

EZCorp (EZPW)

Overview 920MM market cap. Annual dividend yield at 0.00%. P/B at 0.98, but don't let this figure deceive you. The Co. has grown through acquisitions, buying up pawn stores to the tune of \$426MM in goodwill, relative to a book value of \$939MM, so P/Tangible book value is 1.8x. Still, relatively cheap.

Stock has continued to fall in a downward-sloped line from \$23 in Feb. to \$17 today. The Co. owns pawn shops and generates revenues from 1) lending out loans at a higher interest for pawn loans, or non-recourse collateralized loans. In the event the borrower doesn't repay their loan, EZPW has the right to sell the collateral i.e. musical instruments, gold ring, jewelry, etc. to the market. The Co. borrows money to take lend, so there is the interest spread typical of banks inherent in the business model, along with the gain from the sale of the collateral. The Co. has \$122MM in inventory, or collateral, for \$154MM in pawn loans, or a 80% implied collateral for the debt. If I was to get a \$100 loan, I would give them a \$80 watch, thereby providing a bad loan provision floor at 20% loss. However, even the collateral can devalue, as witnessed by the gold prices plummeting over the past year, and along with it, the downside protection for the Co.

2) The Co. also provides consumer loans, which aren't collateralized, non-recourse loans. They seem like loans that are backed by the individual's paycheck. We are aware they charge about 20%, so imagine making \$1000 in paycheck, and only collecting \$800, with the \$200 going to the Co. The Co. charges 15-22% of the loan amount for a 7 to 23 day period.

3) Fees associated with the pawn and loans.

Interestingly, the business is categorized under retail stores, for specialty items. We think this business should be a financial institution, but since it's not a deposit receiving business, there would be no need for the FDIC to meddle in their business. However, for the sake of valuation, we will include in the FIG tab, since the business model is essentially a FIG business.

Footprint is primarily US (Texas, Florida, Colorado), Canada and Mexico. 1260 locations. 470 pawn stores, 442 consumer loans. Typical loan is \$300. Average yield on a pawn loan is 180%!!

Assessment Downside protection, legalized usury loans, (12-22% for less than a month, or annualized 180%+ is definitely out of the 30% usury law), large foot print, \$100MM or 10% Price/Op. cash flow, 25% D/E. Net tangible book is \$510MM. Operating cash flow is about \$100MM, so we project a 5 year price of \$1.3BB, or a 44%, or 7.6% annualized return.

We love the business model. There is no stopping this business, which is recession proof. We will run similar reports for the other 2 large pawn companies.

US Publicly traded Pawn Companies: Cash America International, EZCORP and First Cash Financial

SN Valuation FIG Portfolio

As of 2013-09-02

Buy

Name	Ticker	Market Price*	Entry Price	Date	Gain/(Loss)
Premier Financial	PFBI	12.03	12.61	08/07/2013	-4.60%
EZCORP	EZPW	16.98	16.98	09/02/2013	0.00%

Average Total Return

-2.30%

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Name	Ticker	Market Price*	Entry Price	Date	Gain/(Loss)
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*Intraday Market Price