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Q4 2023 EZCORP Inc Earnings Call

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Brian Christopher McNamara *Canaccord Genuity Corp., Research Division - MD & Analyst*
Jean Marie Young

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to EZCORP's Fourth Quarter and Full Year Fiscal 2023 Earnings Call.

(Operator Instructions)

As a reminder, this call may be recorded.

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

Jean Marie 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 effects of foreign currency fluctuations and other discrete items.

Joining us on the call today are EZCORP's Chief Executive Officer, Lachie Given; and Tim Jugmans, Chief Financial Officer.

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

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

Thanks, Jean, and good morning, everyone. Our team's consistent execution on our strategic plan has again yielded very strong operating and financial results for our stakeholders. As we conclude the current fiscal year and 3-year strategic plan announced in November 2020, we will today begin with a review of our fourth quarter performance, and then we'll move to an overview of the strategic goals we set 3 years ago, and the associated accomplishments that have been achieved in that time.

At the end of Q4, pawn loans outstanding, the key driver of our business, hit a record $250 million, the highest level in EZCORP history. Total Q4 revenue hit a record $261.4 million, driven by higher PSC and sales volumes across all of our regions. Merchandise sales gross margins remained within our targeted range of 36%, with strong inventory turns at 2.7x.

Beginning on Slide 3, we are a global leader in pawn broking and preowned and recycled retail. We operate 1,231 stores in the U.S. and Latin America, having added another 21 stores this quarter. The macroeconomic environment continues to be a challenge for our customer base with inflationary pressure, increasing interest rates, high gas prices and the tightening of credit from alternative lenders increasing the demand for pawn as consumers seek cash to satisfy their short-term needs.

In addition, consumers seek value for money household and other consumer goods by purchasing preowned products, which also represents a more environmentally responsible way to shop.

We strive to provide the best, most convenient experience for our customers through continuous innovation, while positively impacting the environment and the communities in which we serve.

Moving on to Slide 4, people, pawn and passion is our core operating theme. Our engaged team drives our success, so we are committed to investing in recruitment, retention and incentivization to ensure our team members are highly engaged. We provide access to critical financial services in the hundreds of local communities in which we operate, offering customers instant cash for any item of value.

And we promote the circular economy with a more affordable and sustainable shopping experience with outstanding customer service, an attractive and well-positioned store footprint, differentiated digital platform, proprietary POS system, and an innovative loyalty program for our customers.

Our balance sheet is very strong and liquid, enabling us to fund significant growth in our earning assets, build-out of new de novo stores, opportunistic acquisitions from what continues to be a robust pipeline, and our share repurchase program.

Slide 5 shows our progression this quarter on our 3-year strategic goals. We believe we have the most passionate, productive, tenured and committed team in the industry, and continue to find new ways to engage, motivate and retain them. The implementation of the Workday human capital management system globally during the quarter will further improve access to human capital data and enhance training, career development and recruitment processes.

Our points-based loyalty program continues to be highly popular with our customers, growing 15% this quarter to 3.8 million members. We are now working on delivering a superior experience to these customers, including offering tailored products and services to help drive our growth.

Turning to our key financial themes for Q4 on Slide 6. As mentioned, PLO is the most significant driver of revenue and earnings, hit an all-time high of $240.4 million, up 14%, with an associated 15% increase in PSC. Merchandise sales were up 9%, resulting in total revenue for the quarter of $261.4 million, up 12%, which was a record for Q4. Adjusted EBITDA was $31.2 million for the quarter, up 26%.

Inventory turnover remained strong with aged inventory increasing slightly year-over-year, but improved sequentially by 30 basis points. Cash on the balance sheet came down slightly on a sequential basis, primarily due to increases in PLO and inventory.

On Slide 7 we show a year-over-year EBITDA growth of 14%, while keeping EBITDA margin flat at 13% in a highly inflationary environment.

Slide 8 focuses on our progress in strengthening our core pawn operations during the quarter, investing in people and technology to drive excellent operating and financial results. In addition to launching the Workday human capital management system globally, we continue to upgrade pricing, point-of-sale system and e-commerce capabilities to drive faster transaction times and deliver better customer experience.

On Slide 9, in the area of innovation and growth, as I've said, our EZ+ Loyalty Program now has over 3.8 million members enrolled versus over 3.3 million last quarter. In the U.S., we collected $18 million in online payments, which was up $8.4 million, and we revamped the core Mexico website to improve customer experience and grow traffic materially, as we've done in the U.S. over the last 12 months.

Improving customer experience and growing the customer base remain key to our strategy. We increased global transacting customers by 5% this quarter and grew visits to pawn websites by 16% over Q3. We opened 19 de novo stores in Latin America, with 10 in Mexico, 7 in Guatemala and 2 in Honduras. And in the U.S., we acquired 2 stores this quarter.

Slides 10 and 11 outline our ESG highlights for the 2023 fiscal year. We are a neighborhood recycler and a compelling component of the local circular economy, and have resold over 5.4 million pre-owned jewelry and general merchandise items this year. Importantly, we provide an essential, simple, regulated and transparent financial resource for those who are underserved by traditional sources.

During the year, we recycled over 1.2 million pounds of paper in the U.S. and have responsibly disposed end-of-life services, hard drives, computers, electronics and accessories through sound recycling and e-waste processing practices in the U.S. and Latin America. We successfully completed full migration of our data center physical services to cloud services through a multiyear effort, reducing our environmental footprint and greenhouse gas emissions, and ensuring high-quality services and availability for our customers.

We have upgraded the lighting to LEDs in 78% of our U.S. stores, an increase of 8% from the previous year. Additionally, 60% of our Latin America stores now have LED lighting, a 21% increase from the prior year. We are committed to continuing this initiative to enhance energy and efficiency across all of our stores.

We have revamped the mission of the EZCORP Foundation in the U.S. and have launched local giving strategies aimed at improving quality of life in the communities where we live and operate through supporting financial literacy, food security and financial stability.

Diversity and inclusion are a significant focus, with several affinity groups and programs operating in the U.S. and Latin American segments. 66% of U.S. employees and 58% of U.S. management identify as an underrepresented and minority, and 52% of global employees and 49% of global management are female. We strive to continually improve the team member experience and engagement by enhancing store-based communication, scheduling and recognition programs.

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

Timothy K. Jugmans ***EZCORP, Inc. - CFO***

Thanks, Lachie. Slide 12 details our consolidated financial results for the fourth quarter. PLO ended the period at $240.4 million, up 14% on a year-over-year basis, which is the highest in EZCORP history. PSC revenue was up 15% over last year, with growth driven by both increased same-store PLO growth and new stores. Merchandise sales was up 9% to $145.3 million, our highest fourth quarter sales results. Merchandise sales gross profit was up 5% due to increased sales, offset by an expected 100 basis point margin decrease.

Inventory turnover was strong at 2.7x, with aged GM inventory at 1.3%, a 30 basis point improvement over the third quarter. We have been successfully working on improvements in the U.S. and LatAm to drive aged GM lower. It was another solid quarter with consolidated EBITDA of $31.2 million, up 26%.

Turning to our U.S. Pawn operations on Slide 13. PLO rose 17% due to improved customer service and higher pawn demand. PSC was up 17% year-over-year, driven by higher average PLO and yields. On the retail side of the business, merchandise sales were up 8%, with a merchandise sales gross profit up 3%, with an expected 200 basis point drop in sales margin.

Store expenses increased by 11%, primarily due to labor in line with store activity, higher store count and, to a lesser extent, expenses related to our loyalty program. U.S. Pawn EBITDA for the quarter was $39.7 million, up 18% on prior year to higher PSC, partially offset by increased expenses.

Slide 14 focuses on our Latin American Pawn operations. Segment PLO grew 7% for the fourth quarter, with same-store PLO up 4% as consumer demand increased. PSC was up 9% due to higher average PLO and PLO yield.

Merchandise sales were up 12%, 7% on a same-store basis. Merchandise sales gross profit up 11% due to increased sales, offset by a margin decrease of 100 basis points. Store expenses were up 18% and 14% on a same-store basis, mainly due to increases in minimum wage and headcount, higher store count and, to a lesser extent, expenses related to our loyalty program. Inventory turnover remained strong at 3.6x, with aged GM at 2%, showing a 40 basis point improvement over Q3 due to improving execution in LatAm.

For the fourth quarter, Latin American Pawn EBITDA decreased by 11% to $7.6 million, primarily due to losses from de novo stores opening during the year. As we conclude our current 3-year strategy period, we would like to provide an overview of our team's performance and progress we've made towards our long-term objectives. Lachie?

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

Thanks, Tim. Slide 16 shows our 3-year plan strategy pillars. We transitioned in fiscal year 2020 to a senior management team who are mostly promoted from within, and with many years of experience in the pawn business, and we performed a comprehensive strategic review of all areas of the company. We launched a new 3-year plan focused on significantly improving our culture and the bench strength of our store teams, enhancing our core pawn operating model with more robust lending and higher inventory turns, reduced costs and expanding customer base and store footprint, and an extreme focus on customer service and engagement. All of this to materially increase operational efficiency, bottom line growth and return on capital for all of our shareholders.

On Slide 17, our commitment to our internal operating mantra of people, pawn and passion has led to growing PLO and revenue to record levels, coupled with a sustainable improvement in ROEA. We introduced a cultural transformation in the U.S. in financial year '20 and Latin America in financial year 2022.

The result of this work is demonstrated both in our significantly improved financial and operating results over the last 3 years as well as our most recent annual company-wide engagement survey, in which we scored 84 points, well above all global benchmarks. Tim will walk through the significant financial improvements we've seen over the last 3 years.

Timothy K. Jugmans ***EZCORP, Inc. - CFO***

Thanks, Lachie. We have seen a substantial improvement in our financial results over the last 3 years. This improvement starts with PLO, which you can see on Slide 18. PLO reached a low point in Q3 fiscal year 2020 due to the paydown during COVID, but since then has continued to increase significantly, reaching an all-time record this quarter. The macroeconomic environment remains attractive for pawn broking as customer demand continues to grow and internal initiatives that we have executed has driven PLO and PSC into more record territory.

As you can see in the PLO competition chart, jewelry pawn demand has been growing at a faster pace than general merchandise, contributing to a higher average pawn loan size across all geographies, and we believe that there should be more growth going forward in this critical category.

On Slide 19, you can see how improvements to the pawn operating model and team member incentive programs have driven stronger inventory turnover with low aged inventory. Similar to the PLO competition, we have seen an uptick in jewelry during FY '23, and that tends to turn at a slower rate than general merchandise.

Slide 20 shows a significant improvement to merchandise sales and sales gross profit, which were driven by enhanced operating model changes implemented during this period. The strategy focused on quicker inventory turns and lower aged with new intended programs designed to drive execution.

Merchandise margin in fiscal 2021 was unnaturally high due to the pandemic and has returned to our normal range of 35% to 38%. Merchandise sales profit growth has been outpacing the margin decrease.

Slide 21 looks at the many metrics showing sustained growth in customer engagement. All of these have been critical in our sustained improvements in our operating and financial results. The EZ+ rewards program has been a resounding success. We believe that there are winning market share in the local neighbors in which we operate as a direct result of this program. EZ+ payments has grown quickly, giving our store teams more time to directly serve customers. Our website has been redesigned and optimized for search and we are now real drivers of our traffic to our stores. Google reviews have also been very successful, and we have an average rating of 4.8.

On Slide 22, we show the growth in store count from fiscal 2020. In the last 3 years, we have increased store count by [226 stores] (corrected by company after the call). We have acquired 154 stores with 128 in Latin America and 26 in the U.S. We opened 91 de novo stores with 80 of them in Latin America, while consolidating 23 stores. We also expanded our luxury offering with the acquisition and build-out of Max Pawn in the exciting Las Vegas market.

Our balance sheet is very strong and is significant strength as it provides a stable long-term funding base from which to execute upon our substantial growth opportunities ahead. In the last 3 years, we have invested $176 million in growing our earning asset base, $55.7 million in the exciting strategic assets of SMG, through Founders and CCV. We have also repurchased $19 million of our shares since August 2022. We have maintained our average borrowing cost below 3.3% and extended over 60% of debt maturities until fiscal 2029.

Looking at U.S. Pawn on Slide 23, PLO is up 80% compared to fiscal 2020. PLO per store is up 71%, which is a new record. Net revenue is up 26% and EBITDA is up 57%. ROEA in fiscal 2019 was 133% and is now 157%, driven by significant operational and model improvements. Merchandise margin has normalized at 38%.

Looking at LatAm Pawn on Slide 24. PLO has doubled since fiscal 2020, while PLO per store is up 43%. Net revenue is up 63% and EBITDA is up 80%. ROEA in fiscal 2020 was 127% and is now 175%, driven by our team's focus on customer and operational improvements.

I'll hand it back to Lachie to discuss the strategic investments on Slide 25.

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

Thanks, Tim. We view our investments in Cash Converters International and SMG through Founders as an important strategic and geographic extension of our core pawn operation. Through Founders we have enhanced our exposure to the strategically important Caribbean and Central America regions as well as the Florida market. In CCV, listed on the stock exchange in Australia, increases our exposure in 14 countries, including Australia, New Zealand and the United Kingdom. We're extremely excited about the growth prospects ahead for these 2 very well-run businesses.

All this results in our 3-year earnings performance on Slide 26. While obviously COVID impacted since we embarked on this 3-year strategy in fiscal 2020, net income has more than tripled, and EBITDA has almost doubled with the share price increasing 64%. Investing $100 in our Class A common stock at the end of fiscal year-end 2020 would be worth $164 at the end of fiscal 2023 compared to $118 invested in the Nasdaq Composite Index and $102 invested in the Nasdaq Other Finance Index.

Looking forward, on a consolidated basis, we should see PLO continue to grow on a seasonal basis, with PSC following suit. As communicated in prior quarters, we are likely to continue to see gross margin remain at the lower end of our target range of 35% to 38%, as we remain focused on strong inventory turns and limited aged general merchandise. As we adjust salaries and wages during our first quarter, we will see store expenses increased on a sequential basis as inflationary pressures continue to affect the business.

In closing, I want to thank our EZCORP team for yet another outstanding quarter and successful completion of our 3-year strategic plan. We are consistently delivering strong operating and financial results to our stakeholders. Our balance sheet is robust, we grew PLO to the highest level in our history, and added 21 exciting new stores this quarter.

We continue to invest in our team and technology, while buying back share. We are committed to improving the experience for our employees and our customers in an environmentally responsible way. Our 3-year plan and the team that executed it have produced a very significant financial and operating turnaround for our company, and we are very much looking forward to producing even better results for our shareholders over the next 3 years and beyond.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Brian McNamara with Canaccord Genuity.

Brian Christopher McNamara ***Canaccord Genuity Corp., Research Division - MD & Analyst***

Congrats on the strong results. First, a big value retailer this morning, that we all know, said -- it saw a sharp fall off in sales during the last 2 weeks of October, and are basically more cautious on the consumer than they were 90 days ago with consumers holding out for lower prices. My question as it relates to you, I'm curious what you're seeing in your stores today, particularly as it relates to new customers. Are you seeing new customers?

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

Brian, thanks for the question. Yes, we are seeing new customers. It's region dependent. And as you know, we've got 2 sides of our business. We've got lending on one side and we've got retail on the other. I think on the demand side, lending continues to be very strong. And I think that's reflective of the economy we're in, the macro environment.

And I think with sales. Sales is, for us, a critical part of the business. I think as the economy gets more challenging, I think it will also be challenging. But people are seeing value for money in secondhand goods. So I think there's a few forces at play here. Do I think it's going to be a challenge in the future if the macroeconomic environment continues to deteriorate? Yes, I do. But in balancing that, we are still seeing strong demand for secondhand goods just because it represents value for money, and it also is an environmentally responsible way to show.

Brian Christopher McNamara ***Canaccord Genuity Corp., Research Division - MD & Analyst***

Great. And then secondly, I mean, EZ+ recruitment continues to be incredibly impressive. I think by our math, you have roughly 3,100 members per store. Obviously, the key delta here is improving engagement and all that stuff. And I appreciate the color in the deck, I think 73% of your transacting customers are rewards members. How should we think about that moving forward, particularly as the customers that use multiple pawn shops, how do you keep those customers captive? And kind of any color you can provide on your progress there?

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

Yes. No, that's exactly what we're trying to do. I think the pure growth in the number of rewards customers continues to be incredibly strong. It's got to come at a time or a quarter where that starts to slow, but we're very, very happy with the amount of customers that have signed up to the rewards program. And as you say, it's all now about engagement.

So I think I mentioned to you last quarter, we've got outsourced firm that's helping us to really maximize the value of that customer base. We're coming up with tailored marketing programs to that customer base to provide them with deals and discounts to get them back into the store. But look, I personally think it's an important part of the consumer story here where we think we're winning market share, we think it's part of growing PLO and sales. And I think it will continue -- if we get this engagement piece right, I think it's going to be really important in driving revenue and earnings.

Brian Christopher McNamara ***Canaccord Genuity Corp., Research Division - MD & Analyst***

Great. And I'll just ask a third one and then I'll hop back in the queue. Maybe this one is for Tim. I'm curious how we should think about expenses for fiscal '24, just given the catch-up you experienced on some inflationary line items last year, will this year be more of a "normal year?"

Timothy K. Jugmans ***EZCORP, Inc. - CFO***

Definitely still experiencing a little bit of inflation, obviously, a little bit less than we saw this year. But salary growth remains strong, keeping our tenured employees is a number one thing that we are trying to do. You also do have some pressure that is amounting in --

especially in Mexico with likely minimum wage increases yet again, and there's definitely a push to go to a 40-hour work week instead of 48 in Mexico. So we're waiting to hear from the government down there on what's going to change. So there are a number of things outside our control there, but I do see a little bit less than we've experienced this year.

Operator

(Operator Instructions)

Our next question is going to be a follow-up from Brian McNamara.

Brian Christopher McNamara ***Canaccord Genuity Corp., Research Division - MD & Analyst***

Great. Can you guys give an update on your progress in LatAm? It seems like there's a lot of low-hanging fruit there given the leadership changes implemented over the last year and the progress, particularly on some of the acquired stores that you kind of mentioned headwinds on over the last couple of quarters?

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

Sure. Look, I think it's probably our biggest strategic opportunity, is the -- not only the organic improvement in Latin America, particularly in Mexico, but also the inorganic opportunity. You can see that we're opening new stores, they're doing quite well, and there's a pretty robust acquisition pipeline down there. So I think you're right in pointing it out, I think it is our biggest strategic opportunity.

And it starts with the people. Blair, our COO, has done a magnificent job across all of the regions, but he started in the U.S. and he started with the people, the bench strength. And that's what we're doing in Mexico now. We are revitalizing that culture, changing incentive programs to match our enhanced business model. So we're seeing -- we're a few quarters into that now and we're definitely seeing strong signs of growth down there of improvement in the business, certainly in the bench strength of the people. So look, we expect that business to be a really big part of our story over the next 1, 2, 3 years.

Brian Christopher McNamara ***Canaccord Genuity Corp., Research Division - MD & Analyst***

Great. And then last one for me. I'm just curious what your plans are for capital allocation this year. You have some investments. You have a convert maturing. Investors we talk to say your stock is very cheap. They want repurchases to be, obviously, a higher priority. I'm just curious kind of how investors should think about share repurchases this year.

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

Look, another good point. We are trying to balance the growth opportunities. So capital required to grow our earning assets as well as to build new stores as well as to acquire new stores. So that's priority one, is really scaling this business up and capitalizing upon the growth.

We also, as you know, we like to maintain a liquid balance sheet to do those things. But we are obviously buying back shares. We have $35 million-ish coming due in May. Clearly, we've got the cash to close that out, then we have another $100 million coming a year after that.

So look, I think the liquidity that we've got is a really strong story for us. And I think, given where the stock is out at the moment, you've seen that we've been pretty active in buying back shares. I think we've done USD 19 million now. Clearly, a high return on capital piece. But we will assess that each quarter to try and balance that with growth opportunities and debt maturities.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back over to Lachie for any closing remarks.

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

Thank you, operator, and thank you, everyone, for joining today. We will speak to most of you over the course of the day today. Thank you.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.

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