

EZCORP INC
Form 10-K
November 15, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 2017

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File No. 0-19424

EZCORP, INC.

Delaware 74-2540145
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2500 Bee Cave Road, Bldg One, Suite 200, Rollingwood, Texas 78746
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (512) 314-3400

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Non-voting Common Stock, \$.01 par value per share	The NASDAQ Stock Market (NASDAQ Global Select Market)

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosures of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The only class of voting securities of the registrant issued and outstanding is the Class B Voting Common Stock, par value \$.01 per share, all of which is owned by a single stockholder. There is no trading market for the Class B Voting Common Stock. The aggregate market value of the Class A Non-Voting Common Stock held by non-affiliates of the registrant was \$432 million, based on the closing price on the NASDAQ Stock Market on March 31, 2017.

As of November 10, 2017, 51,427,832 shares of the registrant's Class A Non-Voting Common Stock, par value \$.01 per share, and 2,970,171 shares of the registrant's Class B Voting Common Stock, par value \$.01 per share, were outstanding.

Documents incorporated by reference: None

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EZCORP, INC.

YEAR ENDED SEPTEMBER 30, 2017

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PART I

This report contains forward-looking statements that reflect our future plans, estimates, beliefs and expected performance. Our actual results may differ materially from those currently anticipated and expressed or implied by those forward-looking statements because of a number of risks and uncertainties, including those discussed under “Part I, Item 1A — Risk Factors.” We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results, and the differences can be material. See also “Part II, Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Cautionary Statement Regarding Risks and Uncertainties That May Affect Future Results.”

Unless otherwise specified, references to the “company,” “we,” “our,” “us” and “EZCORP” refer to EZCORP, Inc. and its consolidated subsidiaries, collectively. References to a “fiscal” year refer to our fiscal year ended September 30 of the specified year. For example, “fiscal 2017” refers to the fiscal year ended September 30, 2017. All currency amounts preceded with “\$” are stated in U.S. dollars, except otherwise indicated.

ITEM 1 — BUSINESS

Overview

EZCORP, Inc. is a Delaware corporation headquartered in Austin, Texas. We are a leading provider of pawn loans in the United States and Mexico with approximately 5,200 team members.

Our vision is to be the market leader in responsibly and respectfully meeting our customers’ desire for access to cash when they want it. That vision is supported by four key imperatives:

- ▲Market Leading Customer Satisfaction;
- ▲Exceptional Staff Engagement;
- ▲Attractive Shareholder Returns; and
- ▲Most Efficient Provider of Cash.

As of September 30, 2017, we operated a total of 786 locations, consisting of:

- 513 United States pawn stores (operating primarily as EZPAWN or Value Pawn & Jewelry);
- 246 Mexico pawn stores (operating as Empeño Fácil); and
- 27 financial services stores in Canada (operating as CASHMAX).

At our pawn stores, we offer pawn loans, which are non-recourse loans collateralized by tangible personal property, and sell merchandise to customers looking for good value. We are a market leader in growth of pawn loans outstanding. The merchandise we sell consists of second-hand collateral forfeited from our pawn lending activities or purchased from customers. The pawn industry in the U.S. is highly fragmented with up to an estimated 13,000 pawn stores. By store count, we are the second largest pawn store owner and operator in the U.S. On October 6, 2017, we acquired an additional 112 pawn stores located in Guatemala, El Salvador, Honduras and Peru and operated primarily under the trade names GuatePrenda and MaxiEfectivo (“GPMX”), bringing our total pawn store count to 871 (513 in the U.S. and 358 in Latin America).

In addition to our core pawn business in the U.S. and Latin America, we operate CASHMAX financial services locations in Canada and own approximately 32% of Cash Converters International Limited (“Cash Converters International”), based in Australia, which franchises and operates a worldwide network of nearly 700 locations that provide financial services and also buy and sell second-hand goods.

During fiscal 2016, we disposed of our 94%-owned subsidiary, Prestaciones Finmart, S.A.P.I. de C.V., SOFOM, E.N.R. (“Grupo Finmart”), and recast all results of its operations as discontinued operations. During fiscal 2015, we announced and implemented a plan to exit our U.S. Financial Services business (“USFS”), ceasing all payday, installment and auto title lending in the U.S and recast all results of USFS’s operations as discontinued operations. For additional information about our discontinued operations, see Note 16 of Notes to Consolidated Financial Statements included in “Part II, Item 8 — Financial Statements and Supplementary Data.”

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The company remains focused on growing our balance of pawn loans outstanding (“PLO”) and generating higher pawn service charges (“PSC”). The following charts present sources of net revenues, including merchandise sales gross profit (“Merchandise sales GP”), PSC and jewelry scrapping gross profit (“Jewelry scrapping GP”):

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Segment and Geographic Information

Our business consists of three reportable segments: “U.S. Pawn,” which includes our EZPAWN, Value Pawn & Jewelry and other branded pawn operations in the United States; “Mexico Pawn,” which includes our Empeño Fácil pawn operations in Mexico; and “Other International,” which primarily includes our CASHMAX financial services operations in Canada and our equity interest in the net income of Cash Converters International. The following tables present store data by segments included in our continuing operations:

	U.S. Pawn	Mexico Pawn	Other International	Consolidated	Franchises
As of September 30, 2014	504	261	39	804	5
New locations opened	5	3	—	8	—
Locations acquired	25	—	—	25	—
Locations sold, combined or closed	(12)	(27)	(12)	(51)	(4)
As of September 30, 2015	522	237	27	786	1
New locations opened	—	3	—	3	—
Locations acquired	6	—	—	6	—
Locations sold, combined or closed	(8)	(1)	—	(9)	(1)
As of September 30, 2016	520	239	27	786	—
New locations opened	—	10	—	10	—
Locations acquired	2	—	—	2	—
Locations sold, combined or closed	(9)	(3)	—	(12)	—
As of September 30, 2017	513	246	27	786	—

For additional information about our segments and geographic areas, see Note 15 of Notes to Consolidated Financial Statements included in “Part II, Item 8 — Financial Statements and Supplementary Data.”

Pawn Activities

At our pawn stores, we offer pawn loans, which are typically small, non-recourse loans collateralized by tangible personal property. As of September 30, 2017, we had a closing pawn loan principal balance of \$169.2 million, from which we earn pawn service charges. In fiscal 2017, pawn service charges accounted for approximately 37% of our total revenues and 63% of our net revenues.

While allowable pawn service charges vary by state and loan size, our U.S. pawn loans primarily earn 13% to 25% per month as permitted by applicable law, excluding forfeitures. The total U.S. pawn loan term generally ranges between 30 and 90 days. Individual loans vary depending on the valuation of each item pawned, but our U.S. pawn loans made typically average approximately \$100 to \$120.

In Mexico, pawn loans earn 15% to 21% per month as permitted by applicable law, excluding forfeitures. The Mexico pawn loan primary term is 30 days. Individual loans are made in Mexican pesos and vary depending on the valuation of each item pawned, but our Mexico pawn loans typically average approximately 1,000 to 1,200 Mexican pesos, or approximately \$50 to \$60 using the average exchange rate for fiscal 2017.

Collateral for our pawn loans consists of tangible personal property, generally jewelry, consumer electronics, power tools, sporting goods and musical instruments, taking into account the estimated resale value of the collateral and the perceived probability of the loan’s redemption. We generally lend from 40% to 70% of the collateral’s estimated resale value depending on an evaluation of these factors, and may additionally offer to purchase the product outright. We consider general merchandise more susceptible to obsolescence while jewelry generally retains commodity value. If a customer chooses not to repay, renew or extend a loan, the collateral is forfeited and becomes inventory available for sale. We do not record loan losses or charge-offs of pawn loans because the principal amount of an unpaid loan becomes the inventory carrying cost of the forfeited collateral. If the subsequent sale of the forfeited collateral is less than the loan value, this is reflected in gross margin.

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The following table presents our pawn loan redemption rates by segment:

Fiscal Year
Ended
September 30,
2017 2016 2015

U.S. Pawn loan redemption rate* 84 % 84 % 84 %

Mexico Pawn loan redemption rate* 78 % 78 % 77 %

* Our pawn loan redemption rate represents the percentage of loans made that are repaid, renewed or extended at a point in time as opposed to the life of the loan.

Our ability to offer quality second-hand goods at prices significantly lower than original retail prices attracts value-conscious customers. The gross profit on sales of inventory depends primarily on our assessment of the loan or purchase value at the time the property is either accepted as loan collateral or purchased. As our inventory and sales involve gold and jewelry, our results can be heavily influenced by the market price of gold.

Customers may purchase a product protection plan that allows them to exchange certain general merchandise (non-jewelry) sold through our retail pawn operations within six months of purchase. We also offer a jewelry VIP package, which guarantees customers a minimum future pawn loan amount on the item sold, allows them full credit if they trade in the item to purchase a more expensive piece of jewelry, and provides minor repair service on the item sold. Customers may also purchase an item on layaway by paying a minimum layaway deposit of typically 10% of the item's sale price. We hold the item for a 90 to 180-day period, during which the customer is required to pay the balance of the sales price.

Other

We also operate 27 financial services stores in Canada under the CASHMAX brand, all located in the Ontario province. These small footprint locations currently offer payday loan services. We expect to offer installment loans in these stores beginning in the second quarter of fiscal 2018.

Operations