

## CASH CONVERTERS INT. LTD (CCV)

Hartleys is Sole Lead Manager for a capital raising which is being completed for Cash Converters Int. Ltd, for which it will earn fees.

### Trading well plus accretive growth

Cash Converters Limited recently released updated statistics for the month of October.

- The Australian personal loan book was basically flat in October (\$105.7m) versus June. The seasonally weak period is now over and we are entering the seasonally strong (Christmas/Holiday) period, so we expect strong growth. Remember, earnings lag the loan book.
- Australian cash advance was very strong in October (~\$23m), up significantly from Jul-Sep.
- The on-line businesses continue to grow very strongly.

Earnings momentum has been broadly positive in recent months, but CCV is about to enter a period of acceleration, in our view, as we enter Christmas / New Year. We see some potential that our loan growth forecasts are too low entering FY16, but we are unwilling to change our estimates until we know December's performance.

### Carboodle asset sale & leaseback and new funding

Carboodle has entered a sale-and-lease-back agreement with a Melbourne based vehicle leasing company, Fleet Partners. The transaction provides Carboodle with a lower cost of funds and provides for future funding. In the model in this report we have now assumed that Carboodle is funded off balance sheet and requires no more capital from CCV.

### Licence (think of it as a royalty) acquisition ~\$31m

The Company expects to terminate licences with development agents Kentsleigh and Cliffview for ~\$31m. The licences were agreed to ~10 years ago to develop and promote the cash advance and personal loan lending products and have no fixed expiration yet still show solid growth potential.

### Hartleys increases FY15 NPAT by 6.1%, FY16 by ~18.3%

We assume a ~\$3m EBITDA uplift in FY15 from the licence savings, and no store acquisition earnings. For FY16, we assume ~\$6.6m EBITDA uplift from the licence savings and an additional ~\$4m EBITDA from store acquisitions.

The consequence is that we have increased our FY15 normalised NPAT to \$40.8m and FY16 to \$52.1m. We expect FY15 DPS of 4.25cps and FY16 of 4.75cps.

Due to accounting standard requirements the licence termination payment cannot be capitalised. Consequently, we assume that the ~\$31m cost is treated as an operating expense incurred in FY15. We understand this will reduce reported earnings by ~\$19m. We expect FY15 reported NPAT of \$20.8m. We have lowered our cash tax paid in FY15 from ~\$17m to \$8m which improves our after tax free cash flow and FY15 net debt position.

Assuming dilution from the issue of ~47.7m shares, we have barely changed our FY15 eps, but have increased our FY16 eps by 5.1% to 10.6cps.

At \$1.04, we believe CCV is trading on FY15 p/e (fully diluted new shares and using our potential new estimates) of ~12.8x and FY16 of ~10.0x.

Share Price: \$1.040

#### Brief Business Description:

Payday lending, consumer finance & second hand retailer in UK & Aust.

#### Hartleys Brief Investment Conclusion:

High returns, Australian business growth outlook strong. Market leader.

#### Chairman & CEO:

Mr Reginald Webb (Chairman)  
Mr Peter Cumins (Managing Director)

#### Top Shareholders (ass. no dil.):

EZ Corp 31.7%  
Perpetual Ltd 12.5%  
CBA 6.0%  
Fidelity Mgt & Res. (FMR) 5.5%

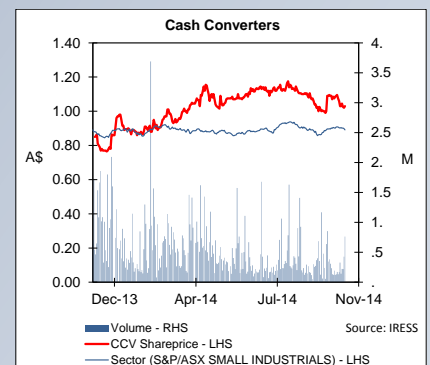
#### Company Address:

Level 18, 37 St. Georges Tce  
Perth, WA, 6000

<b>Issued Capital (post):</b>	479.2m
- fully diluted	500.9m
<b>Market Cap:</b>	\$498.3m
- fully diluted	\$521.0m
<b>Net Debt (30 Jun '14a):</b>	\$97.1m
<b>Net Debt (30 Jun '14a) adj NZ:</b>	\$77.1m

	FY14a	FY15e	FY16e
Op Cash Flw	35.1	56.5	63.3
Free Cash Flw	14.8	2.7	56.1
<b>NPAT (A\$m)</b>	<b>26.2</b>	<b>40.8</b>	<b>52.1</b>
EPS (\$, dil)	6.0	8.8	10.6
P/E (basic)	18.2x	22.7x	9.7x
P/E (diluted)	19.9x	12.8x	10.0x
EV / EBITDA	11.1x	8.0x	6.4x
DPS (\$)	4.00	4.25	4.75
Franking	100%	100%	100%
Dividend Yield	3.8%	4.1%	4.6%
N.D. / equity	39.7%	22.4%	15.6%

Source: Hartleys Research



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Hartleys is Lead Manager to a proposed capital raising for which it will earn fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to CCV, for which it has earned fees and continues to earn fees. The analyst has a beneficial interest in CCV shares. See disclosure on back page.

## Cash Converters International Ltd (CCV)

## Company Information

Today's Date	27 Nov 2014	Level 18, 37 St. Georges Tce
Share Price	\$1.040	Perth, WA, 6000
52 Week High-Low	\$1.205 - \$0.75	Ph: (08) 9221 9111
Market Cap (\$m) - post	\$498.3	Fax: (08) 9221 9011
Enterprise Value (\$m)	\$595.5	www.cashconverters.com.au

Ordinary Shares	479.2
Fully Diluted Shares	500.9

Multiples (\$/price at \$1.04)	6/13A	6/14A	6/15F	6/16F
P / E (basic, weighted)	12.9x	18.2x	22.7x	9.7x
P / E (normalised, fully diluted)	14.8x	19.9x	12.8x	10.0x
<b>P / E (normalised, weighted dil.)</b>	<b>12.4x</b>	<b>17.5x</b>	<b>11.8x</b>	<b>9.8x</b>
P / E (ord mkt cap / rep NPAT)	15.2x	20.1x	23.9x	9.6x
Dividend Yield	3.8%	3.8%	4.1%	4.6%
Group Free Cash Flow (f.c.f) / EV	-6.6%	-5.5%	0.5%	5.2%
Equity f.c.f. / Mkt Cap	-8.7%	-7.6%	-0.6%	4.6%
Norm f.c.f. / Mkt cap	-8.7%	-7.6%	-0.6%	4.6%
Mkt cap / operating cash flow	7.7x	8.8x	6.8x	5.3x
EV/EBITDA multiple	9.9x	11.1x	8.0x	6.4x
EV/EBIT multiple	11.1x	13.0x	8.9x	7.3x
Price / Book Value	1.8x	1.8x	1.7x	1.5x
Price / NTA	3.7x	4.0x	3.2x	2.7x
Ratios	6/13A	6/14A	6/15F	6/16F
Return on Average Equity	16.5%	10.8%	15.2%	16.8%
Return on Assets	11.6%	6.9%	9.5%	11.1%
ROIC pre-tax	33.8%	23.0%	28.8%	30.7%
ND / ND + Equity	17.2%	28.4%	18.3%	13.5%
Net Interest Cover (EBIT)	22.3	5.7	8.0	10.9
Reported eps growth	4.4%	-29.5%	-19.7%	135.4%
Free Cash Flow Analysis	6/13A	6/14A	6/15F	6/16F
Net Operating Cash Flow	44.9	35.1	56.5	63.3
Capex (Reported) inc loan book	-84.4	-67.8	-53.3	-32.2
Group Free Cash Flow (rep'ted)	-39.5	-32.7	3.2	31.1
Fixed Debt Repayments	-4.1	-5.1	-6.4	-8.0
<b>Equity Free Cash Flow (rep'ted)</b>	<b>-43.6</b>	<b>-37.8</b>	<b>-3.2</b>	<b>23.1</b>
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-43.6	-37.8	-3.2	23.1
Capex (inc HP) / depreciation	118%	80%	87%	68%

Share Data	6/13A	6/14A	6/15F	6/16F
Ord Issued shares (m)	423.9	428.9	481.1	486.6
growth	11.6%	1.2%	12.2%	1.2%
Weighted ave shares (m)	406.3	426.3	455.0	483.9
growth	7.0%	4.9%	6.7%	6.3%
Diluted shares wgted (m)	419.7	439.3	463.1	491.9
growth	6.8%	4.7%	5.4%	6.2%

## Unpaid Capital (inc estimated DRP)

Year Expires	Number	% ord	Avg Price	\$m unpaid
30-Jun-15	2,250,355	0.5%	\$ 1.07	\$ 2.4
30-Jun-16	5,534,114	1.2%	\$ 1.04	\$ 5.8
30-Jun-17	13,974,986	2.9%	\$ 0.44	\$ 6.1
30-Jun-18	-	0.0%	\$ -	\$ -
30-Jun-19	-	0.0%	\$ -	\$ -
30-Jun-20	-	0.0%	\$ -	\$ -
TOTAL	21,759,455	4.5%	\$ 0.66	\$ 14.3

## Directors &amp; Senior Management

Substantials (assume no dilution)		
Mr Reginald Webb (Chairman)	EZ Corp	31.7%
Mr Peter Cummins (Managing Director)	Perpetual Ltd	12.5%
Mr David Carter (Non-exec.)	CBA	6.0%
Mr Stuart Grimshaw (N.-exec, EZ Corp)	Fidelity Mgt & Res. (FMR)	5.5%
Mr Lachlan Given (Non-exec, EZ Corp)		
CFO - Mr Ralph Groom		

Analyst: Trent Barnett  
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Sources: IRESS, Company Information, Hartleys Research

## Recommendation:

## No Rating

Profit & Loss (\$m)	6/13A	6/14A	6/15F	6/16F
AUD/GBP	0.642	0.556	0.537	0.570
Pers. Finance Loan Book	125.7	138.0	137.5	162.5
Pers. Finance Revenue	113.6	137.7	156.9	197.9
Pers. Finance EBITDA	43.6	39.8	57.5	68.8
margin	38.4%	28.9%	36.7%	34.8%
Fin. Services Admin. Revenue	17.7	14.3	19.1	19.6
Fin. Services Admin. EBITDA	14.2	10.4	11.1	11.7
margin	80.2%	72.7%	58.0%	60.0%
Owned # (UK + Aust) - end	118	122	122	127
Owned Stores Revenue	136.1	171.9	178.0	181.6
Owned Stores EBITDA	11.3	15.6	19.3	19.7
margin	8.3%	9.1%	10.9%	10.9%
Franchised # (UK + Aust) - end	273	253	253	253
Franchise Revenue	24.0	18.5	17.8	17.2
Franchise EBITDA	4.3	6.6	6.4	6.2
margin	17.8%	35.9%	35.9%	35.9%
Carboodle fleet value (100%)	9.8	14.4	19.8	38.6
Carboodle fleet (car leases)	528	807	1,412	3,118
Carboodle EBIT	nm	-4.2	-1.1	4.8
<b>Group Revenue</b>	<b>272.2</b>	<b>331.7</b>	<b>361.7</b>	<b>416.0</b>
growth	16.6%	21.8%	9.1%	15.0%
<b>Underlying EBITDA - Group</b>	<b>60.0</b>	<b>53.6</b>	<b>74.7</b>	<b>92.5</b>
growth	17.2%	-10.7%	39.3%	23.9%
<b>EBITDA / Sales</b>	<b>22.0%</b>	<b>16.2%</b>	<b>20.6%</b>	<b>22.2%</b>
Depreciation/Amortisation	-6.5	-7.9	-8.1	-10.5
EBIT	53.6	45.7	66.6	82.0
EBIT / Sales	19.7%	13.8%	18.4%	19.7%
Net Corporate Interest	-2.4	-8.0	-8.3	-7.5
<b>Norm Pretax Profit</b>	<b>51.2</b>	<b>37.7</b>	<b>58.3</b>	<b>74.5</b>
Norm. Tax	-15.9	-11.5	-17.5	-22.3
Effective Tax Rate	31.0%	30.6%	30.0%	30.0%
Minorities	0.0	0.0	0.0	0.0
<b>Normalised NPAT to equity</b>	<b>35.3</b>	<b>26.2</b>	<b>40.8</b>	<b>52.1</b>
<b>Norm. Net Profit / Sales</b>	<b>13.0%</b>	<b>7.9%</b>	<b>11.3%</b>	<b>12.5%</b>
Abnormals / discontinued	-2.4	-1.4	-20.0	0.0
<b>Reported Profit to equity</b>	<b>32.9</b>	<b>24.8</b>	<b>20.8</b>	<b>52.1</b>
<b>Reported EPS (basic, w'ted)</b>	<b>8.1</b>	<b>5.7</b>	<b>4.6</b>	<b>10.8</b>
<b>Normalised EPS (dil, w'ted)</b>	<b>8.4</b>	<b>6.0</b>	<b>8.8</b>	<b>10.6</b>
<b>DPS (\$)</b>	<b>0.0400</b>	<b>0.0400</b>	<b>0.0425</b>	<b>0.0475</b>
Franking	100%	100%	100%	100%
Payout Ratio	48.1%	65.5%	50.1%	44.3%
Cashflow Statement (\$m)	6/13A	6/14A	6/15F	6/16F
EBITDA	60.0	53.6	74.7	92.5
Working Capital Change	4.7	2.8	-1.9	0.7
<b>Cash from Operations</b>	<b>64.7</b>	<b>56.4</b>	<b>72.8</b>	<b>93.2</b>
Corporate Interest	-2.5	-8.0	-8.3	-7.5
Tax Paid	-17.2	-13.3	-8.0	-22.3
<b>Net Operating Cash Flow</b>	<b>44.9</b>	<b>35.1</b>	<b>56.5</b>	<b>63.3</b>
Capital Expenditure	-7.6	-6.4	-7.0	-7.2
Other (including loan book)	-40.9	-41.4	0.5	-25.0
Investments & acquisitions	-35.9	-20.0	-46.8	0.0
<b>Net Investing Cash Flow</b>	<b>-84.4</b>	<b>-67.8</b>	<b>-53.3</b>	<b>-32.2</b>
Proceeds from Equity Issues	31.6	0.0	47.1	5.4
Net Change in Debt & Leases	28.2	48.2	-11.8	5.6
Dividends Paid	-17.4	-12.4	-18.5	-22.1
<b>Net Financing Cash Flow</b>	<b>42.4</b>	<b>35.8</b>	<b>16.8</b>	<b>-11.1</b>
<b>Movement in Cash</b>	<b>2.9</b>	<b>3.1</b>	<b>20.0</b>	<b>20.0</b>
<b>HP Lease Capex (non-cash)</b>				
Balance Sheet (\$m)	6/13A	6/14A	6/15F	6/16F
Cash	20.7	26.8	46.8	66.8
Receivables	13.0	33.5	35.4	37.7
Inventories	21.8	25.6	26.5	27.0
Other (including loan book)	123.6	134.2	133.7	158.7
<b>Total Current Assets</b>	<b>179.1</b>	<b>220.2</b>	<b>242.5</b>	<b>290.3</b>
Property, Plant & Equipment	22.5	22.6	31.8	29.4
Intangibles (inc. Goodwill)	121.2	132.7	137.4	136.5
Other	24.1	34.8	34.8	34.8
<b>Total Non Current Assets</b>	<b>167.8</b>	<b>190.1</b>	<b>204.1</b>	<b>200.8</b>
<b>Total Assets</b>	<b>347.0</b>	<b>410.3</b>	<b>446.5</b>	<b>491.1</b>
Accounts Payable	20.0	26.8	27.7	31.2
Interest Bearing Liabilities	70.5	59.9	59.9	59.9
Other	14.3	14.7	14.7	14.7
<b>Total Current Liabilities</b>	<b>104.9</b>	<b>101.4</b>	<b>102.3</b>	<b>105.8</b>
Accounts Payable	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	0.4	64.0	52.2	57.9
Other	0.1	0.1	0.1	0.1
<b>Total Non Current Liabilities</b>	<b>0.5</b>	<b>64.2</b>	<b>52.4</b>	<b>58.0</b>
<b>Total Liabilities</b>	<b>105.3</b>	<b>165.6</b>	<b>154.7</b>	<b>163.8</b>
<b>Net Assets</b>	<b>241.6</b>	<b>244.7</b>	<b>291.9</b>	<b>327.3</b>
Net Asset Value / Share (\$)	0.57	0.57	0.61	0.67
NTA / Share (\$)	0.28	0.26	0.32	0.39
Net Debt (net cash)	50.2	97.1	65.3	51.0
Net Debt (net cash) - adj for NZ	50.2	77.1	45.3	31.0

Last Earnings Estimate Changes:  
27 November 2014

Fig. 1: Hartleys earnings estimate revisions

	6/14A actual	Old	6/15F New	% diff	Old	6/16F New	% diff	Old	6/17F New	% diff
AUD/GBP	0.556	0.537	0.537	0.0%	0.570	0.570	0.0%	0.565	0.565	0.0%
Pers. Finance Loan Book	138.0	137.5	137.5	0.0%	174.4	162.5	-6.8%	167.8	197.9	17.9%
Pers. Finance Revenue	137.7	167.0	156.9	-6.1%	196.2	197.9	0.8%	210.2	227.2	8.0%
Pers. Finance EBITDA	39.8	54.4	57.5	5.8%	61.8	68.8	11.2%	66.2	72.8	9.9%
margin	28.9%	32.6%	36.7%	12.6%	31.5%	34.8%	10.3%	31.5%	32.0%	1.7%
Fin. Services Admin. Revenue	14.3	19.1	19.1	0.0%	18.7	19.6	4.5%	18.8	19.6	4.5%
Fin. Services Admin. EBITDA	10.4	11.1	11.1	0.0%	11.0	11.7	6.3%	11.1	11.7	6.3%
margin	72.7%	58.0%	58.0%	0.0%	59.0%	60.0%	1.7%	58.8%	59.8%	1.7%
Owned # (UK + Aust) - end	122	122	122	0.0%	122	127	4.1%	122	127	4.1%
- additional	4	0	0	nm	0	5	nm	0	0	nm
Company owned stores (avg)	131	122	122	0.0%	122	127	4.1%	122	127	4.1%
Owned Stores Revenue	171.9	178.0	178.0	0.0%	173.6	181.6	4.6%	174.3	182.3	4.6%
Owned Stores EBITDA	15.6	19.3	19.3	0.0%	18.9	19.7	4.6%	18.9	19.8	4.6%
margin	9.1%	10.9%	10.9%	0.0%	10.9%	10.9%	0.0%	10.9%	10.9%	0.0%
Franchised # (UK + Aust) - end	253	253	253	0.0%	253	253	0.0%	253	253	0.0%
Franchise Revenue	18.5	17.8	17.8	0.0%	17.2	17.2	0.0%	17.3	17.3	0.0%
Franchise EBITDA	6.6	6.4	6.4	0.0%	6.2	6.2	0.0%	6.2	6.2	0.0%
margin	35.9%	35.9%	35.9%	0.0%	35.9%	35.9%	0.0%	35.9%	35.9%	0.0%
Carboodle fleet value (100%)	14.4	19.8	19.8	0.0%	37.9	38.6	1.9%	33.7	34.4	2.0%
Carboodle EBIT (100%)	-4.2	-1.1	-1.1	0.0%	4.7	4.8	3.6%	5.0	5.2	4.2%
Revenue	331.7	371.3	361.7	-2.6%	405.7	416.0	2.5%	421.5	446.5	5.9%
<b>Norm. EBITDA</b>	<b>53.6</b>	<b>71.6</b>	<b>74.7</b>	<b>4.3%</b>	<b>82.4</b>	<b>92.5</b>	<b>12.2%</b>	<b>86.6</b>	<b>96.5</b>	<b>11.5%</b>
- margin	<b>16.2%</b>	<b>19.3%</b>	<b>20.6%</b>	<b>7.1%</b>	<b>20.3%</b>	<b>22.2%</b>	<b>9.4%</b>	<b>20.5%</b>	<b>21.6%</b>	<b>5.2%</b>
EBITDA reported	51.6	69.5	41.8	-39.9%						
- margin	15.3%	19.0%	11.7%	-38.3%						
Depreciation/Amortisation	-7.9	-8.1	-8.1	-1.0%	-8.2	-10.5	27.5%	-8.6	-11.2	29.4%
EBIT	45.7	63.5	66.6	5.0%	74.2	82.0	10.5%	78.0	85.3	9.5%
Net Interest	-8.0	-9.0	-8.3	-8.4%	-10.8	-7.5	-30.0%	-11.6	-7.7	-34.1%
Pretax Profit	37.7	54.4	58.3	7.2%	63.4	74.5	17.4%	66.3	77.7	17.1%
Tax	-11.5	-16.6	-17.5	5.2%	-19.4	-22.3	15.3%	-20.3	-23.3	15.0%
<b>Norm. Net Profit After Tax</b>	<b>26.2</b>	<b>38.5</b>	<b>40.8</b>	<b>6.1%</b>	<b>44.1</b>	<b>52.1</b>	<b>18.3%</b>	<b>46.1</b>	<b>54.4</b>	<b>18.0%</b>
- margin	7.9%	10.4%	11.3%		10.9%	12.5%		10.9%	12.2%	
<b>Reported Group Profit</b>	<b>24.8</b>	<b>37.8</b>	<b>20.8</b>	<b>-44.9%</b>	<b>44.1</b>	<b>52.1</b>	<b>18.3%</b>	<b>46.1</b>	<b>54.4</b>	<b>18.0%</b>
DPS	4.00	4.25	4.25	0.0%	4.87	4.75	-2.4%	4.99	5.43	8.7%
EPS (diluted)	6.0	8.8	8.8	0.1%	10.1	10.6	5.1%	10.5	10.9	3.6%
P/E (\$1.040)	17.5x	11.8x	11.8x		10.3x	9.8x		9.9x	9.5x	
Ordinary Shares (end)	428.9	428.9	481.1	12.2%	428.9	486.6	13.5%	437.0	500.6	14.6%
Ordinary Shares (avg wgt)	426.3	428.9	455.0	6.1%	428.9	483.9	12.8%	432.9	493.6	14.0%
Net Debt	97.1	84.8	65.3	-22.9%	114.5	51.0	-55.5%	79.1	41.2	-47.9%
Net Debt Adj for NZ	77.1	64.8	45.3	-30.0%	94.5	31.0	-67.2%	59.1	21.2	-64.2%

Source: Hartleys Research Estimate

**Fig. 2: Key assumptions and risks for potential new valuation**

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Store acquisitions	Low	Moderate	We assume new funds are used for accretive store acquisitions that don't contribute to earnings until FY16
Kentsleigh license acquisition	Low	Moderate	We assume Kentsleigh acquisition contributes in 2H15 and FY16. We assume tax shield in FY15 reduces tax payable.
DRP (Dividend Reinvestment Plan)	Low	Moderate	We assume an ongoing DRP with ~25% takeup until and including FY17.
We assume Personal Finance (Safrock) returns have stabilised in Australia. We assume very modest Australian loan growth	High	Upside	We believe we are conservative given CCV is under penetrated NSW and on-line lending
UK make modest contribution in near term, but eventually is profitable	Low	Low / Upside	We believe this is reasonable
Carboodle makes a full year slightly positive EBIT contribution in FY16, loss in FY15	Low	Moderate	We assume that Carboodle is slow to grow.

**Conclusion**

*The Company faces some reasonable risks but we believe we have been realistic or conservative in our base case assumptions.*

Source: Hartleys

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## USEFUL WEBLINKS

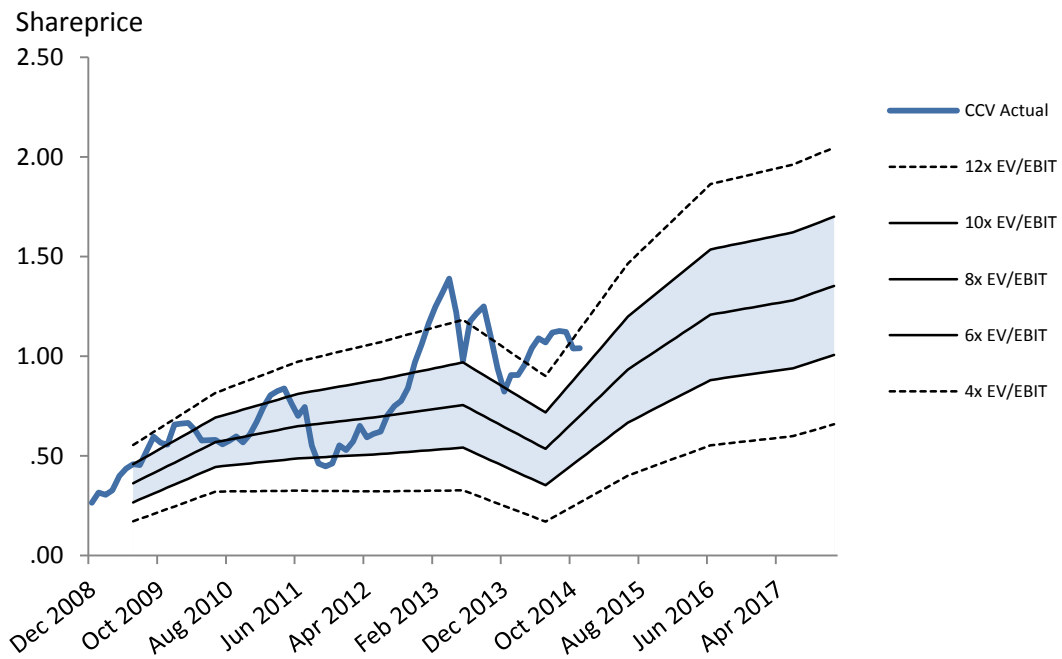
[www.nocap.com.au](http://www.nocap.com.au)

<https://www.gov.uk/cma-cases/payday-lending-market-investigation>

<http://www.comlaw.gov.au/Details/C2012A00130>

## EV/EBIT bands

Fig. 3: Using Hartleys base case forecasts



Source: Hartleys Estimates, IRESS

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## Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a “Buy”. Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a “Buy”.
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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