

Cash Converters International Ltd

Leveraging bricks and mortar presence online

Cash Converters International is a diverse group generating revenue from personal finance, vehicle finance, store operations and franchising. Headquartered in Perth, Western Australia, Cash Converters controls 705 stores, either through franchisees or wholly-owned, across 16 countries. The company reported NPAT pre-one-time items of \$19.6m for FY20, up 63.2% on FY19. Its statutory reported loss of \$10.5m for the period included \$30.1m in costs associated with a now settled class action litigation. EBITDA was \$62.1m, driven by margin expansion across all aspects of its finance operations, coupled with an improved retail profit margin. Cash Converters reported that online loans accounted for 54.9% of all loans written in the period and that online retail sales were 10% of total retail sales.

Business model

Cash Converters generates revenue from its wholly owned stores, from master franchise fees for the franchise network, interest, fees and charges from its personal loan book and vehicle loan book. Personal and vehicle finance contributed 48.9% of revenue in FY20 while online loans accounted for 54.9% of all loans written, up from 50.5% in FY19. Online retail sales totalled \$8.4m, up 42.6% on the previous period with total retail sales through wholly-owned stores reaching \$88.0m.

Recent company commentary

The company reported FY20 revenue of \$279.0m, down just 0.9% on the previous corresponding period (pcp) despite store revenue growth of 6.1% to \$125m and an 11.0% increase in in-store retail sales to \$70.1m driven by strong retail demand in Q4 for home entertainment and technology items. All Australian wholly-owned Cash Converters stores remained open throughout FY20, even during the peak of COVID-19. Conversely, the company's personal finance business experienced reduced demand and, coupled with tightened credit criteria, revenues declined 7.8% on the pcp to \$115m. This fluctuation was offset by a decline in net bad debt expense in both its small amount credit contract (SACC) and medium amount credit contract (MACC) loan books. The company had its \$150m Securitisation Facility renewed until December 2022, on which \$60.8m remains undrawn. It has no other corporate debt and cash (and cash equivalents) of \$106.5m. At the current market capitalisation, the stock is 90% cash backed.

Unique business, peers spread across retail/finance sectors

Cash Converters is unique in our view in its positioning as both a franchisee group and credit company. We consider listed credit companies Credit Corp, FSA Group and MoneyMe Corporation as the closest peers to Cash Converters from a credit company perspective, although Credit Corp is substantially larger in terms of market capitalisation. FSA Group matches Cash Converters in terms of market capitalisation but trades at a substantial premium (~50%) in terms of PER. MoneyMe's lending operations most closely align to Cash Converters being predominantly online, short-term, small to medium sized loans and cash advances. Its enterprise value is similar in size to Cash Converters' but it also trades at a substantial premium in terms of PER, EV/Sales and EV/EBITDA. Money3 Corp offers a good peer comparative for Cash Converters' vehicle finance division and it too trades at a significant premium (to Cash Converters in terms of PER, EV/Sales and EV/EBITDA).

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue (A\$m)	EBITDA Adj.*	EBITDA Rep.	NPAT Adj.*	NPAT Rep.	EPS Adj.*(c)	EPS Rep.	EV/Sales [^] (x)	EV/EBITDA [^] (x)	P/E [^] (x)
06/17a	271.2	47.4	47.4	20.6	47.4	4.2	4.2	0.5	2.6	7.5
06/18a	260.4	49.8	49.8	22.5	49.8	4.6	4.6	0.5	2.5	6.8
06/19a	281.6	41.0	21.5	12.0	(1.7)	1.9	(0.3)	0.3	2.3	8.4
06//20a	279.0	62.1	19.2	19.6	(10.5)	3.1	(1.7)	0.3	1.4	5.6

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items [^]calculated on year end share price

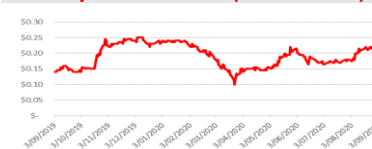
Online/instore financial services

4 September 2020

Share details

ASX Code	CCV
Share price (3-Sep)	\$0.175
Market Capitalisation	\$117.1M
Shares on issue	616.4M
Cash at 30/06/2020	\$106.5M
Free float	59.2%

Share performance (12 months)



Upside Case

- Strong brand backed by a strong balance sheet
- Committed large shareholder in EZCORP
- Highly qualified board and management

Downside Case

- Regulation further limiting Small Amount Credit Contracts coming to effect
- COVID-19 likely to impact international franchise revenues, may require fee waivers
- Competitive market place for personal/vehicle loans

Catalysts/upcoming events

- AGM (circa November 2020)
- Interim results FY21

Comparable companies (Aust/NZ)

Credit Corp Group (ASX:CCP) FSA Group (ASX:FSA), MoneyMe (ASX:MME), Money3 Corp (ASX:MNY)

Top 5 shareholders

EZCORP Inc	34.75%
Perpetual Investment Management	9.87%
Fidelity Management & Research	6.98%
Mitsubishi UFJ Financial Group	6.72%
First Sentier Investors	6.71%

Company contacts

Sam Budiselik (CEO) +61 8221 9111
Info@cashconverters.com

RaaS Advisory contacts

Finola Burke +61 414 354 712
finola.burke@raasgroup.com



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018



About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License (“AFSL”) number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS’s services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS’s representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR’s internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren’t satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMERS and DISCLOSURES

This report has been prepared and issued by RaaS Advisory Pty Ltd. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise. Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2020 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.