

9 Sep 2011

CASH CONVERTERS INTERNAT. LIMITED

Don't underestimate the customer/expert

Cash Converters Limited ("Cash Converters", "CCV", "Company") recently launched a campaign against the National Consumer Credit Protection Amendment (Enhancements) Bill 2011. Part of the campaign includes an electronic petition for the general public. Recently the nocap.com.au website crashed due to too many visitors. Currently, there are ~30,000 signatories, most with photos of the customer attached.

CCV has been operating for over twenty years. The extended network operates in over 40 regulatory jurisdictions around the world. The negative perception of the industry within the wider community (but not within the customer base) means CCV, and of course its peers, have faced scrutiny from all those regulators from time to time. Those cumulative encounters with due process from regulators, the accompanying political experiences, and the close relationship with its customers (see [this](#)) means CCV has superior industry knowledge. It means that arguing for prohibition of the industry, on an evidence basis, is likely to be a losing battle. We believe that a recent [report](#) from the UK regulator explains the industry very well. It also highlights that the regulatory risk to CCV's UK business is low.

Earnings impact could be significant, already in the price

Based on the current proposed legislation, we assume that the impact is felt in FY14 (ie two year transition period). The consequence is a ~34% reduction in EBITDA and a ~38% reduction in NPAT (see our recent report "What's certainty worth?", 5 September 2011). A recent [interview](#) though with the relevant minister suggests the legislation may be improved. It is also worth watching a [second interview](#) with the CCV MD, Peter Cumins.

Retain Buy recommendation

Our base case forecasts now assume a realistic, but perhaps pessimistic, impact from the proposed legislation. Our DCF valuation is \$0.73 and we have a twelve month price target of \$0.76. It is entirely possible that earnings in FY14 are significantly stronger, driven by stronger UK operations or better returns in Australia than we've assumed, particularly if legislation is improved.

Fig. 1: Lots of experience and research to draw upon

Country	Store Numbers	Country	Store Numbers
Australia	140	UK	197
Belgium	20	Northern Ireland	2
Holland	8	USA	7
Italy	1	New Zealand	13
France	78	South Africa	46
Switzerland	3	Republic of Ireland	2
Spain	65	Thailand	1
Portugal	3	Singapore	6
Canada	14	Malaysia	7

Total store numbers 613

Source: CCV. Store numbers as at 6 December 2010. Only the UK and Australian stores make a direct contribution to CCV. The other stores no longer have a formal relationship but still have strong informal relationships.

Share Price:	\$0.500
Valuation:	\$0.73
12mth price target:	\$0.76

Brief Business Description:

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

Hartleys Brief Investment Conclusion:

Regulatory changes priced into the stock.

Chairman & CEO:

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

Top Shareholders:

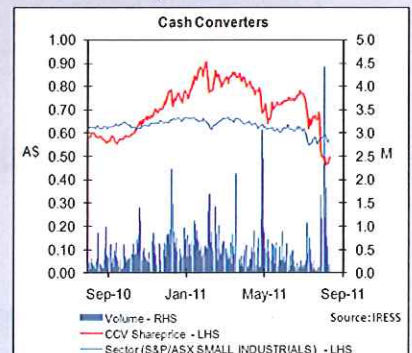
EZ Corp 32.8%
Rand Holdings Pty Ltd 5.1%

Company Address:

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

Issued Capital:	379.8m
- fully diluted	399.8m
Market Cap:	\$189.9m
- fully diluted	\$199.9m
Net Debt (30 Jun '11a):	-\$0.8m
	FY11a FY12e FY13e
Op Cash Flw	31.7 29.4 44.5
Free Cash Flw	-5.6 11.9 34.1
NPAT (A\$m)	28.6 33.5 39.7
EPS (\$, dil)	7.1 8.4 9.9
P/E (basic)	6.9x 5.7x 4.8x
P/E (diluted)	7.0x 6.0x 5.0x
EV / EBITDA	4.3x 3.5x 2.9x
DPS (\$)	0.035 0.035 0.035
Franking	100% 100% 100%
Dividend Yield	7.0% 7.0% 7.0%
N.D. / equity	-0.5% 8.9% 8.9%

Source: Hartleys Research



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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Cash Converters International, 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 for details.

SUMMARY MODEL

Cash Converters International Ltd (CCV)					Recommendation: Buy				
Company Information					Profit & Loss (\$m)				
Today's Date	9 Sep 2011	Level 18, 37 St. Georges Tce,			AUD/GBP	0.627	0.627	0.627	0.627
Share Price	\$0.500	Perth, WA, 6000			Safrock Loan Book	62.2	79.1	102.1	101.0
52 Week High-Low	\$0.91 - \$0.395	Ph: (08) 9221 9111			Safrock Revenue	56.6	64.8	80.9	66.9
Market Cap (\$m)	\$189.9	Fax: (08) 9221 9011			Safrock PBT	24.4	27.2	33.7	21.4
Enterprise Value (\$m)	\$189.0	www.cashconverters.com.au			margin	43.1%	42.0%	41.6%	31.9%
Ordinary Shares	379.8				Mon-e Revenue	13.9	18.0	19.7	20.8
Fully Diluted Shares	399.8				Mon-e PBT	12.3	16.3	17.8	8.6
Valuation					margin	88.8%	90.5%	90.5%	41.1%
Spot DCF - 10 years explicit + terminal growth value (Base Case)					Owned # (UK + Aust) - end	88	119	139	139
12mth fwd DCF - 10 years explicit + terminal growth value (Base Case)					Owned Stores Revenue	100.9	123.5	145.5	171.9
12mth forward P/E (diluted) of 7.8x (back calc. based on 10x FY14)					Owned Stores PBT	8.6	12.4	14.5	17.2
Price / Book (Jun '11a) 1x \$0.46					margin	8.5%	10.0%	10.0%	10.0%
12mth fwd Div Yield of 4.8% (Gross yield=6.9%)					Franchised # (UK + Aust) - end	249	254	262	262
12 Months Price Target (wgted avg above 4 avg)					Franchise Revenue	27.4	28.6	29.5	30.2
P / E (6/12F) at price target					Franchise PBT	6.5	6.8	7.0	7.2
P / E (6/13F) at price target					margin	23.7%	23.7%	23.7%	23.7%
P / E (6/14F) at price target					Divisional PBT	51.8	62.6	73.1	54.3
EV/EBITDA (6/14F) at price target					Overheads	-12.6	-15.2	-16.6	-15.7
EV/EBIT (6/14F) at price target					EBITDA - Group	43.9	54.2	66.2	48.6
Multiples (\$/price at \$0.50)	6/11A	6/12F	6/13F	6/14F	growth	34.8%	23.3%	22.3%	-26.6%
P / E (basic, weighted)	6.9x	5.7x	4.8x	7.2x	EBITDA / Sales	23.7%	23.1%	24.0%	16.8%
P / E (fully diluted, weighted)	7.0x	6.0x	5.0x	7.4x	Depreciation/Amortisation	-3.4	-5.3	-7.4	-8.8
P / E (ord mkt cap / NPAT)	6.6x	5.7x	4.8x	7.0x	EBIT	40.6	48.9	58.9	39.8
Dividend Yield	7.0%	7.0%	7.0%	7.0%	EBIT / Sales	21.9%	20.8%	21.4%	13.7%
Group Free Cash Flow (f.c.f.) / EV	-12.1%	-2.6%	5.9%	15.1%	Net Corporate Interest	0.0	-1.4	-2.5	-1.2
Equity f.c.f. / Mkt Cap	-13.4%	-4.3%	3.7%	12.4%	Pretax Profit	39.2	47.5	56.4	38.6
Norm f.c.f. / Mkt cap	-13.4%	-4.3%	3.7%	12.4%	Tax	-11.6	-14.0	-16.7	-11.4
Mkt cap / operating cash flow	4.5x	4.2x	3.0x	4.1x	Effective Tax Rate	29.5%	29.5%	29.5%	29.5%
EV/EBITDA multiple	4.3x	3.5x	2.9x	3.9x	Minorities	0.0	0.0	0.0	0.0
EV/EBIT multiple	4.7x	3.9x	3.2x	4.8x	Normalised NPAT to equity	28.6	33.5	39.7	27.2
Price / Book Value	1.1x	1.0x	0.9x	0.8x	Norm. Net Profit / Sales	15.4%	14.2%	14.4%	9.4%
Price / NTA	2.4x	2.0x	1.6x	1.4x	Abnormals / discontinued	-0.9	0.0	0.0	0.0
Ratios	6/11A	6/12F	6/13F	6/14F	Reported Profit to equity	27.6	33.5	39.7	27.2
Return on Average Equity	16.9%	18.0%	19.1%	11.9%	Reported EPS (basic, weighted)	7.28	8.81	10.41	7.0
Return on Assets	13.3%	13.3%	13.3%	8.3%	Normalised EPS (dil, wghtd)	7.15	8.37	9.94	6.8
ND / ND + Equity	-0.5%	8.2%	8.2%	2.0%	DPS (\$)	0.0350	0.0350	0.0350	0.0350
Net Interest Cover (EBIT)	2,051.4	34.5	23.8	32.4	Franking	100%	100%	100%	100%
Reported eps growth	10.3%	21.0%	18.2%	-32.9%	Payout Ratio	46.5%	39.7%	33.8%	50.7%
Free Cash Flow Analysis	6/11A	6/12F	6/13F	6/14F	Cashflow Statement (\$m)	6/11A	6/12F	6/13F	6/14F
Net Operating Cash Flow	31.7	29.4	44.5	34.2	EBITDA (inc Safrock interest)	43.9	54.2	66.2	48.6
Capex (Reported) inc loan book	-54.6	-34.4	-33.4	-5.6	Working Capital Change	-2.2	-9.3	-2.6	-1.8
Group Free Cash Flow (rep'ted)	-22.8	-5.0	11.1	28.6	Cash from Operations	41.8	44.9	63.6	46.8
Fixed Debt Repayments	-2.6	-3.3	-4.1	-5.1	Corporate Interest	0.1	-1.4	-2.5	-1.2
Equity Free Cash Flow (rep'ted)	-25.4	-8.2	7.0	23.5	Tax Paid	-10.1	-14.0	-16.7	-11.4
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	Net Operating Cash Flow	31.7	29.4	44.5	34.2
Free Cash Flow (normalised)	-25.4	-8.2	7.0	23.5	Capital Expenditure	-9.5	-10.5	-10.4	-6.6
Capex (inc HP) / depreciation	282%	199%	141%	75%	Other (including loan book)	-16.7	-16.9	-23.0	1.0
Share Data	6/11A	6/12F	6/13F	6/14F	Investments & acquisitions	-28.4	-7.0	0.0	0.0
Ord Issued shares (m)	379.8	379.8	383.8	393.8	Net Investing Cash Flow	-54.6	-34.4	-33.4	-5.6
growth	0.0%	0.0%	1.1%	2.6%	Proceeds from Equity Issues	0.0	0.0	0.0	0.0
Weighted ave shares (m)	379.8	379.8	381.8	388.8	Net Change in Debt & Leases	9.4	13.3	22.3	-15.0
growth	15.9%	0.0%	0.5%	1.8%	Dividends Paid	-12.3	-13.3	-13.4	-13.6
Diluted shares wgted (m)	399.8	399.8	399.8	399.8	Net Financing Cash Flow	-3.5	0.0	8.9	-28.6
growth	21.6%	0.0%	0.0%	0.0%	Movement in Cash	-26.3	-5.0	20.0	0.0
Unpaid Capital					Balance Sheet (\$m)				
Year Expires	Number	% ord	Avg Price	\$m unpaid	Cash	23.5	18.5	38.5	38.5
30-Jun-12	-	0.0%	\$ -	\$ -	Receivables	9.0	11.5	13.4	14.1
30-Jun-13	4,000,000	1.1%	\$ -	\$ -	Inventories	14.1	26.6	31.4	37.0
30-Jun-14	10,000,000	2.6%	\$ -	\$ -	Other (including loan book)	66.4	83.2	106.2	105.2
30-Jun-15	-	0.0%	\$ -	\$ -	Total Current Assets	112.9	139.8	189.5	194.8
30-Jun-16	-	0.0%	\$ -	\$ -	Property, Plant & Equipment	13.2	21.5	25.3	23.8
30-Jun-17	6,000,000	1.6%	\$ -	\$ -	Intangibles (inc. Goodwill)	96.9	100.8	100.1	99.4
TOTAL	20,000,000	5.3%	\$ -	\$ -	Other	9.7	9.7	9.7	9.7
Directors & Senior Management					Total Non Current Assets	119.7	132.0	135.1	132.9
					Total Assets	232.7	271.8	324.5	327.7
					Accounts Payable	20.3	26.0	30.1	34.7
					Interest Bearing Liabilities	4.6	4.6	4.6	4.6
					Other	11.2	11.2	11.2	11.2
					Total Current Liabilities	36.1	41.8	45.9	50.5
					Accounts Payable	0.0	0.0	0.0	0.0
					Interest Bearing Liabilities	18.0	31.2	53.5	38.5
					Other	3.3	3.3	3.3	3.3
					Total Non Current Liabilities	21.3	34.5	56.8	41.8
					Total Liabilities	57.4	76.3	102.7	92.3
					Net Assets	175.3	195.4	221.8	235.4
					Net Asset Value / Share (\$)	0.46	0.51	0.58	0.60
					NTA / Share (\$)	0.21	0.25	0.32	0.35
					Net Debt (net cash)	-0.8	17.4	19.7	4.7
Analyst: Trent Barnett					Last Earnings Estimate Changes:				
Phone: +61 8 9268 3052					5 September 2011				
Sources: IRESS, Company Information, Hartleys Research									

PRICE TARGET METHODOLOGY

Our price target is the average of four components. The assumption is there is a chance of each of the following happening.

Our price target is the weighted average of four components.

Fundamental Valuation (DCF)

Assumes our base case cash flow estimates for CCV are correct and share price trades to our fundamental valuation.

Market Put (Dividend yield)

Assumes company delivers our earnings estimates, but the equity market falls significantly so that dividend yield becomes the support level for the stock.

Earnings Disappointment (NTA)

Net Tangible Asset (NTA) Value - assumes the company misses profit estimates and market is only prepared to pay book value.

Positive Market Momentum (P/E multiple)

Attempts to captures market momentum (i.e. assumes that comparison company P/E's converge when markets are moving).

PRICE TARGET

Our twelve month price target is \$0.76 (unchanged from previous).

CCV Price Target Methodology	Weighting	Spot	12 mth out
DCF	49%	\$0.81	\$0.84
- 10 years explicit + terminal growth value (Bull Case)	15%	\$1.01	\$1.01
- 10 years explicit + terminal growth value (Base Case)	34%	\$0.73	\$0.76
12mth forward P/E (diluted) of 7.8x (back calc. based on 10x FY14)	31%	\$0.68	\$0.73
Price / Book (Jun '11a) 1x \$0.46	10%	\$0.46	\$0.46
12mth fwd Div Yield of 4.8% (Gross yield=6.9%)	11%	\$0.73	\$0.73
Risk weighted composite		\$0.73	\$0.76
12 Months Price Target		\$0.76	
Shareprice - Last		\$0.500	
12 mth total return (% to 12mth target + dividend)		58%	

Source: Hartleys Estimate

RISKS

The key risk for CCV is changes to the regulatory framework. Both the UK and Aust Governments have made recent regulatory announcements which hopefully provides some certainty for the next few years. The other key risks comes from competition in second hand good selling, and potentially in micro lending and controlling the bad and doubtful debts in the money lending segments. For some good reading on regulatory issues, see

http://www.ofc.gov.uk/shared_ofc/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf

Aust:

<http://www.treasury.gov.au/contentitem.asp?NavId=002&ContentID=2131f>

www.nocap.com.au

Hartleys Research Coverage				Hartleys Research Recommendation					
Name	Ticker	Last Price* (A\$m)	M. CAP (A\$m)	Status	Ticker	Last Price* (A\$m)	M. CAP (A\$m)	Status	Hartleys Research Recommendation
Resources									
Gold / Precious Metals									
1. Intrepid Mines Limited	IAU	1.53	797	Explorer					Speculative Buy
2. Beadell Resources Limited	BDR	0.825	543	Developer					Accumulate
3. Integra Mining Limited	IGR	0.545	459	Producer					Buy
4. Silver Lake Resources Limited	SLR	2.56	458	Producer					Buy
5. Gold One International Limited	GDO	0.535	432	Producer					No Rating
6. Catalpa Resources Limited	CAH	1.57	279	Producer					Buy
7. Tanami Gold NL	TAM	1.03	269	Producer					Accumulate
8. Focus Minerals Ltd	FML	0.068	234	Producer					Buy
9. Northern Star Resources Ltd	NST	0.560	171	Producer					Buy
10. Cerro Resources NL	CJO	0.190	142	Developer / Explorer					Accumulate
11. YTC Resources Limited	YTC	0.570	142	Developer					Buy
12. PML Gold Corporation Limited	PVM	0.650	129	Developer					Speculative Buy
13. Papillon Resources Limited	PR	0.505	103	Explorer					Speculative Buy
14. Avigar Resources Ltd	AUK	0.395	70	Explorer					Speculative Buy
15. Cortona Resources Limited	CRC	0.155	34	Developer					Speculative Buy
16. Canyon Resources Limited	CAY	0.620	28	Explorer					Speculative Buy
17. Emerson Resources Limited	ERM	0.115	26	Explorer					Speculative Buy
18. Southern Gold Limited	SAU	0.058	14	Explorer					Speculative Buy
19. Geospecific Resources NL	GPR	0.150	5	Explorer					Speculative Buy
Diversified Base / Precious Metals									
20. Independence Group NL	IGO	5.210	1,055	Gold & Base Prod./Dev.					Buy
21. AVVA Corporation Limited	AVA	0.215	36	Gold & Base Explorer					Speculative Buy
22. Ausquest Limited	AQD	0.110	25	Diversified explor					Speculative Buy
Iron Ore									
23. Atlas Iron Limited	AGO	3.850	3,184	Producer					Buy
24. Centaurus Metals Ltd	CTM	0.093	99	Explorer					Speculative Buy
Uranium									
25. Peninsula Energy Ltd	PEN	0.057	119	Developer					Buy
26. Impact Minerals Limited	IFT	0.073	9	Explorer					Speculative Buy
Other metals									
27. Kasbah Resources Limited	KAS	0.190	69	Tin Developer					Buy
28. Shaw River Resources Limited	SRR	0.160	40	Manganese: Developer					Speculative Buy
29. Hazelwood Resources Ltd	HAZ	0.115	30	Tungsten Developer					Speculative Buy
Sub-Total				9,000					
Oil & Gas									
Conventional Oil & Gas									
1. Woodside Petroleum Ltd	WPL	34.84	27,636	Major Developer / Explorer					Buy
2. Nexus Energy Ltd	NXS	0.25	240	Developer / Explorer					No Rating
3. Tap Oil Ltd	TAP	0.73	176	Producer / Explorer					Buy
4. Cooper Energy Ltd	COE	0.41	120	Producer / Explorer					Buy
5. Carnarvon Petroleum Ltd	CVN	0.15	103	Producer / Explorer					Accumulate
6. Otto Energy Ltd	OEL	0.08	93	Explorer / Producer					Buy
7. Pancontinental Oil and Gas NL	PCL	0.10	66	Explorer					Speculative Buy
8. Amadeus Energy Ltd	AMU	0.22	65	Producer / Explorer					Neutral
9. Hawkey Oil and Gas Ltd	HOG	0.26	49	Producer / Explorer					Buy
10. FAR Ltd	FAR	0.03	40	Explorer					Speculative Buy
11. WHL Energy Ltd	WHN	0.04	35	Explorer					Speculative Buy
12. Sun Resources NL	SUR	0.02	9	Explorer / Producer					Neutral
Non Conventional Oil & Gas									
13. Aurora Oil and Gas Ltd	AUT	2.81	1,134	Producer / Developer					Reduce
13. Samsco Oil & Gas Ltd	SSN	0.125	218	Developer / Producer					Buy
14. Transerv Energy Ltd	TSV	0.05	136	Developer					Buy
14. European Gas Ltd	EPG	0.38	75	Producer / Explorer					Speculative Buy
15. Olex Ltd	OEX	0.29	73	Explorer / Producer					Speculative Buy
Sub-Total				30,267					
Industrials									
Resource Services - Capital Intensive									
1. Ausdrill Holdings	ASL	3.34	1,018	Contract Drilling					Buy
2. NRW Holdings Ltd	NWH	2.68	747	Contract mining					Buy
3. Mermaid Marine Ltd	MRM	3.11	670	Oil & Gas Services					Accumulate
4. Fleetwood Corporation	FWD	10.63	615	Accommodation					Neutral
5. Macmahon Holdings Limited	MAH	0.66	481	Contract mining					Accumulate
6. Index Ltd	IMD	2.16	442	Drilling Supplies					Buy
7. IMACA Ltd	MLD	2.19	329	Contract mining					Buy
8. Matrix Composites & Pacific Energy Ltd	MCE	4.12	318	Oil & Gas Services					Accumulate
9. Pacific Energy Ltd	PEA	0.43	147	Remete Power					Buy
10. Swick Mining Services Ltd	SWK	0.35	83	Contract Drilling					Speculative Buy
Resource Services - Labour Intensive									
11. Monadelphous Group Limited	MND	19.93	1,745	Construction					0
12. Decmil Group Limited	DCG	2.22	276	Construction					Buy
13. Lycoodium Limited	LYL	6.05	234	Engineer. & Constr.					Accumulate
14. RCR Tomlinson Ltd	RCR	1.50	198	Engineer. & Constr.					Buy
15. LogiCams Limited	LCM	0.87	58	Engineer. & Constr.					Speculative Buy
16. VDM Group Limited	VMG	0.16	34	Engineer. & Constr.					Speculative Buy
Other Industrial Companies									
17. Seven West Media Limited	SWM	3.57	2,972	Media					Accumulate
18. Ancom Telecommunications	AMM	0.83	595	Telecommunications					Accumulate
19. Austal Limited	ASB	2.49	468	Civil and Military					Buy
20. iInet Limited	IIN	2.41	367	Telecommunications					Buy
21. Cash Converters Internat.	CCV	0.48	190	Unsecured Finance					Buy
22. RedHill Education Ltd	RDH	0.14	4	For profit education					Neutral
Sub-Total				11,990					
GRAND TOTAL				51,257					

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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.

Disclaimer/Disclosure

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