Cash Converters International

Initiation Report

Rejuvenated and growing

Consumer Finance

Cash Converters International (ASX:CCV) is a consumer finance company operating as a service provider, owner and franchisor of second-hand goods and financial services stores in Australia and internationally. It derives its revenue from personal loans, vehicle finance, sale of goods and store services. In recent years, the business has faced both company specific and industry headwinds involving litigation and regulatory scrutiny, but it has worked through those and evolved into a highly regulated, well-run profitable business with a clear strategic direction and multi-layered growth opportunities. We expect that CCV will increase its FY23 revenue base of ~$300m through a strongly growing loan book in both personal and vehicle finance products and the acquisition of previously franchised operations, both domestically and internationally. This is forecast to result in increased EBITDA from $57m to $87m over the next three years, at a compound annual growth rate of 15%. In our view, the current financial metrics offer value and income, with potential share price upside to be delivered by both earnings' growth and a potential re-rating on a largely de-risked business no longer plagued by the regulatory and legal issues of the past. We initiate coverage of Cash Converters International with a DCF-based valuation of $0.40/share, representing capital upside of 82% with a 9% fully franked yield.

Business model

Cash Converters is a diversified business generating income through many revenue streams and geographies. The store network, particularly in Australia, New Zealand, and the UK, provides the company with a well understood and loyal customer base, to which CCV offers several loan products and services, well beyond the sale and purchase of second-hand goods. That cohort of customers is showing strong demand for CCV's suite of products. Having emerged from the Covid environment, the loan book is being regenerated and growing strongly, with a composition of loan products that are highly regulated, less risky, and longer in duration than those of the past. This growth will be complemented by the corporatisation of more stores away from the franchise model, both domestically and offshore, giving CCV increased control and significant earnings upside.

A clean business with a growth platform

CCV has been operating in a rapidly changing environment in recent years and has been plagued by legal battles and regulatory scrutiny. Those issues appear to have finally been resolved and the business is well placed to deliver on its growth ambitions with a strong platform of products and robust procedures and processes to support the execution of the strategy.

DCF valuation of $0.40/share

We have undertaken a discounted cashflow valuation and derived a value of $0.40/share. CCV also offers value on several other financial metrics, including a deep discount to intrinsic value on an ROE based methodology and a relative PER pricing discount of 43% to peers. We see this as further validation of inherent value, particularly considering forecast EPS growth with a CAGR of 18% over a three-year forecast period. If management can deliver on its growth ambitions, CCV is a compelling investment, offering both capital growth and income. Corporate appeal from EZCorp, the largest shareholder with ~44%, cannot be ruled out.

Historical earnings and RaaS estimates

Year end	Revenue (A$m)	EBITDA (adj) (A$m)	NPAT (rep) (A$m)	NPAT (adj.) (A$m)	EPS (adj.) (c)	P/E (x)
06/22a	245.9	52.7	11.2	19.0	3.3	6.6
06/23a	302.7	57.2	(97.0)	20.2	3.1	7.1
06/24f	385.0	57.9	18.1	18.1	2.8	7.9
06/25f	404.6	69.5	23.3	23.3	3.6	6.1
06/26f	432.5	86.5	32.8	32.8	5.0	4.4

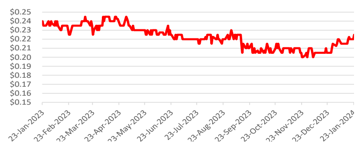
Source: Company data, RaaS estimates for FY24f, FY25f and FY26f

24 January 2024

Share Details

ASX code	CCV
Share price (23-Jan)	$0.22
Market capitalisation	$138.1M
Shares on issue	625M
Net debt (Jun 30 2023)	$65.4M

Share Performance (12-months)



Upside Case

- Acquire large franchisees in Australia to further increase corporate ownership
- Deliver loan growth in new products ahead of expectation
- Drive earnings upside from recently acquired offshore businesses

Downside Case

- Severe economic deterioration driving bad debts or prolonged increase in funding costs
- Higher for longer interest rates reduce profitability
- Regulatory or legal matters

Catalysts

- Positive outcome with AUSTRAC EU – the last of the regulatory hurdles (Feb 24)
- Delivery of a clean interim result with strong loan book growth (Feb 24)
- Increase of the debt facility for funding certainty and loan book growth (H124)

Board of Directors

Timothy Jugmans	Non-Executive Chair
Peter Cumins	Exec. Deputy Chair
Sam Budiselik	Managing Director/CEO
Lachlan Given	Non-Executive Director
Julie Elliot	Ind. Non-Exec. Director
Robert Hines	Ind. Non-Exec. Director
Harry Shiner	Ind. Non-Exec. Director
Mark Ashby	Ind. Non-Exec. Director

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Cash Converters International

After several challenging years Cash Converters is now positioned to grow its business domestically and offshore. Recent acquisitions in the UK and NZ increase the base of corporately owned stores, offering earnings upside. This will be complemented by the ongoing purchase of stores within the Australian franchised network. An increased finance facility should provide funding certainty and loan book expansion across the group, driving growth through a highly regulated product range.

Investment Case

In our view, Cash Converters Limited can achieve success for the following reasons:

- **The demand for its products is strong.** CCV is experiencing strong demand for its non-bank lending products. It has a rich database and long and proven history of growth and risk management in this part of the consumer market, which we see as a competitive advantage.
- **It will increase its debt facility to drive material loan book growth** in an operating environment that is less risky than it has been in the past. CCV now has improved risk management systems, processes and understanding of its client base, offering a suite of products that can be scaled at lower risk.
- **It can increase its store ownership network.** This has already been done in NZ and the UK over the past 12 months, but there is still a large opportunity to do more, particularly in Australia.
- **It can release further value from its recent acquisitions in NZ and the UK**.
- **After years of legal and regulatory scrutiny, management can now focus solely on operating the business** and executing on its growth strategy.
- **There is potential for corporate appeal,** particularly with a large US listed shareholder in EZCorp that has been increasing its investment to now sit at 44%.
- **The business is fundamentally cheap across our three valuation techniques of DCF, Return on Equity and Relative Peer.** All techniques illustrate upside of at least 80%.
- **Growth will be supplemented by income.** Even through its challenging period, CCV has maintained a consistent dividend payment. It currently offers a 9.1% fully franked yield.

Valuation Metrics Used In This Report

We have considered the following valuation methods but have based our valuation purely on the DCF. These methods are discussed in further detail in the "Valuation" (page 23) and "Common Sense Checks" (page 24) sections of this report.

- Discounted Cash Flow (DCF): $0.40/share
- Relative Price Earnings Ratio (PER): FY25 $0.50/share
- Return on Equity (ROE): FY25 $0.56/share

Exhibit 1: Base Case DCF valuation

DCF parameters and valuation	Outcome
Discount rate / WACC	10.7%
Beta	1.5
Terminal growth rate assumption	2.2%
Sum of Present Value (PV)	83.0
PV of terminal value	278.9
PV of enterprise	361.9
Net Debt as at FY24f	103.5
Net value - shareholder	258.4
No of shares on issue (fully diluted)	651.0
NPV per share	**$0.40**

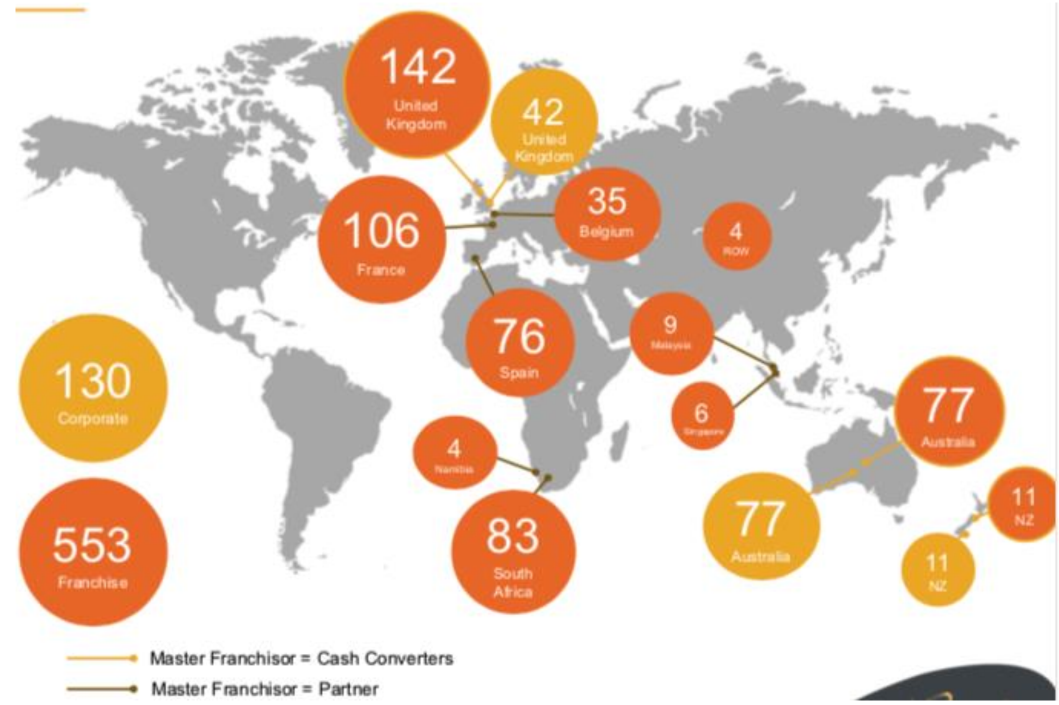
Source: RaaS estimates .

Company Overview

Cash Converters was founded in Perth in 1984 and became an ASX-listed company in 1994.

It has since grown from a single store in Western Australia to a global network of 683 stores across 14 countries. Of these, 553 are owned by franchisees and 130 are corporately owned by Cash Converters International, the listed entity. The points of presence across the globe are illustrated in Exhibit 2.

Exhibit 2: Global Network



Source: Company presentations

The Australian, UK, and New Zealand operations are the predominant focus of this report as they are very much the key revenue and earnings drivers of the business. These regions contain the CCV corporately-owned stores plus franchised stores that operate with Cash Converters as the Master Franchisor. The balance of the international business operates through partners as the Master Franchisor and does not contribute materially to the revenue or earnings profile of the group.

Historically, Australia has been the main revenue contributor, representing 95% of total revenue in FY22. That profile is changing as CCV has recently expanded corporate ownership internationally through the acquisition of the New Zealand subsidiary (which includes 11 corporately-owned and 11 franchised stores) and the largest UK franchisee (Cap Cash) with 42 stores. These were acquired in November 2022 and July 2023 respectively, so will provide the first full-year's contribution in the current financial year and are expected to contribute 28% of group revenue.

The focus of the overall group is to provide solutions to clients who, generally, can be categorised as part of the sub-prime market and non-bank lending market. Cash Converters has a relatively complex business model across many verticals and geographies. In its simplest form, its main avenues to revenue generation are outlined in Exhibit 3 on the following page:

Exhibit 3: Revenue Generation

Type	How revenue is generated	Key Drivers	Main Regions of Operation
Personal Finance	Provision of small and medium loans and lines of credit	Loan book growth	Australia NZ
		New product releases	
		Wholesale funding availability	
Store Operations	Commission on loans	Store numbers	Corporate owned – Australia NZ UK
	Buying and selling of second-hand goods	Store optimisation	Franchised - international
	Pawnbroking Loans	Acquiring franchisee-owned stores	
	Licence Fees		
Vehicle Finance	Provision of vehicle loans	Loan book growth	Australia
		Wholesale funding availability	

Source: RaaS Analysis

So far we have provided a snapshot of the geographic presence of the business and how it generates revenue in its simplest form. We believe the business as it stands is now positioned for strong growth, and we will go into more detail about relative contributions and performance in our divisional analysis. However, this platform for growth has not always been the case as CCV has faced material headwinds in recent years, particularly from a legal and regulatory perspective.

The Headwinds Of Recent Years

The Australian operations of Cash Converters are regulated by ASIC and AUSTRAC and it operates under the National Credit Act as a responsible lender. Prior to that it operated under various state-based Credit Acts.

Since the formation of the National Consumer Credit Protection Act 2009 (NCCPA) and the National Credit Code introduced in 2010 (NCC), both ASIC and AUSTRAC have undertaken a material review of lending practices and products to protect the Australian consumer. Key areas of focus have included:

- **Responsible lending practices:** To ensure that credit providers assess borrowers' financial situations thoroughly before extending credit. This involves considering factors such as income, expenses, and the borrower's ability to repay the loan.
- **Consumer protections:** To enhance consumer protections, including improving disclosure requirements and ensuring that consumers have access to clear and understandable information about credit products.
- **Interest rate caps and fees:** The regulation of interest rates and fees associated with credit products.
- **Digital and fintech innovations:** The rise of digital and fintech innovations in the credit industry has led to regulatory considerations.
- **Credit reporting and comprehensive credit reporting (CCR):** Changes in credit reporting practices, including the adoption of Comprehensive Credit Reporting, which provides a more detailed view of individuals' credit histories.
- **Anti-money laundering (AML) and counter-terrorism financing (CTF):** Developed and enforced regulations to ensure that financial institutions and other reporting entities have robust AML and CTF measures in place.
- **Regulatory compliance:** AUSTRAC regularly reviews and enforces compliance with AML and CT regulations across various industries, including financial services, gambling, remittance services, and other sectors. This involves conducting audits, investigations, and providing guidance to reporting entities.

After a decade of review and reform it appears most changes have now been legislated and implemented (perhaps except for the buy now pay later segment of the market – an area in which CCV does not operate).

Cash Converters has been impacted both by the reform process and from its business practices and product suite prior to reform, resulting in various forms of legal action from several parties. We outline the procedures and settlement amounts below. It's worth noting that some of these relate to definition and interpretation under previous state-based acts. These can now be considered legacy issues that have all been addressed:

Exhibit 4: Legal and regulatory cases

Divisional Revenue Contribution	Case Name and Type	Settlement Amount
2015	Gray vs Cash Converters International Class action – personal loans	$23.0m
2016	McKenzie vs Cash Converters International Class actions – fees and interest rates	$16.4m
2017	ASIC Enforceable Undertaking Small Loan Contracts	$12.0m
2020	Lynch vs Cash Converters Personal Finance Brokerage fees	$42.5m
Total		**$93.9m**

Source: RaaS analysis

The changing landscape, operational mistakes, and procedural shortcomings of Cash Converters in the past have resulted in several key negative outcomes:

- **Financial penalty:** As illustrated above, financial penalties paid have totalled $93.9m since 2015.
- **Non-cash impairment charges:** The most recent regulatory change to impact CCV was regarding a Bill passed in the Senate in December 2022 extending the Protected Earnings Amount (PEA) requirement to all borrowers rather than just Centrelink recipients. We discuss the impact to CCV and its strategy in a little more detail shortly, but in summary it related to the company's then-largest loan product which was categorised as a Small Amount Credit Contracts (SACC) loan. This impacted future earnings estimates for that product and corresponding carrying value of goodwill, which was impaired by $110.5m, impacting the reported P&L and the balance sheet for the half-year period to December 31, 2022.
- **Lumpy reported earnings:** The fines and settlements have impacted reported profit figures in each of the years in question.
- **Management distraction:** The business has faced legal battles and regulatory scrutiny through all periods of its recent existence. The legacy issues of the past have likely been a material distraction for the board and management team .
- **Increased costs:** The business has had to improve systems, processes, and procedures, all of which has come at a cost at the operating level (albeit unquantified by the company).
- **Loss of investor confidence:** We believe all the above has impacted investor sentiment towards the CCV stock, for obvious reasons.

Cash Converters has undergone immense change because of all the challenges discussed above. As we see it, there are two outstanding issues for CCV that are yet to be fully resolved. Both are well progressed and we believe will be finalised in the first half of calendar year 2024.

1. **Enforceable Undertaking (EU) with AUSTRAC:** In February 2023, CCV entered an EU with AUSTRAC. This followed an investigation by AUSTRAC commencing in 2020 in relation to CCV's compliance with Australia's anti-money laundering and counter-terrorism financing (AML/CTF) laws. No fine has been imposed as part of the EU. The EU specifies the actions the entity will commence or cease to comply with the AML/CTF Act. Cash Converters final report was to be submitted to AUSTRAC by 18 December 2023. We would expect the final response from AUSTRAC around the time of the company's interim results announcement in February 2023. Given the process that CCV has undertaken, we are very comfortable that a positive outcome is the most likely result. This relates

to all CCV's product suite and processes, which would, in effect, give the business a clean bill of health from both ASIC and AUSTRAC for the first time in many years. We see this as a materially positive catalyst should it transpire.

2. **Transitioning of the loan book away from SACC products:** In response to the PEA extension to include SACC products (mentioned above), CCV decided to exit one of its loan products within its Australian Personal Finance Division. At the time the Bill was passed, the SACC product was CCV's largest, but the loans are of less than 12-months in duration, so they can be run-off relatively quickly. This process will be largely complete by 30 June 2024, and the loan book will be replaced by other existing and new products, however this process will largely mask what otherwise would have been a year of good organic growth (albeit still a solid year with steady EBITDA performance and no expected material impairment charges).

As previously stated, it appears the credit law reform of the past 10 years is nearing an end. It is unlikely that any of the products that CCV now offers will come under further scrutiny and its processes and procedures have also been heavily examined very recently and likely to be approved and deemed compliant.

Somewhat ironically, the forced changes for CCV will likely put it in a position of competitive advantage, as other business (such as those offering BNPL products) continue to face regulatory challenges and ongoing repositioning to remain compliant. CCV has now completed this phase.

So, in summary, we think that this business has finally positioned itself with a platform for growth. It has emerged from the challenges that Covid presented, operates in highly regulated parts of the industry and will likely be proven to be compliant with a clean bill of health.

Divisional And Product Overview

Cash Converters has five main operating divisions. This is how the company now reports its segmental performance so we will discuss it in the same way. Before explaining how each division generates revenue and illustrating our forecasts, we give a summary below:

- **Personal Finance:** One of the growth engines of the business driven by loan book growth.
- **Vehicle Finance:** A solid performer but we don't view as the best focus for return on capital available to management.
- **Store Operations:** An important piece of the overall puzzle. Strong contributor with further upside through store acquisitions. We only include what we believe to be a relatively conservative acquisition strategy in our forecasts.
- **New Zealand:** Became a wholly-owned subsidiary in November 2022. Increased corporate store ownership profile and offers turnaround upside under the ownership of CCV.
- **UK:** CCV bought out the UK's largest franchisee so now owns 42 corporate stores in the region. The business is a traditional pawn broking operation rather than a broad personal finance offering, but it strengthens the growth outlook of the group and provides diversity of earnings. Its performance going forward will be an interesting test case for further potential acquisitions.

Exhibit 5 illustrates the divisional revenue contributions.

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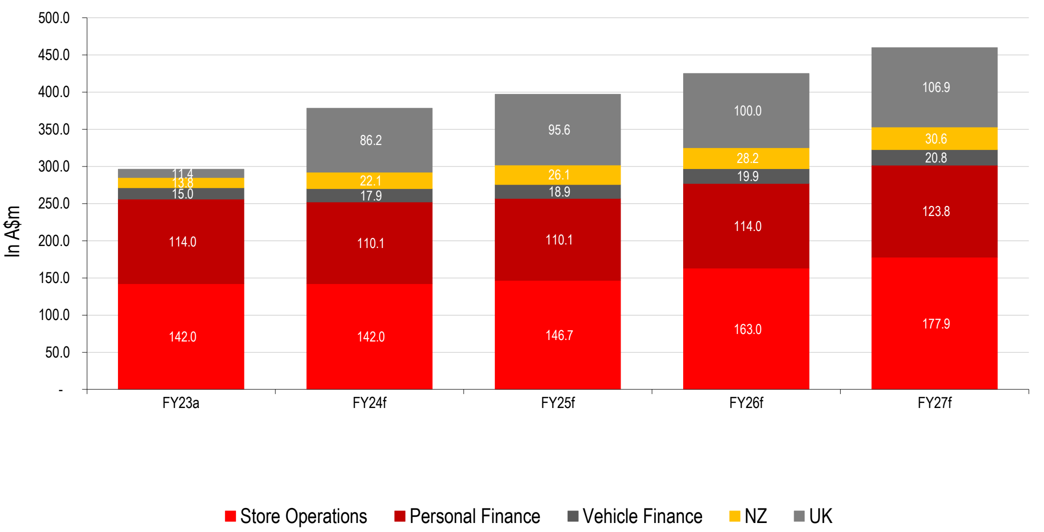
Exhibit 5: Revenue by division (FY23a to FY27f)

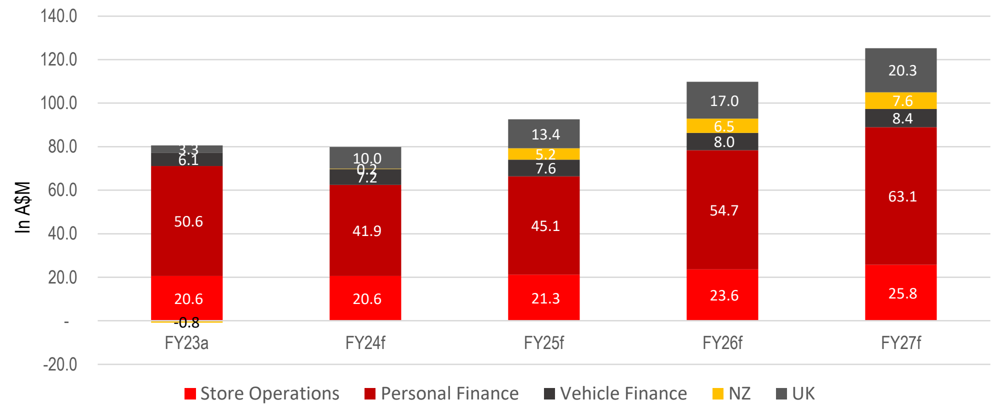


Source: Company data for actuals, RaaS forecasts

In the four years from FY23 we forecast CCV to deliver a top-line Compound Annual Growth Rate (CAGR) of 12%, growing the revenue base from $302.7m to a forecast $467.8m (note that head office revenue is not included in the divisional revenue chart for illustrative purposes but is included in the forecasts). The two largest contributors to this growth are the Store Operations division and the recently acquired UK CapCash business with its 42 corporately owned stores. We also see incremental growth from the Vehicle Finance, Personal Finance, and New Zealand businesses.

Exhibit 6 illustrates the EBITDA contributions, both historically and forecast.

Exhibit 6: Divisional EBITDA contribution (before head office costs)

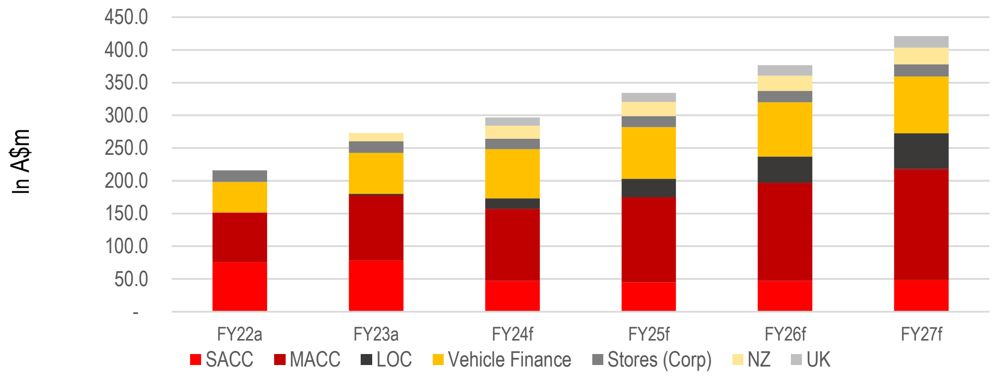


Source: Company data and RaaS Analysis

The relative EBITDA contributions from each division will be discussed in more detail shortly, but at group level we forecast Operating EBITDA (after Head Office costs – not shown in Exhibit 6) growing from $57.2m in FY23 to $103.4m in FY27, representing a CAGR of 16%.

One of the main drivers is the forecast growth in the loan book, the composition of which is illustrated in Exhibit 7.

Exhibit 7: Group Loan Book



Source: Company data and RaaS Analysis

We now look at the specific business model and forecast performance of each division.

Personal Finance

This division accounts for 28% of FY24f revenue and 52% of FY24f EBITDA (excluding head office).

Exhibit 8: Personal finance forecasts

Year ending June 30	FY22a	FY23a	FY24f	FY25f	FY26f	FY27f	CAGR %
Revenue	94.3	114.0	110.1	110.1	114.0	123.8	5.6
EBITDA	44.1	45.1	46.1	47.1	48.1	49.1	7.4
EBITDA margin (%)	47	44	38	41	48	51	

Source: Company data for actual, RaaS estimates

The Personal Finance division is very much the largest part of the CCV business from a lending perspective and remains one of the keys to its performance and drivers of its growth over the forecast period. As at 31 September 2023, the group had a total gross loan book of $279m, with the personal finance division representing 61% at $171m.

Revenue is largely generated through interest income but depending on product type can also include establishment fees and other small fee types.

We believe the key focus from an investor's perspective should be loan book growth, loan book composition and loan book quality:

Loan book growth

We forecast the Personal Finance loan book to grow at a CAGR of 11.0% from FY23 to FY27. The book had to be rebuilt post the Covid slowdown, and its composition is changing due to regulatory change (discussed shortly). Having access to wholesale funding to grow the book is a key to earnings growth and execution of strategy for CCV.

Wholesale funding is currently provided by Fortress Investment Group, a large US operating investment group with ~$50bn of assets under management. The current facility of $150m is drawn to ~$140m, so we understand that CCV is looking to increase the facility, ideally by mid-2024. Our forecasts assume the limit is increased by $100m to $250m, being incrementally drawn to limit between July 2024 and July 2028 (~$25-$30m new borrowings p.a). This may not necessarily be provided by Fortress, but we believe funding will be available due to the improved position and quality the Cash Converters business has worked towards from a regulatory and compliance perspective. The lenders have significant control over the assets of the whole CCV business by way of security.

We understand the current borrowing rate to be BBSW plus margin, which equates to ~12% p.a at current levels. Although expensive funding, the business model remains economically viable because interest rates charged to customers are higher than traditional bank lending due to the credit quality of the customer cohort.

Loan book composition

The division currently offers 3 main types of lending products:

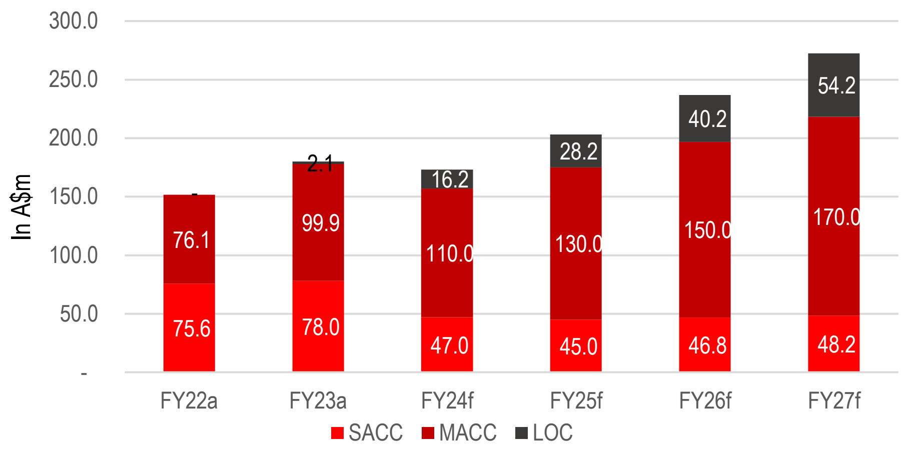
- **Small Loans (SACC):** SACC and PayAdvance products, which are heavily regulated, high cost and high loss rate products up to $2,000 with a maximum loan life of 12 months. All SACC products have been impacted by the PEA extension as of 1 July 2023. Management of Cash Converters have guided that its strategic decision to move away from SACC products will result in a ~50% reduction in the SACC loan book over the course of FY24 from its base of $78m. A new PayAdvance product released this year will partially offset the drop-off in Cash Advance (Cash Advance has been in operation since 1999). After the transition through FY24, we forecast the SACC book to stabilise off a lower base in FY25 before resuming very moderate growth in line with inflation over the balance of the forecast period.
- **Medium Loans (MACC):** The MACC product has been in operation since 2017. These are up to $5,000 in size with the average principal advanced of $3,355 over an average 20-month duration. This part of the book is growing well as some of the higher quality credit customers are being transitioned from SACC loans into MACC loans. From a CCV perspective, the margins are lower but with better credit quality and therefore lower loss rates. They are also longer in life cycle. Again, this is a heavily regulated product and CCV is compliant with the requirements. We forecast strong growth in MACC over the forecast period (illustrated in Exhibit 9).
- **Line of Credit (LOC):** A new product that is showing great early signs of success. These loans range in size from $400 to $10,000 with full principal and interest repayments over an 18-month to 36-month period, depending on size. CCV originally began with a trial in April 2023 for 100 existing clients, then opened to the market in June 2023. It has received strong early uptake and the performance metrics are appealing with loss rates much lower than SACC and MACC products. It's worth noting that CCV only approves ~20% of applications. We forecast this to become an important product for CCV and a good growth driver over the next 5 years. At this stage it's roll-out has been closely managed as it is funded out of cash reserves rather than borrowings. This may change over time as the metrics prove up the product. This is a high return-on-capital product so will likely be a focus of CCV and we assume both cash, and then in time debt, are directed towards this product and forecast it to grow to a loan book of $54m by FY27.

Loan book quality

Generally, the products offered and the customers serviced have different profiles to the traditional bank lending part of the market. These are all unsecured products so bad debts, both realised and provisioned for, can impact performance materially. We assume the upfront provision and the net bad debts remain around historical levels. That said, the overall quality of the loan book should strengthen as the composition evolves towards a higher proportion of MACC, and even more so, LOC products.

Exhibit 9 illustrates the composition of the Personal Finance Loan Book, both historical and forecast.

Exhibit 9: Personal Finance Loan Book Growth and Composition



Source: Raas Analysis

It is evident that FY24 is a transition year as the previously discussed SACC product loan book reduces by ~50%, largely replaced by MACC and LOC lending. Once the SACC book stabilises by the end of FY24, the Personal Finance loan book is forecast to grow again strongly. The loan book growth is one of the key earnings drivers over the forecast period.

We forecast Personal Finance revenue to grow at a CAGR of 5.6% from FY22 to FY27, but to be accelerating towards the back-end of the forecast period as the earnings and leverage of the increased wholesale funding take hold. EBITDA is forecast to grow at a CAGR of 7.4% over the same period.

Vehicle Finance

This division contributes an estimated 5% of FY24f revenue and 9% of FY24 EBITDA (excluding head office).

Exhibit 10: Vehicle finance forecasts

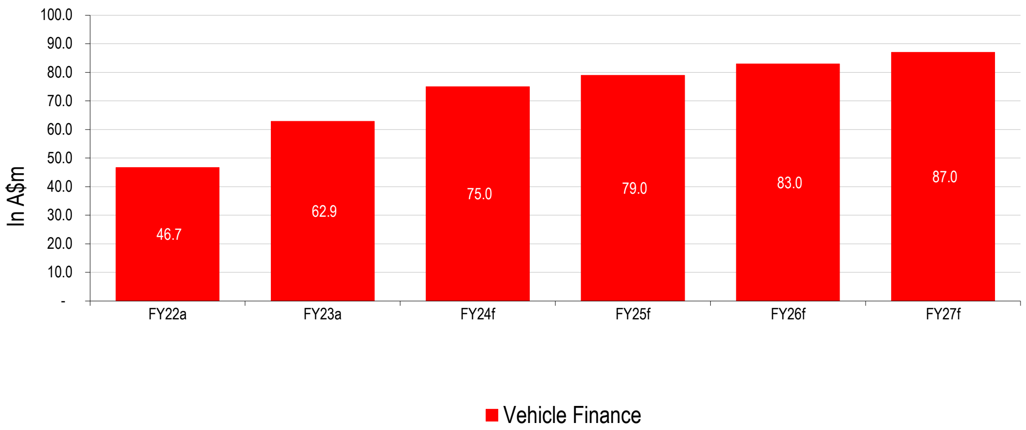
Year ending June 30	FY22a	FY23a	FY24f	FY25f	FY26f	FY27f	CAGR %
Revenue	12.1	15.0	17.9	18.9	19.9	20.8	11.4
EBITDA	8.0	6.1	7.2	7.6	8.0	8.4	1.1
EBITDA Margin	66%	40%	40%	40%	40%	40%	

Source: Company data for actual, RaaS estimates

CCV operates a vehicle finance business, predominantly through its Green Light Auto brand. The business was established in 2016 and has a current loan book of $70m which has grown solidly from $45m 18 months ago.

The average loan size sits around $18,500 (net of upfront fees) with a 4.5 year term. We forecast the business to keep growing, but don't see it as one of the key earnings leverage propositions for the business as capital will most likely be directed towards higher-return products, such as MACC, LOC, and even the purchase of Australian franchise operations.

Exhibit 11: Vehicle finance forecasts (FY23a to FY27f)



Source: Company data for actuals, RaaS estimates

Store Operations

This division is forecast to contribute 36% of FY24f revenue and 26% of FY24f EBITDA (excluding head office)

Exhibit 12: Store operations forecasts

Year ending June 30	FY22a	FY23a	FY24f	FY25f	FY26f	FY27f	CAGR %
Revenue	123.6	142.0	142.0	146.7	163.0	177.9	7.5
EBITDA	16.5	20.6	20.6	21.3	23.6	25.8	9.3
EBITDA Margin	13%	14%	14%	14%	14%	14%	

Source: Company data for actual, RaaS estimates

The Store Operations division represents the 154 stores operating in Australia, half of which are corporately owned. Revenue is generated through commissions on loans, pawnbroking loans, the buying and selling of goods and finally, licence fees. We believe that in some ways the store network still has a stigma attached to it, but it remains a very important piece of the CCV business model.

A very profitable division, yet the importance of the store network, its long history, the knowledge of its client base, and the part it plays in the referral of clients to the personal finance business, cannot be understated. Around 50% of loans generated through personal finance products have, in some shape or form, stemmed from store network presence. This history of relationship and the associated data can offer important insights into client activity, appropriate outcomes, and the management of risk. It also drives the Cash Converters brand which benefits stores, personal finance, and the online business.

The store focus will always be at the heart of the CCV model as it is a strong brand for its loyal customers, who need non-bank lending products that they understand and trust. It also provides CCV with valuable data on a large client base. Its client base has been stated as 311k transacting customers and 120k borrowers, all of which are now part of a highly regulated and scrutinised model. This reduces the credit risk and optimises the approach to provision of appropriate products to appropriate customers.

Operating performance has improved through a re-modelling of stores and the strategy with a shift to product focussed toward higher value goods and more appealing and relevant ranging for the customer base.

Management has stated its ambition to grow total store numbers in Australia to 200 and increase the number of corporately-owned stores. The purchase of these needs to be negotiated with franchisees on a case-by-case basis and we understand the pipeline of potential opportunities is strong. We estimate the purchase price to be ~ 4x EBITDA and will generate an IRR of ~20% once brought into the corporate network. That said, there are some franchisees that own multiple stores and may therefore demand a higher EBITDA multiple.

It appears to be a focus of CCV management as a high return on capital option, so will likely be competing with the Line of Credit product for capital allocation. For that reason, we are not too aggressive in our forecasts for the acquisition strategy and include what we believe to be a baseline outcome by allocating $8m of capital per annum over the next two years then increasing to $12m p.a as free cashflow generation accelerates. This would acquire ~$2m annualised EBITDA as a starting base. CCV would likely extract cost and revenue synergies beyond that but we do not include these in our forecasts.

We forecast the business to grow revenue organically at ~5% p.a over the next four years. Acquisitions complement this taking forecast group revenue growth to a CAGR of 7.5% and EBITDA to 9.3%, from an FY22 base.

New Zealand

This division represents 6% of FY24f revenue and 0.3% of FY24 EBITDA (excluding head office).

Exhibit 13: NZ forecasts

Year ending June 30	FY22a	FY23a	FY24f	FY25f	FY26f	FY27f	CAGR %
Revenue	-	13.8	22.1	26.1	28.2	30.6	22.0
EBITDA	0.9	(0.8)	0.2	5.2	6.5	7.6	55.0
EBITDA Margin	n/a	-6%	1%	20%	23%	25%	

Source: Company data for actual, RaaS estimates

There are 22 CCV stores in NZ, 11 of which are corporately owned. CCV previously owned only 25% of the corporate entity (Cash Converters New Zealand) but acquired the balance for $13.8m (net of cash) in November 2022, so FY24 will be its first full year of contribution. The loan book sits around $10m and comprises a very similar product to the MACC loans in the Australian business.

The business is currently marginally loss-making at the EBITDA line, but as previous bad debts roll-out of the acquired book and as CCV management overlays its systems, processes, and procedures under its ownership, we expect it to return to solid profitability in FY25 and grow from there. The CAGR forecast rates in Exhibit 13 are skewed by the change in ownership and timing of contribution. We believe investors should view the NZ operations as a turnaround story as it begins to operate under the CCV corporate ownership. If management can execute it will offer good return on capital as an investment.

United Kingdom

This division contributes 22% of FY24f revenue and 13% of FY24f EBITDA (excluding head office).

Exhibit 14: UK forecasts

Year ending June 30	FY22a	FY23a	FY24f	FY25f	FY26f	FY27f	CAGR %
Revenue	11.0	11.4	86.2	95.6	100.0	106.9	57.7
EBITDA	3.0	3.3	10.0	13.4	17.0	20.3	46.2
EBITDA Margin	28%	29%	12%	14%	17%	19%	

Source: Company data for actual, RaaS estimates

The UK operates under a master franchise and has 184 stores, which were previously all franchise operations. CCV recently bought out the region's largest franchisee (Cap Cash) which owned 42 stores that now sit under the CCV corporate banner. The company paid A$26.5m for the business on an historical EBITDA multiple around 5x. It appears the business was still emerging from Covid impacts, so the normalised multiple looks to have been lower.

The Cap Cash business began contributing to CCV earnings 1 July 2023, so we are yet to see reported numbers, but management appear to be satisfied with how it is tracking to date. The business offers pawnbroking, buyback and retailing of second-hand goods. From an investment perspective it should be thought of similarly to the store operations in Australia rather than the personal finance division.

Management is confident that it can release significant value from the business. Again, the CAGR metrics in Figure 14 are somewhat overstated due to change in corporate ownership, so for clarity, we have assumed the business can grow its top line at ~5.6% p.a from its FY24 base, complemented by some EBITDA margin expansion under the ownership of CCV.

Key Industry Considerations

Regulatory scrutiny

The consumer finance industry, particularly in the non-bank lending space, has faced real scrutiny over the past decade.

CCV has been under the microscope from both ASIC and AUSTRAC and has done a lot of work to be completely transparent and compliant (subject to AUSTRAC outcome in early 2024). It has spent time and invested money in people, systems, and procedures. That said, it is still working its way through the transition from SACC to non-SACC lending products due to the most recent legislative changes under the Financial Services Reform Act.

ASIC and AUSTRAC have undertaken significant reviews of credit law and the financial services industry over the past decade, resulting in significant reform. The focus has included, but is not limited to:

- **Responsible lending practices:** Focus on responsible lending practices to ensure that credit providers assess borrowers' financial situations thoroughly before extending credit. This involves considering factors such as income, expenses, and the borrower's ability to repay the loan.
- **Consumer protections:** Regulatory changes aimed to enhance consumer protections, including improving disclosure requirements and ensuring that consumers have access to clear and understandable information about credit products.
- **Interest rate caps and fees:** The regulation of interest rates and fees associated with credit products, to strike a balance between allowing credit providers to operate profitably and protecting consumers from excessive costs.
- **Digital and fintech innovations:** The rise of digital and fintech innovations in the credit industry has led to regulatory focus.
- **Credit reporting and Comprehensive Credit Reporting (CCR):** Changes in credit reporting practices have occurred, including the adoption of Comprehensive Credit Reporting, providing a more detailed view of individuals' credit histories. This aims to enhance credit assessments and promote responsible lending.
- **Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF):** AUSTRAC has consistently prioritised efforts to combat money laundering and the financing of terrorism. This involves developing and enforcing regulations to ensure that financial institutions and other reporting entities have robust AML and CT measures in place.
- **Regulatory compliance:** AUSTRAC regularly reviews and enforces compliance with AML and CT regulations across various industries, including financial services, gambling, remittance services, and other sectors. This involves conducting audits, investigations, and providing guidance to reporting entities.
- **Digital and cryptocurrency transactions:** With the rise of digital currencies and technologies, AUSTRAC has paid attention to the potential risks associated with digital transactions and has introduced regulations to address these risks. This includes ensuring that digital currency exchanges comply with AML and CTF obligations.
- **Suspicious transaction reporting:** Reporting entities are required to report suspicious transactions to AUSTRAC. The agency focuses on enhancing the quality and timeliness of these reports to improve its ability to detect and prevent financial crime.
- **Information sharing and collaboration:** AUSTRAC emphasises collaboration and information sharing with domestic and international partners, including law enforcement agencies and financial intelligence.

All competitors will be facing the same challenges, so only those with the scale, capital and personnel will be able to react and respond in an efficient and effective way.

Several industry participants will be facing an earnings "transition period" due to the changes to PEA as discussed earlier. These are most likely felt over an 18-month to two-year period from July 2023. This is evident with Cash Converters.

Credit law reform now looks to be towards the end of the cycle of scrutiny and change, perhaps with one or two exceptions – most notably the BNPL industry.

We believe it likely that there will now be a period of relative stability regarding sweeping regulatory and legislative reform, allowing those who have worked hard to comply to focus on good economic outcomes that benefit both customer and service provider.

Interest rates

Obviously the rate hike cycle of the past 18 months has resulted in corporate debt and wholesale finance costs at levels higher than they have been for a decade or so. This puts pressure on margins, and potentially the ability of some participants to access wholesale funding. Global economic uncertainty resulting in bond market volatility can also impact banking and wholesale funding markets. It can create timing differences on loan book profitability as it transitions between funding cost and income.

Cost-of-living and other economic factors

This is obviously impacting every industry, but regarding consumer finance and non-bank lending it has potentially several specific impacts:

- Credit risk increases with potential increases in bad debt and challenges around debt serviceability. As a counter, the demand for borrowing products increases. Those with more robust systems, processes and procedures around risk management are still at risk, but in a position of competitive advantage. Of course, all providers claim to have strong risk management but we always see some corporate damage in economic downturns.
- Banks have been moving away from consumer lending products other than mortgages for a few years, but still offer some personal loan products. When the economic environment tightens, their credit approval processes generally also tighten, particularly in a rising interest rate environment. This forces borrowers to look for alternatives to traditional bank lending.
- Changes in consumer spending habits may impact demand for sale and purchase of goods in a retail environment, having a flow-on effect to funding requirements.

Key Financials and Forecasts

We have discussed divisional performance, with all expected to contribute to revenue growth at group level. Exhibit 15 shows both store operations and personal finance consolidating their position in FY24 as the group transitions from SACC loans, before resuming solid growth through loan book expansion, new product acceleration and acquisitions of stores domestically. The UK and NZ both begin to contribute materially on their inclusion.

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Exhibit 15: Divisional revenue

Year ending June 30	FY22a	FY23a	FY24f	FY25f	FY26f	FY27f	CAGR %
Store Operations	123.6	142.0	142.0	146.7	163.0	177.9	7.5
Personal Finance	94.3	114.0	110.1	110.1	114.0	123.8	5.6
Vehicle Finance	12.1	15.0	17.9	18.9	19.9	20.8	11.4
Head office other	4.9	6.4	6.7	7.0	7.4	7.7	9.8
NZ	0.0	13.8	22.1	26.1	28.2	30.6	22.0
UK	11.0	11.4	86.2	95.6	100.0	106.9	57.7
Sales revenue	245.9	302.7	385.0	404.4	432.5	467.8	13.7

Source: Company data for actual, RaaS estimates

As illustrated in Exhibit 16, the most material contributor at the EBITDA level remains the Personal Finance division, but earnings diversity through the group accelerates through to FY27 due to the offshore acquisitions and their expected improvement in performance.

Exhibit 16: Divisional EBITDA

Year ending June 30	FY22a	FY23a	FY24f	FY25f	Fy26f	FY27f	CAGR %
Store Operations	16.5	20.6	20.6	21.3	23.6	25.8	9.3
Personal Finance	44.1	50.6	41.9	45.1	54.7	63.1	7.4
Vehicle Finance	8.0	6.1	7.2	7.6	8.0	8.4	1.1
NZ	0.9	(0.8)	0.2	5.2	6.5	7.6	55.0
UK	3.0	3.3	10.0	13.4	17.0	20.3	46.2
Head office	(19.7)	(22.5)	(22.0)	(23.1)	(23.3)	(21.9)	2.1
Group EBITDA	52.7	57.2	57.9	69.5	86.5	103.4	14.4

Source: Company data for actual, RaaS estimates

The group P&L forecasts in Exhibit 17 illustrate some of the operating leverage expected over the next four years, with NPAT and EPS growing at a compound rate of 20% p.a. EBITDA margins are expected to expand from FY25 onwards after retracting in the current year on the back of the change in product mix throughout FY24. We expect them to return to FY22 levels by FY26, but off a materially larger revenue base.

Exhibit 17: P&L forecasts at group level

Year ending June 30	FY23a	FY24f	FY25f	FY26f	FY27f	CAGR %
Revenue	302.7	385.0	404.4	432.5	467.8	11.5
EBITDA	57.2	57.9	69.5	86.5	103.4	15.9
EBITDA Margin (%)	*19*	*15*	*17*	*20*	*22*	*4.0*
EBIT	44.8	44.1	54.8	71.6	88.2	18.4
NPAT	20.2	18.1	23.3	32.8	42.2	20.2
EPS	3.1	2.8	3.6	5.0	6.5	20.2

Source: Company data for actual, RaaS estimates

The key points of interest regarding the balance sheet in Exhibit 18 are:

- **Cash**: Even though the cash balance looks strong on face value as a snapshot at a point in time, it is required to be actively used to contribute the cash component of the loan products which we assume is required as per most wholesale funded products. Further, CCV has executed 2 offshore acquisitions and plans to do more, probably domestically, which are likely to be cash funded.
    - **So, the company has several potential growth engines, but management faces the challenge of allocating and prioritising its available capital to the highest returning products. It's for that reason that we assume capital is directed to the new Line of Credit product, complemented by MACC book growth to replace the SACC product, then supplemented by a domestic acquisition strategy.** On our assumptions, the cash balance finds its low point in the next 12 to 18 months, before strengthening again as the loan book grows and the business operating leverage emerges. We believe CCV could perhaps be more aggressive in its acquisition strategy at that point.

- **Goodwill**: We see goodwill increase as the acquisitions are included in the balance sheet.

- **Debt**: As previously discussed, we see debt rising on the assumption that Cash Converters increases its wholesale finance facility from a limit of $150m to $250m, with 1 July 2024 assumed to be the starting date. From that point we estimate debt to be put to use at average annual increments of $25m-$30m p.a, resulting in the forecast growth being funded out to year end FY28.

Exhibit 18: Balance sheet forecasts

Year ending June 30	FY22a	FY23a	FY24f	FY25f	FY26f	FY27f
Cash	58.1	71.6	44.2	46.2	53.1	63.9
Accounts receivable	3.6	3.6	4.4	4.6	4.9	5.3
Inventory	23.9	26.5	27.5	28.4	32.1	34.9
Loan Receivables/Other	144.9	184.6	201.6	203.2	233.6	284.7
Total current assets	230.5	286.2	277.7	282.4	323.6	388.9
PPE	4.8	6.6	6.6	6.5	6.5	6.8
Intangibles and Goodwill	127.5	23.8	49.8	53.6	51.4	59.2
Investments	32.4	42.7	46.6	73.6	75.3	0.0
Loan receivables						84.2
Deferred tax asset	26.1	29.7	29.7	29.7	29.7	29.7
Other non-current assets	56.8	53.7	75.8	73.8	75.0	65.1
Total non-current assets	247.6	156.4	208.5	237.2	238.0	244.9
Total Assets	478.2	442.7	486.1	519.6	561.6	633.8
Accounts payable	15.4	19.0	19.9	20.6	23.3	25.3
Short term debt	52.0	109.0	112.5	131.3	150.0	168.8
Tax payable	1.8	0.3	0.3	0.3	0.3	0.3
Other current liabilities	16.7	19.1	19.1	19.1	19.1	26.9
Total current liabilities	85.9	147.4	151.8	171.2	192.7	221.3
Long term debt	16.4	27.9	37.5	43.8	50.0	56.3
Other non-current liabs	60.5	60.8	85.0	82.5	78.8	88.7
Total long term liabilities	76.9	88.8	122.5	126.3	128.8	144.9
Total Liabilities	162.8	236.2	274.3	297.5	321.5	366.2
Net Assets	**315.3**	**206.5**	**211.8**	**222.1**	**240.1**	**267.5**
Share capital	249.7	249.9	249.9	249.9	249.9	249.9
Accumulated profits/losses	57.3	(53.2)	(47.9)	(37.6)	(19.5)	7.9
Reserves	8.4	9.8	9.8	9.8	9.8	9.8
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Total shareholders' funds	**315.4**	**206.5**	**211.8**	**222.1**	**240.1**	**267.5**

Source: Company data for actual, RaaS estimates

SWOT Analysis

Exhibit 19 contains our SWOT analysis.

Exhibit 19: Strengths, Weaknesses, Opportunities, Threats

Strengths	Opportunities
Highly experienced leadership team and board	New products to drive growth through existing customer base
Proven business model with years of history	Grow the recently acquired offshore businesses
Strong and loyal customer base	Acquire franchisees domestically and release value
Systems, procedures, and processes overhauled in the last two-to-three-years	Increase wholesale funding to for business growth through to FY28
Weaknesses	**Threats**
Reliant on expensive debt funding for the business model	Economic downturn
High loss rates due to unsecured lending to sub-prime market	Higher for longer interest rates
History of regulatory and legal issues	Regulatory change
	Competition from new market participants

Source: RaaS analysis

Key Risks

Risks to our forecasts and unexpected earnings volatility can de driven by various issues. These include, but are not limited to, the factors listed below.

Economic Conditions

Economic conditions will always be a risk, but in the current environment the volatility feels heightened by a combination of factors including inflation and challenging operating environments for many industries and consumers. This can flow through to potentially impact CCV in various ways:

- **Demand for products:** Cost of living pressures could both positively and negatively impact the operations of CCV, through its store network in Australia, New Zealand and the UK, and its various personal finance products, predominantly domestically. Management has recently stated that demand remains strong, and this will often be the case in challenging economic environments, but it can change quickly.
- **Loan serviceability:** Given the profile of the CCV customer base in the non-bank lending market and considering the vast majority of the CCV loan book is unsecured, bad debts can rise in tough economic conditions, impacting profitability. CCV may be less exposed than some competitors due to its rich database of information from a long-standing customer base, which can be used as a risk-management tool, plus its changing product mix towards higher quality loans, but it remains a risk to our forecasts, nonetheless.
- **Interest rate volatility:** Economic uncertainty can result in interest rate volatility as governments and central banks battle challenges. The timing of movements in official cash rates and therefore the wholesale funding costs will not be passed on to existing customers immediately. As the CCV loan book transitions away from SACC products to longer-dated MACC and LOC products there may be a timing differential between funding costs and lending rates. Obviously this can also work in favour of CCV in a falling rate environment.
- **Loan book risk:** All these issues can create loan book risk, which, as an investor, can be very difficult to detect until it's materially progressed. We believe CCV offers greater transparency than many of its competitors but it still needs to be considered and monitored.

Strategy Execution

As discussed throughout the report, management has a multi-layered growth strategy involving new product roll-out, increasing offshore ownership and corporatising stores domestically. The execution of a growth strategy always carries risk.

- **Acquisition risk:** CCV will continue to acquire stores from Australian franchisees (and potentially offshore). This always comes with integration risk and synergies (both cost and top line) can take longer to play out than anticipated. That said, we believe we have been conservative in our acquisition assumptions and the risk is likely to the upside in our forecasts.
- **Offshore exposure:** The UK and NZ offers diversification but taking offshore businesses under 100% ownership comes with risk as well as opportunity. For example, it appears the NZ business has taken slightly longer than expected to deliver the returns originally forecast. Foreign exchange risk must also be considered, although largely only in translation in this case.
- **Access to funding:** CCV will require funding to grow its loan book and perhaps for its acquisition strategy if material opportunities present themselves.

Regulatory Environment

We have discussed this issue in detail already, and although we do not expect sweeping changes in the near future, CCV operates in highly regulated lending markets and structures its products accordingly (as evidenced by the recent PEA SACC issue). It can also have an impact on earnings, as evidenced by the recent requirements on treatment of Expected Credit Losses (ECLs) which can negatively affect short-term growth as the business transitions through.

Competition

- **Technology and new market participants driving competitive pressure:** With the emergence of FinTechs in recent years, we have seen the financial services industry go through significant change. Traditional banking offerings have moved away from many parts of the consumer and SME segments, and various non-bank tech-based platforms are offering lending products (for example

BNPL). These businesses are often low-touch, asset light and have low cost bases with minimal staff. Until recently they have also been well funded (through inexpensive capital and favourable share market conditions). This allowed them to acquire customers to win market share, creating competitive tension. We believe that has changed over the past 18 months as capital for small growth companies with a tech overlay has become difficult to access, but it will continue to be a risk to industry incumbents over time.

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Board And Management

Exhibit 20: Board of Directors

Name	Position	Background and other Board Positions
Timothy Jugmans	**Non-Executive Chairman**	Timothy Jugmans joined EZCORP in December 2016 as Vice President, Treasury and M&A, having served as a consultant performing similar duties since March 2015. He was appointed Chief Financial Officer (CFO) in May 2021 after serving as interim CFO since September 2020. Mr Jugmans has 25 years experience providing strategic and financial services advice for a variety of companies, including seven years with Lexicon Partners Pty Limited, an independent corporate advisory and consulting firm based in Sydney, Australia.
Peter Cumins	**Executive Deputy Chairman**	Peter Cumins became Executive Deputy Chairman in January 2017. He joined CCV in August 1990 as Finance and Administration Manager, then became General Manager in March 1992 and Group Managing Director in April 1995. He is a qualified accountant and has overseen growth in the number of Australian CCV franchises and the development of the international franchise system.
Sam Budiselik	**Managing Director and CEO**	Sam Budiselik was appointed Managing Director in December 2020 and has been with the Company since 2016. He was appointed Chief Executive Officer in February 2020 after serving as Chief Operating Officer (COO) and interim-CEO. Before joining Cash Converters, he was COO at stockbroking and wealth management firm Patersons Securities, in addition to holding several Director positions across franchise, consulting and commercial drone businesses.
Lachlan Given	**Non-Executive Director**	Lachlan Given joined the CCV board in August 2014 and is the Chief Executive Officer of EZCORP, as well as Director of US agricultural media company The Farm Journal Corporation. He began his career working in investment banking and equity capital with experience in Hong Kong and Sydney working for Merrill Lynch.
Julie Elliot	**Independent Non-Executive Director**	Chair of Governance, Remuneration and Nomination Committee, Member of Audit and Risk Committee and Member of Board Investment Committee. Julie Elliott was appointed as an Independent Non-Executive Director in April 2020, bringing deep experience across Financial Services, Professional Services and Government. In her Executive career she held the role of CEO of Bank of Sydney, as well as senior leadership roles at Westpac, NAB and KPMG. She is a Director of P&N Bank and Grow finance, as well as being Chair and Member on several NSW Government Audit and Risk Committees including chair of NSW Treasury.
Robert Hines	**Independent Non-Executive Director**	Chair of Audit and Risk Committee, Chair of Board Investment Committee and Member of Governance, Remuneration and Nomination Committee. Robert Hines brings over 30 years' experience in banking and finance services, agriculture and energy sectors with senior executive roles focusing on finance, retail, and operations. Mr Hines retired from his executive role as Chief Operating Officer at Queensland Sugar Limited (QSL) at the end of October 2020. Mr Hines joined QSL in 2013 as Chief Financial Officer. Prior to joining QSL, Mr Hines was a Director, CFO Advisory at KPMG and he held Chief Financial Officer roles with several leading Queensland companies including, Bank of Queensland Limited, Suncorp Group Limited and Queensland Investment Corporation (QIC). Mr Hines joined the Board of Humm Group Limited (HUM) in September 2022. Humm Group Ltd is an ASX listed, diversified financial services group.
Harry Shiner	**Independent Non-Executive Director**	Member of Governance, Remuneration and Nomination Committee, Member of Audit and Risk Committee and Member of Board Investment Committee. Henry Shiner was appointed as an Independent Non-Executive Director in June 2021, bringing a depth of experience across Retail Franchising, Information Technology, Governance and Strategic Planning. Prior to commencing a Board Career Henry most recently served as Vice President – Chief Information Officer of McDonald's Australasia since 2007, where he was responsible for IT strategy and implementation for the McDonald's business across Australia, New Zealand, and the Pacific Islands.
Mark Ashby	**Independent Non-Executive Director**	Mark Ashby is an experienced executive, Board member and Board advisor, with over 30 years of experience in senior executive roles in listed and private companies in both Australia and the United States ('USA'). He is currently a Director and Interim CEO for Sydney-based Direct Group Pty Ltd, a private equity owned catalogue sales business and television shopping network. He is also a Director of Office Choice Ltd and a member of the Advisory Board for the retail accessory business Marquee Retail Group. Prior to the establishment of his Board advisory business in 2017, Mr Ashby was the CFO for Myer Holdings Ltd from 2008 to 2015, leading the IPO on the ASX in 2009. Whilst overseas, Mr Ashby held the role of CFO of EZCORP, Inc. in the USA from 2015 to 2017.

Source: Company Annual Report

Management

Exhibit 21: Senior Management

Name	Position	Background
Lisa Stedman	Chief Operating Officer	Lisa Stedman joined Cash Converters as Chief Operating Officer in September 2020. Prior to this, Lisa spent 14 months as Chief Operating Officer at BNK Banking Corporation (ASX: BBC) and 8 years at Pioneer Credit (ASX:PNC). Lisa has over 20 years' experience in operational leadership; specialising in growing high performing, values based teams and designing and implementing customer centric operational strategies. Lisa holds an MBA from the University of Western Australia.
James Miles	Chief Information Officer	Mr Miles re-joined Cash Converters in April 2020 as Chief Technology Officer after nearly two years as Engineering Lead at Online Gaming company VGW Holdings. Prior to joining VGW James held key roles within Cash Converters' IT team for over seven years. James became Chief Information Officer (CIO) & Head of Product in March 2022.
Jonty Gibbs	Chief Financial Officer	Jonty Gibbs joined Cash Converters in March 2021 as the Group Corporate Finance Manager and moved into the role of Chief Financial Officer in April 2023. Jonty is a Chartered Accountant, holds an MBA from the University of Liverpool and has been working within the financial services sector for over 20 years.

Source: RaaS Estimates

Shareholders

Exhibit 22: Top 10 shareholders

Shareholder	# Of shares	% Shareholding
EZCORP Inc	273,939,157	43.7
Citicorp Nominees	40,293,578	6.4
JP Morgan Nominees	27,596,175	4.4
HSBC Custody Nominees	15,597,377	2.5
Timothy Hilbig	19,000,000	2.0
Sam Budiselik	7,519,115	1.2
Peter Cumins	6,937,226	1.1
Lilian Warnbrand	5,434,529	0.9
Fiske PLC	3,900,000	0.6
Warmbrand <FB&DL Warmbrand SF A/C>	3,817,117	0.6

Source: Refinitiv as at 31 December 2023

The obvious point of interest is the EZCORP Inc shareholding at 44%. EZCORP is a US$460m (market cap) Nasdaq-listed pawn store owner. It's the 2nd largest operator in the US and Latin America totalling more than 1,200 stores. It recently reported annual revenue of ~US$1bn and EBITDA of US$124m.

EZCORP has presence on the CCV Board through two of its current Executives:

- Timothy Jugmans: CCV Non-Exec Chair and EZCORP CFO
- Lachlan Given: CCV Non-Exec Director and EZCORP CEO

There doesn't appear to be any publicly-made statements about the intentions of EZCORP regarding its position in CCV. The business has been acquisitive in the US and Latin America and has a 95% shareholding in Founders One Ltd which operates 95 pawn stores in the US, Caribbean, and Central America, and is itself acquisitive. Other than that, CCV is the only investment outside the Americas.

EZCORP continues to "creep" on the CCV register in ~3% intervals as per ASX and ASIC guidelines. The company has an enterprise value of ~US$600m and currently trades on a 1 year forward PE ratio of ~14x, a significant premium to CCV at 6.8x.

Peer Comparison

Exhibit 23: Peer comparison

Company	Code	Business model	Mkt Cap ($m)	EPS Growth 2 year fwd CAGR %	PE fwd 1 yr (x)
Harmoney	HMY	Consumer loans	50	(34.9%)	19.2
Humm	HUM	Previously Flexigroup. Finance various	221	(13.4%)	18.5
Judo Cap	JDO	General financial services SME	960	41.4%	8.4
Latitude	LFS	Consumer finance & insurance	1211	116.0%	8.4
Pepper Money	PPM	General non-bank lender	500	5.7%	5.2
Resimac	RMC	Non-bank lender and wholesale financier	350	17.1%	6.2
Solvar	SVR	Auto and personal finance lender	225	10.9%	7.8
Wisr	WZR	Personal finance lender	27	(29.3%)	38.0
Mean			**443**	**14.2%**	**14.0**
Cash Converters	**CCV**		**138**	**29.0%**	**7.9**
(Disc)/Prem					**(43.2%)**
CCV EPS Growth V Peers (x)				**2.0**	

Source: Refinitiv, RaaS analysis (prices at 22 January 2024)

The non-bank lending industry has faced challenges in recent years due to issues including regulatory scrutiny and legislative change, rising interest rates and Covid impacting consumer and business activity. This has resulted in expectedly lumpy performance, both historically and as forecast over the next couple of years, as companies work through their specific challenges. Exhibit 23 contains ASX listed comparable businesses, predominantly in the non-bank lending space.

The peer group with an average market capitalisation of $443m delivers a forecast EPS compound average growth rate of 14% over the next two years and is trading on a one-year forward PE ratio of 14.0x.

Comparably, we forecast Cash Converters to deliver an EPS CAGR of 29%, around 2.0x that of the peer group, whilst trading on a one-year forward PE ratio of 7.9x, a 43% discount. CCV also offers a fully franked yield of 9.1% at current prices.

Valuation

We have used a discounted cashflow methodology to derive our valuation of $0.40/share. The assumptions and metrics are shown in Exhibit 24.

Exhibit 24: Base Case DCF valuation

Parameters	Outcome
Discount rate / WACC	10.7%
Beta	1.5
Terminal growth rate assumption	2.2%
Sum of PV	83.0
PV of terminal value	278.9
PV of enterprise	361.9
Debt (Cash) as at FY24f	103.5
Net Value - shareholder	258.4
No of shares on issue (fully diluted)	651.0
NPV per share	**$0.40**

Source: RaaS estimates .

We have taken a conservative approach to our inputs, largely due to challenges of the past and the lumpiness of reported earnings. We use a Beta of 1.5 (rather than the observed beta of 0.82) and an equity risk premium of 6.5%, both to reflect the size, liquidity challenges and historical volatility of earnings. Our risk-free rate is 4.0%. The valuation represents an 82% premium to the current price. With such a material premium it is worth considering other valuation techniques as a common-sense check.

Common Sense Checks On Other Metrics

We apply both a peer valuation and a return on equity (ROE) valuation technique to cross-check against the DCF valuation.

Exhibit 25: Relative PE valuation

Year ending June 30	PER	FY23a	FY24f	FY25f	FY26f	FY27f
Current CCV PER	7.9x	$0.25	$0.24	$0.28	$0.45	$0.51
Peer Group PER	14.0x	$0.43	$0.43	$0.50	$0.79	$0.90

Source: Refinitiv, RaaS analysis (prices at 19 January 2024)

As discussed in the "Peer Comparison" section on the previous page, CCV is trading on a one-year forward PE Ratio of 7.9x, a 43.2% discount to the peer group multiple of 14.0x. Further, we forecast CCV to deliver compound annual EPS growth of 29.0% over the next two years, two times more than the peer group average. It could be argued that CCV should trade at a premium for that reason but given the challenges of recent years we believe that a PE re-rating in line with the peer group is more appropriate.

If we put CCV on a 14.0x multiple it values the business at $0.35/share in the current year and $0.41/share on FY25 forecasts.

Exhibit 26: Return on Equity valuation

Year ending June 30	FY23a	FY24f	FY25f	FY26f	FY27f
ROE	7.7%	8.6%	10.7%	14.2%	17.1%
Equity per Share	0.32	0.33	0.35	0.38	0.42
Dividend Payout Ratio	64%	64%	49%	45%	45%
ROE	7.7%	8.6%	10.7%	14.2%	17.1%
Paid-out earnings	$0.26	$0.31	$0.26	$0.30	$0.38
Reinvested earnings	$0.17	$0.25	$0.37	$0.57	$0.80
Total Valuation	$0.42	$0.56	$0.63	$0.87	$1.18

Source: RaaS analysis (prices at 19 January 2024)

Our ROE-based valuation method is used to identify the intrinsic value of a business. We split the earnings of the business into those that are paid out as dividends and those that are reinvested, and value the two earnings streams accordingly. In the case of Cash Converters, we would expect the ROE valuation to be high for a couple of reasons:

1. It values the equity based earnings of the business and does not account for debt other than serviceability in the profit and loss statement. CCV is quite a highly-geared business as a function of its business model and product offering.
2. The equity base of the business reduced materially in FY23 because of the asset impairment. This, in effect, increases the ROE. We calculate ROE as a blend of two years, hence FY23 being 7.7% and FY24 9.5% even though the earnings are similar.

That said, the forecast improvement in ROE from FY25 to FY27 is a clear sign of business improvement. Valuation increases materially into FY27 through compound earnings growth of reinvested capital as circa half the earnings are reinvested in the business each year on higher rates of return.

Both the relative PER and ROE-based methodologies illustrate value in CCV at current levels, supporting the outcome of the DCF. It's also clear that if management can execute on its growth strategy and deliver the earnings we forecast, there is significant upside over the next three-to-four-years.

Scenario Analyses

Our model incorporates both an upside and downside case to reflect higher/lower growth forecasts. In the case of Cash Converters, we have adjusted it around assumptions specific to loan book growth and acquisition strategy. The three scenarios are:

Base Case: As per the forecasts in this report

Downside Case: Loan book growth 50% below base-case forecasts. Acquisition strategy 25% below base case. Resultant EBITDA is 22% below base case at the end of the forecast period.

Upside Case: Loan book growth 25% higher and acquisitions 50% higher than base case. Resultant EBITDA is 28% higher than base case.

Exhibit 27: DCF scenario valuations

Scenario	Base	Downside	Upside
DCF valuation/share	**$0.40**	**$0.22**	**$0.53**
EBITDA CAGR forecast	20%	11%	28%

Source: RaaS analysis

Exhibit 28: Financial Summary

Cash Converters (CCV)					
Profit and Loss (A$m)					
Y/E 30 June	**FY22A**	**FY23A**	**FY24F**	**FY25F**	**FY26F**
Sales Revenue	245.9	302.7	385.0	404.4	432.5
EBITDA underlying	52.7	57.2	57.9	69.5	86.5
Depn & Amortn	(13.6)	(12.4)	(13.8)	(14.8)	(14.9)
EBIT underlying	39.1	44.8	44.1	54.8	71.6
Interest	(12.5)	(15.9)	(18.3)	(20.3)	(23.5)
Profit Before Tax	26.7	28.9	25.8	34.5	48.1
Tax (adj)	(7.6)	(8.7)	(7.7)	(10.0)	(14.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre significant items	**19.0**	**20.2**	**18.1**	**23.3**	**32.8**
Significant & non-cash items	(7.8)	(117.3)	0.0	0.0	0.0
NPAT (reported)	**11.2**	**(97.0)**	**18.1**	**23.3**	**32.8**
Cash flow (A$m)					
Y/E 30 June	**FY22A**	**FY23A**	**FY24F**	**FY25F**	**FY26F**
EBITDA	52.7	57.2	57.9	69.5	86.5
Interest	(9.2)	(10.9)	(18.3)	(20.3)	(23.5)
Tax	(6.9)	(10.9)	(7.7)	(10.0)	(14.1)
Working capital changes	(28.7)	(46.9)	(26.1)	(31.3)	(36.6)
Operating cash flow	**7.9**	**(11.5)**	**5.7**	**7.7**	**14.7**
Mtce capex	(1.4)	(3.0)	(3.0)	(3.1)	(3.2)
Free cash flow	6.5	(14.5)	2.7	4.7	11.6
Acquisitions/Disposals	(3.6)	(13.8)	(24.0)	(8.0)	(8.0)
Other	(3.9)	(14.3)	(6.3)	(6.6)	(7.0)
Cash flow pre financing	(1.0)	(42.6)	(27.6)	(10.0)	(3.4)
Equity	0.0	0.0	0.0	0.0	0.0
Debt	0.0	68.0	13.0	17.5	25.0
Dividends paid	(12.6)	(12.6)	(12.8)	(13.0)	(14.8)
Net cash flow for year	(13.6)	13.4	(27.3)	(5.5)	6.8
Balance sheet (A$m)					
Y/E 30 June	**FY22A**	**FY23A**	**FY24F**	**FY25F**	**FY26F**
Cash	58.1	71.6	44.2	46.2	53.1
Accounts receivable	3.6	3.6	4.4	4.6	4.9
Inventory	23.9	26.5	27.5	28.4	32.1
Other current assets	144.9	184.6	201.6	203.2	233.6
Total current assets	*230.5*	*286.2*	*277.7*	*282.4*	*323.6*
PPE	4.8	6.6	6.6	6.5	6.5
Intangibles and Goodwill	127.5	23.8	49.8	53.6	51.4
Loan Receivables	32.4	42.7	46.6	73.6	75.3
Deferred tax asset	26.1	29.7	29.7	29.7	29.7
Other non current assets	56.8	53.7	75.8	73.8	75.0
Total non current assets	*247.6*	*156.4*	*208.5*	*237.2*	*238.0*
Total Assets	**478.2**	**442.7**	**486.1**	**519.6**	**561.6**
Accounts payable	15.4	19.0	19.9	20.6	23.3
Short term debt	52.0	109.0	112.5	131.3	150.0
Tax payable	1.8	0.3	0.3	0.3	0.3
Other current liabilities	16.7	19.1	19.1	19.1	19.1
Total current liabilities	*85.9*	*147.4*	*151.8*	*171.2*	*192.7*
Long term debt	16.4	27.9	37.5	43.8	50.0
Other non current liabs	60.5	60.8	85.0	82.5	78.8
Total long term liabilities	*76.9*	*88.8*	*122.5*	*126.3*	*128.8*
Total Liabilities	**162.8**	**236.2**	**274.3**	**297.5**	**321.5**
Net Assets	**315.3**	**206.5**	**211.8**	**222.1**	**240.1**
Share capital	249.7	249.9	249.9	249.9	249.9
Accumulated profits/losses	57.3	(53.2)	(47.9)	(37.6)	(19.5)
Reserves	8.4	9.8	9.8	9.8	9.8
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**315.4**	**206.5**	**211.8**	**222.1**	**240.1**

Share price at 23 January 2024						A$ 0.22
Interim (A$m)	**1H23A**	**2H23A**	**1H24F**	**2H24F**	**1H25F**	**2H25F**
Revenue	142.4	160.3	192.5	192.5	202.2	202.2
EBITDA	28.9	28.3	28.4	29.4	34.8	34.8
EBIT	22.7	22.2	22.0	22.1	27.4	27.4
NPAT (normalised)	10.5	9.7	9.2	8.9	11.5	11.8
Minorities	-	-	-	-	-	-
NPAT (reported)	(105.5)	8.5	9.2	8.9	11.5	11.8
EPS (normalised)	1.68	1.36	1.42	1.36	1.77	1.81
EPS (reported)	(17.11)	1.36	1.47	1.36	1.77	1.81
Dividend (cps)	1.00	1.00	1.00	1.00	1.00	1.00
	-	-	-	-	-	-
Operating cash flow	(15.8)	4.3	2.6	3.1	4.4	3.4
Free Cash flow	(17.3)	2.8	4.0	4.6	5.9	4.9

Divisions	**FY22A**	**FY23A**	**FY24F**	**FY25F**	**FY26F**	**CAGR**
Store Operations	123.6	142.0	142.0	146.7	163.0	7%
Personal Finance	94.3	114.0	110.1	110.1	114.0	5%
Vehicle Finance	12.1	15.0	17.9	18.9	19.9	13%
Head Office Other	4.9	6.4	6.7	7.0	7.4	11%
NZ	0.0	13.8	22.1	26.1	28.2	27%
UK	11.0	11.4	86.2	95.6	100.0	74%
Sales revenue	**245.9**	**302.7**	**385.0**	**404.4**	**432.5**	**15%**
EBITDA (normalised)	**52.7**	**57.2**	**57.9**	**69.5**	**86.5**	**13%**

Margins, Leverage, Returns		FY22A	FY23A	FY24F	FY25F	FY26F
EBITDA		21.4%	18.9%	15.0%	17.2%	20.0%
EBIT		15.9%	14.8%	11.5%	13.5%	16.6%
NPAT pre significant items		7.7%	6.7%	4.7%	5.8%	7.6%
Net Debt (Cash)		10.3	65.4	105.8	128.8	146.9
Net debt/EBITDA (x)	(x)	0.2	1.1	1.8	1.9	1.7
ND/ND+Equity (%)	(%)	3.4%	46.4%	99.8%	138.0%	157.7%
EBIT interest cover (x)	(x)	3.1	2.8	2.4	2.7	3.0
ROA		8.2%	9.7%	9.5%	10.9%	13.2%
ROE		6.0%	7.7%	8.6%	10.7%	14.2%
ROIC		12.2%	31.8%	23.0%	24.0%	27.8%
Working capital		12.1	11.1	11.9	12.4	13.7
WC/Sales (%)		4.9%	3.7%	3.1%	3.1%	3.2%

Pricing		**FY22A**	**FY23A**	**FY24F**	**FY25F**	**FY26F**
No of shares (y/e)	(m)	621	625	651	651	651
Weighted Av Dil Shares	(m)	621	646	651	651	651
EPS Reported	cps	1.64	(15.52)	2.78	3.58	5.04
EPS Normalised/Diluted	cps	3.32	3.10	2.78	3.58	5.04
EPS growth (norm/dil)		n/a	(6.5%)	(10.5%)	29.0%	40.8%
DPS	cps	2.0	2.0	2.0	2.0	2.3
DPS Growth		n/a	0%	0%	0%	13%
Dividend yield		9.1%	9.1%	9.1%	9.1%	10.3%
Franking		100%	100%	100%	100%	100%
PE	x	6.6	7.1	7.9	6.1	4.4
PE market	x	16.0	16.0	16.0	16.0	16.0
Premium/(discount)		(58.6%)	(55.7%)	(50.5%)	(61.6%)	(72.7%)
EV/EBITDA	x	2.8	3.5	4.3	3.9	3.4
FCF/Share	cps	1.0	-2.3	0.4	0.7	1.8
Price/FCF share	x	21.0	- 9.5	52.2	30.8	12.4
Free Cash flow Yield		4.8%	(10.5%)	1.9%	3.3%	8.1%
Price/Book (x)	x	0.5	1.0	1.2	1.2	1.2

Source: Company data for actuals, RaaS estimates and analysis

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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