising, tagging, pricing, point-of-sale system and ecommerce capabilities to drive faster transaction times and deliver better customer service. EZ+ rewards members grew to 4.2 million globally, with 1.4 million people transacting in Q1, almost evenly split between the U.S. and Latin America.

Across all geographies, transacting customers increased 4%. Team members are at the core of our operating theme of people, pawn and passion.

We are committed to investing in recruitment, retention and incentivization to ensure that our team remains highly engaged. The Workday Human Capital Management system was implemented globally during the quarter and will further improve access to human capital data and enhance our training, career development and recruitment processes. Innovation and growth are critical to our future.

Online payments grew $8.6 million to $20.3 million in the U.S.

We launched online app features to securely save payment card details with promotional giveaways, which attracted engagement from over 50% of users, reflecting the successful adoption and positive reception of these enhancements.

Online payments launched in Mexico with the buy online, pickup in-store initiatives, expanding to 23 additional stores in Houston. Furthermore, we enhanced Max Pawn Luxury ecommerce capabilities on eBay.

Slide 7.

During the quarter, we sold 1.4 million pre-owned general merchandise and jewelry items and provided critical financial services to customers in the hundreds of local communities in which we serve.

We are excited to share that Newsweek recognized EZCORP as one of America's greatest workplaces for diversity. This study highlights the top large and midsized companies recognized by their employees for dedication to supporting a diverse workforce. At EZCORP, we foster an environment that values diversity, inclusion and development for all, with initiatives promoting affinity groups in the U.S. and Latin America, enhancing diversity awareness, encouraging inclusive conversations and more.

We launched an inaugural round of local giving, which included U.S. districts donating to charitable organizations that support financial literacy, eradicating food and security, empowering young people or engaging in poverty intervention. In addition, we hosted company-sponsored volunteer events at local food banks. The backbone of the company is our passionate, productive, tenured and committed team members, and we continue to find ways to enhance their experience.

We promote the circular economy with a more affordable, sustainable shopping experience for our customers, always working to improve their experience with innovations in our digital platforms, proprietary POS system and loyalty program.

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

Timothy Jugmans^ Thanks, Lachie. Slide nine details our consolidated financial results for the first quarter. PLO ended the period at $238.4 million, up 14% on a year-over-year basis, which is the highest first quarter in EZCORP history. PSC revenue was up 13% over last year, with growth driven by increased same-store PLO growth and new stores. Inventory turnover was strong at 2.9x with Aged GM inventory at 1.3%.

Merchandise sales were up 7% to $174.6 million. Merchandise sales gross profit was up 6% due to increased sales with flat margins as we've focused on increased turnover and keeping Aged GM inventory low.

It was another solid quarter with consolidated EBITDA of $46.4 million, up 21%, driven by higher PSC, offset by a 7% increase in expenses. Turning to our U.S. Pawn segment on Slide 10. Total revenues were up 12% to $217.4 million, which is the highest in our history. Earning assets increased 12%, driven by an increase of 14% in PLO and 8% in inventory.

Strong pawn demand and excellent customer service continues to drive PLO, which in turn drives inventory growth.

Our U.S. store count has grown to 530 stores, with one store acquired in the quarter. PLO jewelry competition is up 100 basis points due to continued operational focus on this category, which also drove the 6% increase in average loan size.

Inventory general merchandise composition is up 200 basis points, driven by an increase in handbag, shoes and tools. PLO growth of 14% drove the PSC increase of 14% year-over-year.

On the retail side of the business, merchandise sales were up 6%, with merchandise sales gross profit up 4%, with a 100-basis-point drop in merchandise sales margins. U.S. pawn EBITDA for the quarter was $50.2 million, up 19% from the prior year due to a higher PSC, partially offset by a 5% increase in expenses.

Turning to our Latin American pawn segment on Slide 13. Total revenues were up 9% to $75.5 million, which was the highest first quarter in our history. Earning assets increased 1%, driven by an increase of 11% for PLO, offset by the inventory down 11%.

Our store count in Latin America has increased by five in the quarter to 707 stores in four countries. PLO jewelry composition is up 500 basis points, with an operational focus on growing this category, especially in Mexico.

This jewelry composition increase has also driven average loan size up by 8%.

PLO rose 11% due to improved operational performance and continued strong pawn demand. PSC was up 8% year-over-year, driven by both same-store PLO growth and new stores.

On the retail side of the business, merchandise sales gross profit was up 14%, with merchandise sales up 8% in addition to a 200-basis-point improvement in sales margin. EBITDA for the quarter was $11.3 million, up 16% on the prior year due to higher PSC partially offset by a 10% increase in expenses. The expense increase was primarily due to the increase in labor driven by minimum wage and headcount, higher store count and rent.

Looking forward, on a consolidated basis, we should see PLO continue to grow on a seasonal basis with PSC following suit.

We continue to focus on strong inventory turnover and limiting aged general merchandise.

While we remain committed to expense management, we expect to see expenses increase on a sequential basis primarily due to ongoing inflationary pressures and filling vacancies in our stores.

Our focus on growing quality PLO, optimizing inventory management, seamless integration and enhanced customer service should continue to drive strong financial results in our business.

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

Lachlan Given^ Thanks, Tim. In closing, I want to thank our EZCORP team for delivering an outstanding quarter of operating and financial results for our stakeholders.

We made more total revenue and more merchandise sales than in any quarter in the company's history. PLO is at the highest level for any first quarter ever and our balance sheet is highly robust.

We continue to invest in our team and technology, while also buying back shares.

It's been an excellent start to 2024, and we look forward to driving enhanced value for all of our shareholders for the remainder of the year.

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

Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Ibrahim Kargbo with Jefferies.

Ibrahim Kargbo^ Can you guys hear me?

Lachlan Given^ Yes, got you, Ibrahim.

Ibrahim Kargbo^ My question is, I was wondering if you could talk about the progress and maybe the costs associated with the Workday transition. I do have a follow-up.

Lachlan Given^ Sure. Look, let's start with the strategic part. It's -- we launched a bunch of modules through the quarter, starting with human resources. And look, it's a company-wide redefining platform. It just gives our people much more access to information.

It gives much better all sorts of resources on incentivization on rewards, on all things to do with human resources.

So, it really is a sort of a company redefining -- certainly internally a company-redefining platform. With respect to cost, Tim, do you want to walk through that?

Timothy Jugmans^ Sure. So, this process is going to be over two years of implementation.

So, we do have some double costs some in last year and some will be in this year where we're running both systems. We've successfully launched the HR part of Workday and continue to work on implementing the finance part, which will be slated to be launched this financial year. There are some double costs going through this year.

There will be a slightly higher ongoing cost in FY25, but there will also be offset items on maintenance and things like that, which will make it come down. We're still going through the process of calculating all those items, and we'll able to share that in future periods.

Ibrahim Kargbo^ Great. My follow-up is on efficiency improvement. Do you guys believe this will be maintained throughout the fiscal year?

I see that turnover was increased, so I just wanted some more color on that.

Lachlan Given^ Tim, you want to take that one?

Timothy Jugmans^ Yes, definitely, quarter one -- our quarter one and quarter two are definitely the most efficient quarters with the ability to sell through during the holiday season, and then Valentine's and tax season, definitely provides a clearer sales strategies.

So, we are attempting to keep those turnover numbers higher than we did last year, but not necessarily on a sequential basis.

Operator^ (Operator Instructions) Our next question comes from Madison Callinan with Canaccord Genuity.

Madison Callinan^ This is Madison Callinan on for Brian McNamara. First, for our store check work -- can you hear me?

Lachlan Given^ Yes. All good.

Madison Callinan^ Okay. So, for store check work, we found that merchandise sales in December and January came in a bit below internal expectations, but your actual results look much better. If you could talk about what's going on there?

And is that a function of high internal expectations as you try to continue this record-breaking performance, or if it's something else?

Timothy Jugmans^ Thanks, Madison. The -- yes, so we do have high expectations internally about continuing to grow the business.

So those expectations are -- that's a little bit higher in our stores, and our stores continue to hit those targets in many of the stores and really incentivizing them to hit those targets and share the spoils. So, it's been great to see.

So those are -- that's definitely some of that when you ask and somebody internally, they're really thinking about their budget number and not what happened last year. It's been a great way of encouraging our teams to continue to hit these record numbers that we present.

Lachlan Given^ To add to that, Madison, I think it's been a really strong quarter. It depends on what region you're in, what store manager you're asking, but on the whole, we had high expectations.

We met those expectations, really strong growth year-on-year. And as we said in the remarks, it's our highest ever merchandise sales quarter.

So, we're really pleased with how the selling has gone in the first quarter across all regions.

Madison Callinan^ Awesome. Then if I could ask another one. For the EZ+ Rewards enrollment, we really appreciate the additional disclosures on the rewards engagement, specifically the 1.4 million of 4.2 million members or a third of that transacted in the quarter. Did that proportion improve versus last year? Or any additional color you can give us on that would be great.

Lachlan Given^ Tim, you know the answer to that?

Timothy Jugmans^ Yes. The number of transacting customers is improving. From a percentage basis, we'll have to get back to you on that one.

Madison Callinan^ No problem. And just one more for me. Can you give us a little color on what categories are outperforming?

Are you seeing new faces in the stores?

Timothy Jugmans^ From a category perspective, you definitely -- which we've talked about a number of quarters is seeing that luxury segments, though it's small, continue to grow, especially in the handbag and shoe section. It's been a good way of driving traffic into the stores.

Obviously, from an overall perspective, jewelry has been growing in PLO composition over the last 12 months across all our drug fees and as shown why our average loan size has also increased.

Lachlan Given^ It's -- Madison, it's been a really deliberate strategy on the jewelry side, particularly in Latin America, where we're teaching the store teams how big an opportunity that category is, particularly in Mexico.

So, we've seen really strong growth in that category. And given it's such a big category in the U.S., we've got high expectations for Latin America going forward.

Operator^ (Operator Instructions) And we have a follow-up from the line of Madison Callinan with Canaccord Genuity.

Madison Callinan^ So, we don't think you've had like a normal tax season since 2019. How should we think about PLO balances this season, both entering and exiting tax season?

Timothy Jugmans^ The tax season is going to be interesting this year if it switches back to a normal tax season like we've had in 2019, which we -- there's nothing to say that it won't, but we'll wait and see. The -- you're definitely going to see the normal pay downs of PLO balances. It really depends on how far those balances get paid down.

Then if they don't get paid down that much, there's probably also going to be the ability to sell a little bit more as well.

So, I think our business, the ability to help the customer, both on the loan side and on getting discounted goods to buy, allows us to go through that -- our quarter two quite well during our tax season, but how that revenue is going to be made up is really dependent on how much the customer is going to get back in tax return.

Madison Callinan^ Awesome. Then after catch up the year in 2023, can you give any additional color on store and G&A expenses for 2024?

Timothy Jugmans^ The store expenses, definitely -- we were definitely under what we expected this quarter. We do see those increasing on a sequential basis.

Some of it inflationary, some of it in Latin America with the government mandated minimum wage increases and other benefit increases causing some of the effects to keep going through.

Madison Callinan^ Awesome. Then last question for me. How should we think about your investment in Founders longer term?

We're just getting questions about share buybacks from investors.

Lachlan Given^ Look, it's -- the Founders is a high-performing business. It's now the third largest pawnbroking chain in the North American region.

So, it's very, very quickly become quite a force, which is what we'd hoped. So, we're very happy with that investment. It's producing even better returns than we expected. They have bought stores this quarter in Central America, which is exciting.

So, they're now at 97 stores. The way we think about it long term is that we are very happy with the structure that we've obviously already spoken to investors about.

But it's a potential acquisition going forward and could be a source of really high growth for our shareholders.

So, we're really happy with the team, with their performance. As I said, they're delivering better returns than what we'd expected when we invested. I think ultimately could prove to be a great acquisition for us potentially.

But for now, we are there to support them in their growth plans, and it's a very exciting investment for us.

On the share buyback side, obviously we're trying to balance our own growth with share buybacks.

We listen to shareholders, obviously, and we assess this every quarter, but we continue to buy back stock. We've done that very consistently across every quarter, and we see it as another good return on investment. We believe that our stock is very, very cheap.

So, we are balancing buying that back with the really significant growth opportunities that we think we have just even in the regions in which we operate.

So, we're trying to strike a balance between growth and scaling up our cash flows and our store base with what we see as a good return on investment in buying back stock.

So hopefully, we've been very consistent with that message and consistent across quarters.

But the great news is we've had a phenomenal start to the year, an outstanding quarter, and we are trying to balance those growth opportunities with share buybacks.

Operator^ That concludes the question-and-answer session. At this time, I would like to turn the call back to Lachie Given for closing remarks.

Lachlan Given^ Thank you, Operator. Thank you, everyone, for joining today.

And thank you to our team. I think they have produced an outstanding quarter of financial and operating results for all of our shareholders.

We're really looking forward to the rest of this year to continue on this path.

So, thanks everyone, for joining today.

We'll speak to you through the course of the day. Thanks.

Operator^ Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.