CASH CONVERTERS INTERNATIONAL LTD

PATERSONS

Research Note

A SHORT TERM FINANCIER READY FOR GROWTH POST MULTI-STAGE REVIEW PROCESS

Cash Converters International – more than just a pay day lender

We have initiated coverage on Cash Converters International Ltd (ASX Code CCV). The Company has four distinct operating divisions: Franchise Operations, Store Operations, Personal Finance and Vehicle Financing. These units together offer pawn broking services, second-hand retail product sales and a variety of financial services products. CCV traces its origins back to the mid-1980s, when founder, Brian Cumins opened the Company's first store in Victoria Park, WA. It now has material presences in Australia, NZ and the UK (and franchise stores spread across 18 countries in total).

US-based EZCORP Inc currently owns nearly 35% of CCV, providing scope for corporate activity over the short- to medium-term. EZCORP also operates in Latin America (Mexica, Guatemala, Honduras, El Salvador and Peru) and Canada.

After a run of underwhelming earnings performances, weighed down by multiple drags, including enforceable undertakings, CCV is now showing clear signs of operational improvements. From a top-down angle, a respectable macroeconomic performance by the Australian, NZ and UK economies over recent years, which is expected to extend across the balance of 2018 and into 2019, should be a positive for CCV. At the sector level, structural shifts in the payday lending and broader consumer loan product markets, inclusive of (1) a retreat by traditional lenders like banks (2) a gradually reducing middle class and, (3) efficiencies gained from an ever-growing online delivery channel also hint at earnings upside.

The respectable growth incorporated in our longer-term CCV revenue and earnings projections are premised on continued lending growth without a material deterioration in credit quality. This relatively positive view reflects: (1) a gradually expanding potential client base; (2) still reasonable macroeconomic conditions in CCV's major geographic markets; (3) no further spikes in competitive pressures and, (4) a more settled regulatory environment in the consumer finance segment.

Investment View

CCV looks to finally have some clean air to grow earnings with the enforceable undertaking closed out in February 2018. It has ample scope to expand the loan book thanks to (1) the June 2018 capital raising and (2) a now enlarged funding base (inclusive of a $150m securitisation facility). While regulatory risk will always hover, CCV operates in a market segment that has a growing client base – the latter due to structural shifts in our financial sector and ever-changing wealth distribution metrics. The FY19 prospective valuation metrics look cheap relative to better-performed peers like MNY, CCP and PNC. If CCV can close some of the current valuation gap between it and the abovementioned three companies, share price appreciation is possible. We have initiated coverage of CCV with a BUY recommendation and a 12-month price target of $0.58/share.

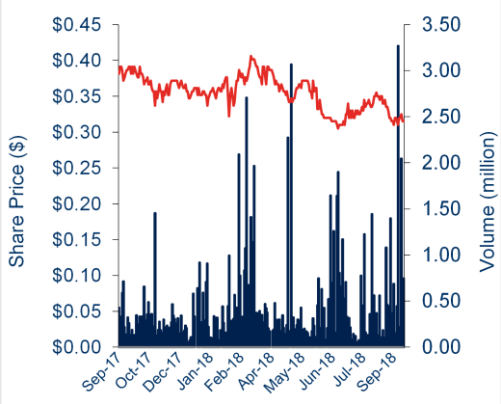
Year End June 30	2017A	2018A	2019F	2020F	2021F
Reported NPAT ($m)	20.6	22.5	25.9	28.5	32.1
Recurrent NPAT ($m)	20.6	22.5	25.9	28.5	32.1
Recurrent EPS (cents)	4.2	3.7	4.2	4.6	5.2
EPS Growth (%)	8.7	(12.7)	15.2	9.9	12.6
PER (x)	7.5	8.6	7.5	6.8	6.1
PEG	0.9	na	0.5	0.7	0.5
EBITDA ($m)	43.1	47.6	48.8	52.3	57.8
EV/EBITDA (x)	4.2	4.5	3.9	3.3	2.7
Free Cashflow	42.3	(24.2)	28.0	30.3	33.9
FCFPS (cents)	8.6	(3.9)	4.5	4.9	5.5
PFCF (x)	3.7	(8.0)	6.9	6.4	5.7
DPS (cents)	0.0	0.0	0.0	2.2	2.2
Yield (%)	0.0	0.0	0.0	7.0	7.0
Franking (%)	100.0	100.0	100.0	100.0	100.0

18 September 2018

12mth Rating		BUY
Price	A$	0.32
Target Price	A$	0.58
12mth Total Return	%	95.8
RIC: **CCV.AX**		BBG: **CCV AU**
Shares o/s	m	616.4
Free Float	%	61.6
Market Cap.	A$m	194.2
Net Debt (Cash)	A$m	18.4
Net Debt/Equity	%	5.7
3mth Av. D. T'over	A$m	0.157
52wk High/Low	A$	0.41/0.31
2yr adj. beta		0.58
Valuation:		
Methodology		DCF
Value per share	A$	0.56

Analyst:	Tony Farnham
Phone:	(+61) 2 9258 8973
Email:	tfarnham@psl.com.au

12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	(10.0)	-	(17.4)
Rel. S&P/ASX 300	(10.6)	(0.6)	(22.6)

THE CURRENT OPERATIONAL STRUCTURE OF CCV

From a segmental reporting perspective, CCV has four distinct operating divisions, through which it offers pawn broking services, second-hand retail product sales and a variety of financial services products. CCV parks a mix of group costs in a fifth division called Corporate Head Office. Brief descriptions of each of these five units follow.

- Franchise Operations: This unit derives royalties and licence fees from 18 countries with franchised CCV operations as well as Cash Converters UK Ltd (CCUK), a wholly owned subsidiary of the Company. The latter UK-based operation was more recently taken back to a master franchise set-up. The franchise operations segment also sources fees from 84 franchisee owned stores in Australia and a 25% equity interest in Cash Converters New Zealand. The International unit (ex UK and NZ) has 350 franchise stores.
- Store Operations: This unit sources revenues and earnings from 69 Company owned CCV stores in Australia. The revenue from these stores is derived from (1) retailing of new and second hand goods both in-store and online; (2) interest from pawn broking loans and cash advance short term loans; (3) commissions received from successful personal loan applications processed in-store and, (4) the receipt of a share of income from successful online loan applications.
- Personal Finance: This unit derives revenues and earnings from CCV's Mon-E Pty Ltd (Australia) and Cash Converters Personal Finance Pty Ltd (CCPF) operations. Here Mon-E provides administration services for the CCV network in Australia to offer small cash advance loans to their client bases, while CCPF provides unsecured loans through the franchise and corporate store networks in Australia and online. With the UK Finance Division parked in this unit not issuing new loans since May 2016, the latter is understandably no longer deemed to be part of the CCV Group's continuing operations. All UK revenues are now incorporated in the Franchise operations.
- Vehicle Financing: This unit houses revenues and earnings from CCV's subsidiary Green Light Auto Group Pty Ltd, which offers secured vehicle finance. In March 2016, the business ceased to offer its Carboodle vehicle lease product. These leases are continuing to be managed by the business to their scheduled completion.
- Corporate Head Office: As well as these four operating units, CCV also has a Corporate Head Office division which houses the cost of various corporate related functions such as IT, business development, finance, HR, risk and internal audit, legal, board and leadership team and marketing.

THE CORPORATE HISTORY OF CCV

This section, sourced from the CCV corporate website, highlights major events in CCV's corporate history since its origin back in the mid-1980s.

Figure 1: The Evolution of CCV

1984 – Founder Brian Cumins opened the first store in Victoria Park, Western Australia

1988 – The first two franchise stores opened in Western Australia

1991 – The first store opened in the UK in Essex

1994 – The first non-English speaking store opened in France

1995 – CCV listed on the UK Stock Exchange

1997 – CCV listed on the Australian Stock Exchange (ASX)

1999 – The Cash Advance product launched

2003 – The Personal Loan product launched

2005 – CCV turned 21 and reached 450 stores worldwide

2006 – CCV underwent a re-brand, from logo to store design to advertising

2007 – Webshop, Australia's largest online second-hand goods retailer, was launched

2009 – CCV reached 500 stores worldwide

2009 – EZCORP introduced as a strategic shareholder

2010 – Personal Finance launched in the UK

2010 – Federal Government national consumer credit reforms started to take shape

2010 – Online lending launched in Australia

2012 – The National Consumer Credit Legislation amendments passed in Federal Government

2013 – CCV acquired Carboodle

2014 – 768 stores, 21 countries, 30 years old

2018 – Greenlight Auto Finance reports maiden EBIT-level profit

Source: CCV Website

CCV FY18 RESULT HIGHLIGHTS

Figure 2 below compares CCV's FY18 actual performance against that for the preceding year.

Figure 2: CCV FY18 Results V's FY17 Equivalents

12 Mths Ended June		FY18 Actual	FY17 Actual	Difference (%)
Sales revenue	:$M	260.3	271.2	-4
Other revenues	:$M	0.0	0.0	na
EBITDA	:$M	47.6	43.1	10
Depreciation & amort	:$M	-7.4	-7.3	2
EBIT	:$M	40.2	35.8	12
Net Int Expense	:$M	-8.9	-7.6	17
Profit Before Tax	:$M	31.3	28.2	11
Tax on Recurring	:$M	-8.8	-7.6	16
Profit After Tax	:$M	22.5	20.6	9
Minorities/Associates	:$M	0.0	0.0	na
Preference Dividends	:$M	0.0	0.0	na
NPT	:$M	22.5	20.6	9
Non Recurring (net of Tax)	:$M	0.0	0.0	na
Reported Profit	:$M	22.5	20.6	9
Note: All numbers are adj. for non-recurring items except Reported Profit				
Per Share Data		Actual	Actual	Difference
Avg Wgtd Capital, fully diluted	:M	505.0	498.9	6.1
E.P.S. on Adj profit	:cents	4.5	4.1	0.3
D.P.S.	:cents	0.0	0.0	0.0
Franking	:%	100	100	0.0
Payout Ratio	:%	0%	0%	0%
Ratios		Actual	Actual	Difference
EBITDA Margin	:%	18.3	15.9	2.4
EBIT Margin	:%	15.4	13.2	2.2
Effective Tax rate	:%	28.0	26.9	1.2
Net Debt/(Debt+Equity)	:%	5.4	9.3	-3.9

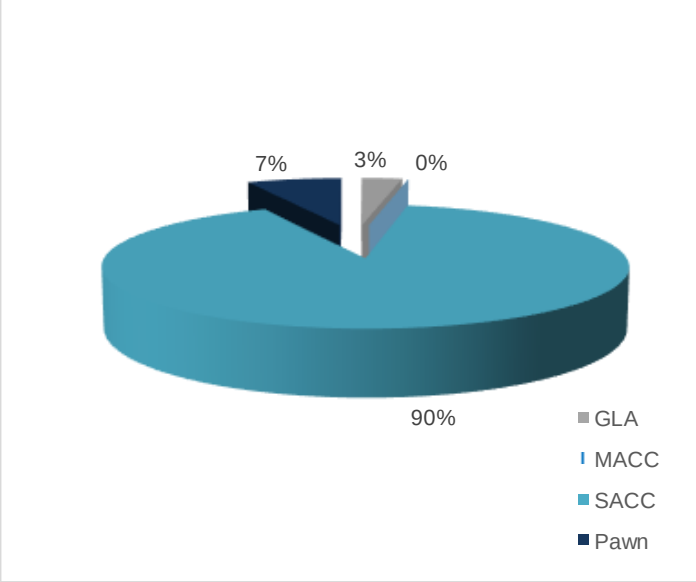
Source: CCV FY18 Results, Patersons Research

Sales revenue goes lower in FY18. CCV group sales revenue was around 4% lower in FY18, although this disguised an 11%+ gain on a 2H18-on-1H18 basis. The full-year top-line revenue decline was attributed to "risk management enhancements implemented across the Personal Finance business" although the Franchise Operations, Store Operations and Personal Finance arms all contributed to this sales decline. The Vehicle Financing unit was a highlight at both the revenue and earnings lines.

Compositional changes to CCV's loan book. CCV's total loan volumes over FY18 were nearly $181m. This was up 22% on the year-earlier level. The Company's total loan book at end FY18 was $151.7m. While around 78% was

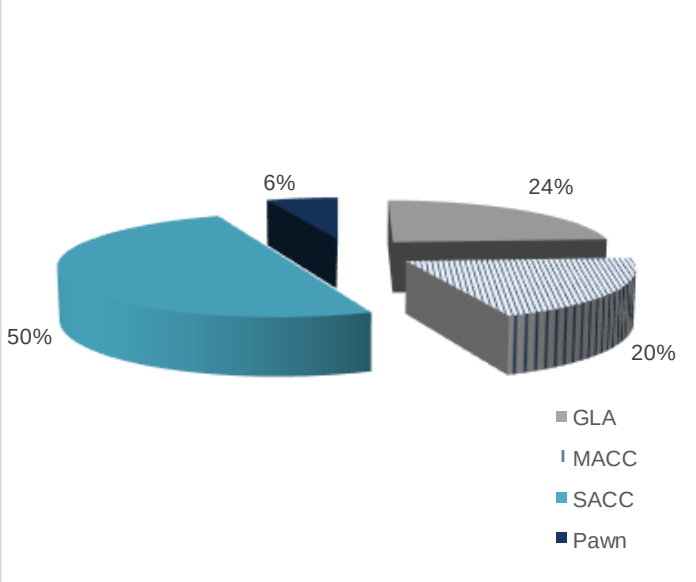
short term (less than 12 months to maturity) the Company has gradually increased the longer-term portion of its loan book (short-term loans were 86% of the book at the end of FY17). Vehicle finance loans totalled $31.3m at the end of CCV's FY18 (versus just $14.0m in the prior year).

Figure 1: SACCs were 90% of CCV's loan book in FY16 but…



Source: CCV FY18 Results Presentation, Patersons Research

Figure 2: …by FY18 MACC and auto loan growth had climbed



Source: CCV FY18 Results Presentation, Patersons Research

Credit quality further improved in FY18. CCV's bad debt write-offs went lower in FY18. Net bad debt for Personal Finance was down from 18.4% of principal advanced to 15.2%. There was also a further reduction in the rate of bad debt expense. As at the end of CCV's FY18, personal loan receivables of $18.5m were impaired, after $42.7m were written off as uncollectible. By way of comparison, in FY17, $25.3m of personal loans were impaired, after $38.3m were written off as uncollectible.

CCV to repay expensive bond; diversity of funding sources remains an advantage. By virtue of the Company's recently completed $39.5m non-renounceable issue (done in June 2018 at $0.32/share) it is now committed to the repayment an expensive FIIG bond (which incurred an annual pre-tax interest charge of around $4.8m) and a paring back of gearing ratios. CCV now has ample scope to fund growth initiatives. During FY18 the Company's securitisation program – issued by Fortress Finance – was increased to $150m (it was previously $100m). CCV management expect to continue using the securitisation program through to at least November 2020 (this excludes the 2-year extension option attached to the latter program). The now enlarged Fortress funding opened the way for CCV to close its vehicle lease financing program with Fleet partners.

Enforceable Undertaking has been laid to rest. CCV finally closed out an Enforceable Undertaking, which was entered into in November 2016. This after an Independent Expert was appointed to conduct a thorough review of the Company's current responsible lending practices and its obligations under its Australian credit License. This review in the end recommended "several best practice enhancements" which CCV has fully implemented. Clients eligible for remediation have received compensation.

Non-financial services-related operating costs were well contained. CCV's operating expenses, encompassing employee, administrative, advertising, occupancy and "other" expenses and excluding one–off imposts, fell by 9% in its FY18. The first and the last of these sub categories of opex booked the largest FY18-on-FY17 declines.

Gearing metrics much improved due to late FY18 capital raising as well as internal capital generation. In the wake of the Company's 1 for 4 non-renounceable pro-rata entitlement offer and another year without dividend payouts, CCV's end-FY18 net debt was trimmed to less than $20m. The Company's net debt/(net debt + equity ratio was just 5% (versus 9% 12 months earlier).

No dividend paid. CCV did not declare either an interim or final dividends in its FY18, retaining earnings for further investment in the business.

Operating cash flow turns negative but… With the substantial increase in MACC and GLA lending in the year, which are typically longer-term loans, the operating cash flow turned negative in FY18 (-$21.549m). This was at odds with FY17 trends, when operating cash flow increased on the back of softer loan book volumes. Note that the big end-FY18 "cash and cash equivalents" figure of near $140m included the proceeds of the circa $38m share raising completed in June 2018. CCV commented that after allowance for the committed balance to repay the FIIG

bond of $60m and the restricted cash held as security for the transactional banking facilities together with cash held in trust for the securitisation facility, free cash of nearly $70m remains, up from the year-ago equivalent of $60m.

Figure 5 below compares CCV's 2H18 profit & loss financials against those for the previous period (pp) of 1H18 and the previous corresponding period (pcp) of 2H17. They reveal:

- A solid recovery in revenue growth in 2H18.
- Improved EBIT and EBITDA margins, helped by improved credit quality metrics.
- The delivery of a stronger NPAT performance in 2H18 (as per guidance).

Figure 5: CCV Financials – Half-on-Half Comparison

Six Mths Ended		**2H18**	**pp**	**pcp**	**% Chg**	
		Actual	1H18	2H17	pp	pcp
Sales revenue	:$M	138.5	123.8	131.7	12	5
Other revenues	:$M					
EBITDA	:$M	27.0	20.6	18.5	31	46
Depreciation & amort	:$M	-3.6	-3.9	-3.4	-7	5
EBIT	:$M	23.4	16.7	15.0	40	56
Net Int Expense	:$M	-5.5	-3.4	-3.5	61	57
Profit Before Tax	:$M	17.9	13.3	11.5	34	55
Tax on Recurring	:$M	-4.8	-4.0	-2.4	21	102
Profit After Tax	:$M	13.1	9.4	9.2	40	43
Minorities/Associates	:$M	0.0	0.0	0.0		
Preference Dividends	:$M	0.0	0.0	0.0		
NPAT	:$M	13.1	9.4	9.2	40	43
Non Recurring (net of Tax)	:$M	0.0	0.0	0.0		
Reported Profit	:$M	13.1	9.4	9.2	40	43
Note: All numbers are adj. for non-recurring items except Reported Profit						
PER SHARE DATA		**2H14**	**1H18**	**2H17**	**Difference**	
Avg Wghtd Capital, fully diluted	:M	508.4	501.5	501.2	6.9	7.2
E.P.S. on Adj profit	:cents	2.6	1.9	1.8	0.7	0.8
D.P.S.	:cents	0.0	0.0	0.0	0.0	0.0
Franking	:%	100	100	100	0.0	0.0
Payout Ratio		0%	0%	0%	0%	0%
Ratios		**2H14**	**1H18**	**2H17**	**Difference**	
EBITDA Margin	:%	19.5	16.6	14.0	2.9	5.5
EBIT Margin	:%	16.9	13.5	11.4	3.4	5.5
Effective Tax rate	:%	26.7	29.8	20.6	-3.1	6.1
Net Debt/(Debt+Equity)	:%	5.4	16.9	9.3	-11.6	-3.9

Source: Various CCV Results Announcements, Patersons Research

Segmental Analysis

Figure 6 below highlights the FY18-on-FY17 performance of CCV's four broad operating segments at the sales, EBITDA and EBIT lines.

Figure 6: Segmental Analysis

12 Mths Ended June	Revenues - $M			EBITDA - $M			EBIT - $M		
	FY18	FY17	Chg (%)	FY18	FY17	Chg (%)	FY18	FY17	Chg (%)
Franchise Operations	19.61	20.20	-2.9	12.40	10.49	18.2	12.28	10.34	18.8
Store Operations	118.54	124.22	-4.6	15.79	17.55	-10.0	12.52	13.69	-8.5
Personal Finance	109.49	117.19	-6.6	46.68	49.47	-5.6	46.49	48.36	-3.9
Vehicle Financiing	11.97	9.16	30.7	2.57	-0.41	na	2.01	-0.48	na
Corporate Head Office	0.74	0.47	58.1	-27.67	-31.38	-11.8	-31.21	-34.31	-9.0
TOTAL	260.35	271.24	-4.0	49.78	45.73	8.9	42.09	37.60	11.9

Source: CCV FY18 Results, Patersons Research

Looking at the performance of each of these four operating segments:

- **Franchise Operations:** CCV's Franchise Operations covers royalties and licence fees from 15 countries, franchised Cash Converters operations, as well as Cash Converters UK Ltd (CCUK), a wholly owned subsidiary of the Company, which operates as master franchisor to 196 UK franchisee operated stores. This segment also includes fees from 84 (2017: 83) franchisee owned stores in Australia. EBITDA for the franchise operations over FY18 was $12.4m, up 18% on the prior year. CCUK reported FY18 EBITDA of $3.2m (2017: $1.7m). This as the 49 previously corporate owned stores that were sold to franchisees at the end of FY16 had their franchise fees waived for in FY17, but all started paying full fees in FY18. The Australian franchise operations contributed $4.2m of revenue in FY18, up just 2% on the prior year figure. CCV noted that its franchisee businesses continued to drive strong earnings, despite facing a challenging retail environment that eroded retail revenue. The franchise network increased their pawn broking loan books and interest income in FY18.
- **Store Operations:** Store Operations houses the revenues of earnings of the 69 Company-owned Cash Converters stores in Australia. Revenue from these stores is derived from the retailing of new and second hand goods both in-store and online, as well as interest from pawn broking loans and cash advance short-term loans. This unit's performance was adversely impacted by both a tough retail environment in stores, but was also still adjusting to the changes to the unsecured lending business that were rolled out in FY17. The stores contributed a segment EBITDA of $15.8m, down 10% on the FY17 total. The latter decline was in large part due to a 22% drop in cash advance lending – this as the changes introduced in April 2017 through the new Income and Expenditure application process took full effect. On a positive note, there was a partial offset in the form of a near 11% jump in personal loan commissions. Pawn broking lending remained flat in FY18.
- **Personal Finance:** The personal finance operations incorporate the trading results of Mon-E Pty Ltd (Mon-E) and Cash Converters Personal Finance Pty Ltd (CCPF). Mon-E is responsible for providing the software platform and administration services for the CCV network in Australia to offer small cash advance loans to their customers, with average loan size in FY18 of $426 (versus $398 in FY17). Mon-E also refers personal loans from stores to CCPF for assessing. CCPF provides unsecured loans originated through the franchise and corporate store networks and directly from customers online. The business offers two loan types, namely SACCs and MACCs. The average size SACC loan in FY18 was $1,149 (2017: $1,044), while the average size MACC loan in FY18 was $3,606 (2017: $3,693). The Personal Finance segment reported FY18 EBITDA of $46.7m, down 6% on the prior year. The combined SACC and MACC loan book increased by 41% in FY18 to $114.4m. However, CCV emphasised that due to the revenue recognition of the loans being spread over their life, and starting from a lower opening balance with gradual growth through the year, the overall revenue from personal finance was down 6.5% to $104.6m in FY18.
- **Vehicle Financing:** Green Light Auto Finance (GLA) is the Company's vehicle financing business, offering a range of secured automotive loans through a network of brokers, car dealerships, CCV stores and direct to customer. The business, which was launched in just March 2016, more than doubled its loan book in FY18 to $42.1m. GLA also reported its first positive EBITDA contribution of $2.6m. The discontinued Carboodle lease business continues to naturally wind down as leases come to an end.

PAYDAY LENDING SECTOR DYNAMICS

A brief description of payday lending

Payday lending products have relatively short maturities - these days more broadly defined as loans for less than 90 days. The name payday lending derives from the fact that these loans are issued on the security of the borrower's next pay cheque, with a large proportion of such loans for just two to four weeks. They are also usually for smaller amounts. Very rarely are these loans secured over the property assets of the borrower.

Demand for payday lending products ramped up in the late 1990s as banks and other traditional personal lenders like credit unions wound back short term lending, especially to consumers with higher risk characteristics and/or a poor credit history. Increased demand for payday lending products has at least in part been attributable to both

emerging income inequality (reflective of a shrinking middle class) and easy access to such borrowings – the latter especially as online delivery channels evolved.

How does payday lending work?

This form of lending is usually undertaken for a fixed fee, as opposed to the charging of an interest rate. Payday loans are also termed small amount credit contracts (SACCs). Note that there are also two other size-related loan categories, namely (1) medium amount credit contracts (MACCs) and (2) large amount credit contracts (LACCs).

The fee charged for payday loans is typically $20 or $25 for each $100 advanced. As these loans are typically for a short period of time (usually the borrower's next payday), this fee effectively translates into very high annualised interest rates. On top of the abovementioned fees (taking the form of loan establishment and management fees), payday lenders also, as a rule, charge borrowers a range of default and dishonour fees and fees for not repaying loans taken out by the next payday.

Companies providing payday lending products also have other revenue sources, including pawn-broking, home credit and rent–try-buy credit markets. These other segments cut across lenders who can more broadly be called short-term financers.

Who are the potential clients of Australian payday lenders?

Since the early 1990s, traditional providers of personal loan products such as the banks and credit unions have progressively tightened up lending standards. This process has gradually pushed a not-insignificant number of retail borrowers with sub-prime credit quality attributes, inclusive of lower socio-economic standing and/or bad credit history, to other non-bank loan providers.

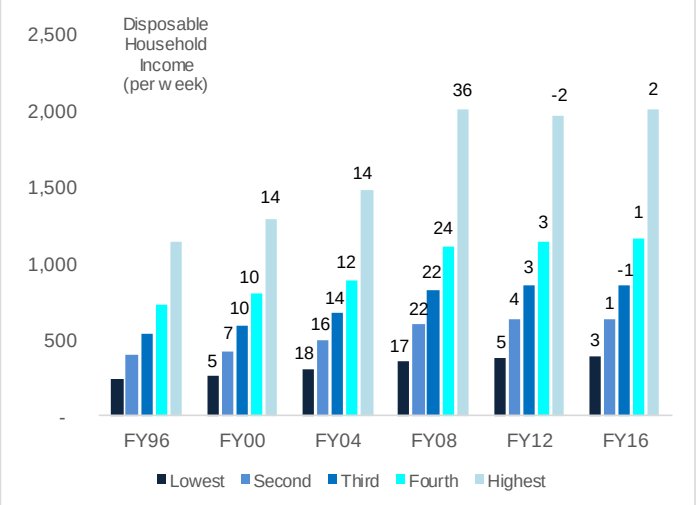
At the same time, there have also been a number of other non-credit history-related reasons swelling the client bases of payday lenders. Some clients get made redundant or are in dire need of funds to repay a pressing debt, such as mortgage repayments. Such persons may not have the "bank of mum and dad' to help them out. There is also a degree of seasonality to borrowings, with Christmas holiday spending a factor here. Some potential borrowers may be forced into payday lending products by medical emergencies and relationship break ups.

As noted above, potential clients of payday lending – and more broadly short-term financing - are more likely those with lower incomes. Based on this premise, we have used two statistical series to identify what portion of Australian households are likely CCV clients. This analysis is equally relevant to other countries in which CCV operates.

It is reasonable to assume that households with lower earnings capabilities (for example, the lowest two earnings quintiles in household wealth data compiled by the Australian Statistician) are those most likely to be clients of payday lenders like CCV. Here the earnings measure used is equivalised disposable household income per week, which importantly takes into account the impact of the population's age distribution. Figure 7 below shows that the lowest two quintiles of household disposable income distribution in Australia received weekly incomes of up to $625/week in FY16. By way of comparison, average weekly ordinary-time earnings for full-time workers in May 2016 (towards the end of FY16) was $1,516 (sourced from the ABS-compiled quarterly Average Weekly Earnings report).

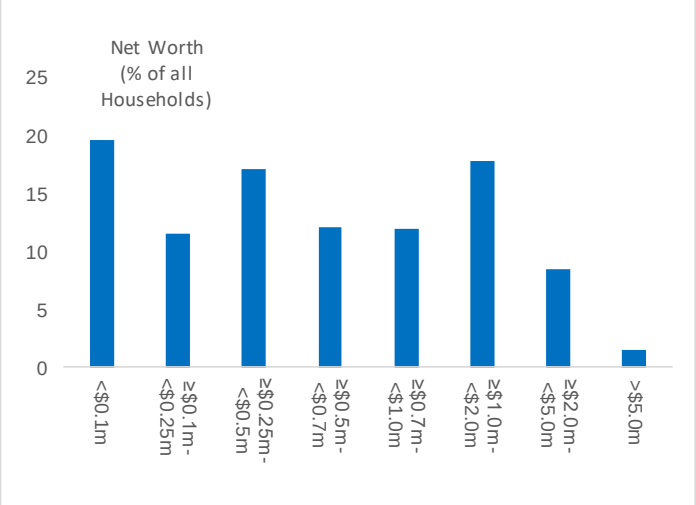
A second way of measuring the relative spending power of families is an examination of households' stock of net wealth. These statistics, included in the ABS Household Wealth and Income report, show that nearly one-third of all Australian households have net wealth of less than $0.25m – see Figure 8 below. Here "net wealth" is defined as the balance of assets and liabilities held by members of a household.

Figure 7: Bottom two disposable income quintiles…



Source: ABS, Patersons Research

Figure 8: …and lower net worth households are likely CCV clients



Source: ABS, Patersons Research

How big is Australia's short-term financing industry?

From an overall perspective, according to Melbourne Institute of Applied Economic & Social Research compiled data (which is made available in RBA Bulletin Statistical Table E7) in 2014 (the latest year available):

- The share of households with any form of debt was 69%.
- Some 36% of households had owner-occupier home loans.
- About 24% of households had credit card debt.
- More than one third of Australian households had "other personal debt", the category where short-term finance-sourced loans would likely be parked.

The Australian unsecured personal lending sector continues to grow and is currently around $130.0bn. Within this headline total, the unsecured sub-prime category – CCV's main client catchment segment - is now around $6.0bn (and growing!) Here sub-prime borrowers are those with poor credit histories and/or adverse financial situations that are unlikely to get them loans from banks and credit unions.

Note here that PNC and CLH, both of which are relative new comers to the personal lending segment, are targeting the "alt. lending" segment. The latter grouping, which slots between sub-prime and prime lending, has borrowers who have in the past missed loan repayments or are currently flashing potential default warning signals (such as financial over commitment or working in market sectors going through restructuring).

According to a CoreData-prepared report, the majority of SACC borrowers are employed, although this metric would inevitably deteriorate in economic slowdowns. Persons under 40 make up around 60% of all Australian SACC loans. On average, a low level of SACC loan applications - less than 50% - are approved by lenders operating in this higher risk segment.

What drives sub-prime ranked borrowers into debt? The chief reasons are, in broad terms, a need to meet unexpected and/or necessary expenses. Here potential clients may need to meet medical, vehicle or household equipment costs. Clients might also require funds for pending commitments like utilities charges and mortgage/rent repayments. Some require funds for conspicuous consumption like consumer durables or holidays.

Why does payday lending get bad press?

Payday loan products are constantly under scrutiny by both regulators and politicians. This quite simply is because they come with relatively high interest rates and fees as well as strict repayment schedules. Such debt is, as a result, hard to pay off quickly – especially if the borrower is on a relatively low wage and has a suspect credit history (as is often the case). This confluence of events means that payday loans could lead these consumers into debt spirals through "rollover" and "back-to-back" loans.

Payday lenders also use direct debit as a form of payment guarantee, thus giving them first take at the income of those who may be in financial difficulty and exposing them to high dishonour fees.

For all this, despite all the negative press afforded payday lending, it still serves a purpose. Even the interim report of a recent Australian government payday loans review acknowledged that "SACCs can be useful for consumers when they are used as an emergency source of funding for one-off expenses" and that "in emergency situations the benefits of having access to credit can justify the relatively high costs, provided the consumer can afford them".

Macro drivers - payday lending in demand at various points of economic cycle

Households are the key users of loan products offered by payday lenders and other consumer-focussed loan providers. Their demand for such borrowings is heavily influenced by shifts in macro-economic conditions. This nexus is examined in the following section of our CCV Initiation of Coverage report.

Sentiment Positives for Payday Lenders/Consumer-Focussed Loan Providers

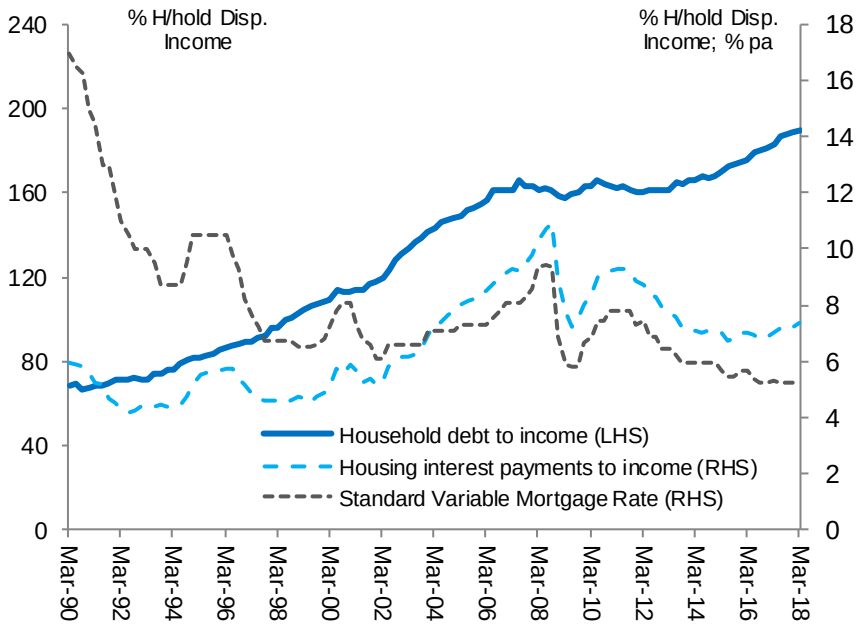
Unemployment, business failure, marital break ups and long-term health issues (limiting scope to hold down a meaningful job). If such setbacks are long-lived, households affected will eventually use up their savings and be forced to liquidate assets and/or take on increased debt from whoever will give it.

High interest rates and gearing levels. If consumers are already geared up they will find it more difficult to get finance from mainstream banking. This is less a problem at the moment as retail lending rates have been trending lower, but the issue will carry more weight when the RBA eventually starts to tighten monetary policy again. Figure 9 below indicates that aggregate household gearing, after a period of stability in the first few years post the GFC, has again trended higher – the household debt to income ratio has more recently threatened to push above 200%. Interest payments to income ratios have been little changed over the past few years, rescued by the abovementioned reduction in retail lending rates.

Increased precious metal prices and asset prices. Higher gold prices would encourage persons wanting finance to hock jewellery. Increased asset prices could also push lower income groups towards pawn shops. More generally, increased values for key household assets (the family home, investments) deliver wealth effects that (1) give consumers increased confidence to increase gearing and (2) make such borrowers more attractive to mainstream lenders.

Higher prices for life's basic necessities. If there are sustained increases in basic requirements of life like rent, utilities charges, health and education, some persons will inevitably struggle to make ends meet. Over time, they will be forced to consider the product offerings of payday lenders, pawn shops and the like to get much needed cash for required needs.

Figure 9: Household Debt Dynamics



Source: RBA, Patersons Research

Sentiment Negatives for Payday Lenders/Consumer-Focussed Loan Providers

Reduced interest rates could facilitate a wind back in household gearing ratios. This is a likely scenario if consumer indebtedness in the immediate past was excessive (a normalisation period of sorts!) Lower mortgage rates could over time open the way for many mortgagees to even get ahead on their scheduled repayments. Of course, this thesis abstracts from increased house prices, which have affordability ramifications.

Low inflation. Goods price deflation and a shortening of product life cycles have become a drag over recent years. An A$/US$ exchange rate of US$0.70+ and solid A$ TWI also complicates things – the highish Aussie in combination with the commoditisation of many consumer durables categories (Apple and Samsung phones might still be an exception here) has forced the prices of such goods lower in the second-hand segment. This could potentially exert downward pressure on margins on goods pawned by short-term financiers.

Labour market dynamics (growth in household income; employment levels). If payrolls and wages levels are strengthening, many consumers will be more able to afford new goods/consumer durables. That is unless inflation/inflation expectations are also high, meaning living standards would be threatened if wage increases do not keep pace with said cost pressures. Significant increases in unemployment and expectations that it will worsen further in the period ahead will have consumers unwilling to take on borrowings that they have little chance of servicing (here too also enters the need for payday lenders to keep bad debts under control in times of macro-economic deterioration).

An increased willingness of traditional lenders to take on increased risk. RBA monetary policy easings and/or price competition in the broader financial sector could see better quality borrowers on payday lenders books being chased by banks and credit unions.

The increased prevalence of so-called disruptors. The gradual evolution of fintech disruptors could shake up consumer lending (although at this stage the latter companies look to be focussing more on better quality borrowers). The pawn shop sector has faced increased competition from Internet-delivered auction sites (like eBay) and the "old media" classifieds (such as Trading Post).

Regulation in the Broader Consumer Credit Sector

Consumer credit-related legislation has gradually evolved over time. For a long time, the primary credit specific legislation was the Federal National Consumer Credit Protection Act (2009), which incorporates the National Credit Code (NCC) and the National Consumer Credit Protection Regulations (2009). Consumer credit is also subject to

general consumer protection provisions applying to financial products and services under the Australian Securities and Investments Commission Act (2001).

More recently, in response to concerns that some consumers were being lured into excessive indebtedness, the Federal Government introduced new legislation, the Consumer Credit Legislation Amendment (Enhancements) Act 2012 (Enhancements Act).

The latter law imposes a number of regulations and restrictions on payday loans, including:

- Banning loans of up to $2,000 that must be paid in 15 days or less.
- A cap on loan fees and charges (there is now a maximum establishment fee of 20% of the credit amount and a maximum monthly fee of 4% of the credit amount).
- Defaulting SACC borrowers must not be charged a penalty that exceeds twice the loan amount.
- Certain classes of borrowers are deemed to be unsuitable for SACCs (including those that have already had 2+ SACCs over the past 90 days) and
- Protections for borrowers who receive more than half of their income via Social Security Act-related benefits.

ASIC has banned direct debit fees on any payday loans issued after 1 February 2017, while service providers such as Google have banned ads for payday loans with terms of less than 61 days.

The incumbent Federal government has kept the pressure on payday lenders. In early 2016, it vowed to retain the fee cap on SACCs and introduce a protected earnings cap for all borrowers, which stipulates that repayments must not comprise more than 10% of a borrower's income. This cap was previously set at 20% but only applied to borrowers receiving Centrelink payments.

As this Initiation of Coverage report issues, the National Consumer Credit Protection Amendment (Small Amount Credit Contract and Consumer Lease Reforms) Bill 2018 is currently under review. If this review progresses and legislation is passed by the Federal government, there may be changes to the terms on which small amount credit contracts may be provided. CCV concedes that it cannot reasonably assess the final impact changes in this law may have on its business.

SWOT ANALYSIS

Strengths

- CCV has a highly experienced management team with significant lending, credit and operations experience.
- The Company has a dominant position in Australia's SACC and pawnshop market segments.
- The CCV personal and auto loan product suite is always evolving.
- Outside of Australia, CCV also has a presence in 17 other countries, with significant footprints in both the UK and NZ.
- A strengthened balance sheet by virtue of the Company's recent share raising, which slashed gearing ratios and facilitated the repayment of a relatively expensive FIIG bond, gives CCV the fire power to grow.
- CCV has a committed major shareholder, US-based EZCORP, but still has a reasonable free float of around 60%+.
- Recent improvements in CCV's risk management systems have facilitated a reduction in bad debt expense.
- Proprietary technology/systems that are continually being improved.
- Diversification across a number of geographies should, in the absence of a global recession, smooth earnings volatility.
- CCV's funding sources are quite diverse, inclusive of banking finance and a securitization facility.
- Barriers to entry constraints, which including the need for (1) adequate funding requirements (such as bonds and securitisation funding facilities); (2) distribution channels (online and "bricks & mortar"); (3) robust IT systems, and (4) adequately trained front-line staff.

Weaknesses

- Key man risk is apparent, with the current senior management team getting operational and earnings enhancements that proved elusive for prior CCV leadership.
- Many companies with franchise delivery channels are presently under the spot light. CCV outsources the operation of the majority of its stores to third party franchisees. There is a perceived risk that a Company's brand/reputation could be tarnished by the poor behaviour of franchisees.
- SACCs still account for around 50% of total loan portfolio (less annuity like revenues; higher credit quality challenges).

Opportunities

- The successful development of CCV's online channels for retail and personal lending delivers the Company a potential broadening of its client base. CCV's new "webshop" platform is due to be delivered in the Company's 1H19.
- High aggregate indebtedness across Australian households.
- Scope exists for a gradual broadening of the existing CCV product range.
- A further reduction in bad debt expense is possible, on the assumption of no material slowdown in growth metrics across the Australian, NZ and UK economies.
- The establishment of the Green Light Auto unit gives CCV a new revenue stream in what is a quite fragmented market segment. CCV has to date experienced material growth in this auto loan business.
- CCV can now focus on its core lending business after outsourcing all lending collections to Collection House from the start of FY19.

Threats

- A material recession would likely cause (1) reduced borrowing by Australia's household segment and (2) a spike in CCV's bad debt expense that could test the effectiveness of loan security standards.
- RBA rate increases are not able to be passed onto to borrowers on CCV's books ahead of any such monetary policy tightening.
- CCV is currently facing some court actions relating to (1) the legality of brokerage fees charged by the Company to its customers (the brokerage fee system has not been used since 30 June 2013) and (2) some other statements of claim on behalf of borrowers in NSW and Queensland.
- The withdrawal of funding or inability to raise alternative funding on reasonable terms, could limit the growth of CCV's business operations.
- Any tightening in regulatory requirements. In Australia, for example, the payday lending sector is undergoing a period of political and regulatory scrutiny, which may result in regulatory change. Changes to existing regulations and/or the introduction of new ones could potentially require changes to CCV's methods of operation or limit how the Company operates.
- A tougher operating environment could come from the soon to be completed Senate Inquiry into the operation and effectiveness of the Franchising Code of Conduct. It is expected to be completed by September.
- New market entrants – both domestic and offshore-domiciled groups - could become competitive threats, potentially leading to price competition and a resultant deterioration in margin performance.
- The performance and reliability of CCV's websites, databases and operating systems.
- CCV profitability is exposed to currency shifts by virtue of its operations being spread across multiple countries.

COMPETITOR ANALYSIS

Money3 Corporation (MNY) is the closest Australian Stock Exchange (ASX)-listed competitor, although the latter is currently exiting the SACC market to focus more on secured auto loans and MACCs. Other well-known personal lenders that have loan books skewed to the sub-prime loan segment are Wallet Wizard (the consumer lending business operated by ASX-listed Credit Corp), Nimble (started by Greg Ellis and Sean Teahan in 2005), Capfin Money (part of the world-wide Capfin group), Sunshine Loan Centres and Ferratum (part of Ferratum Group which was founded by Finn Jorma Jokela).

Elsewhere both Pioneer Credit (PNC) and Collection House (CLH) are currently evolving nascent personal lending product offerings, although at this stage their core operations are purchased debt ledger- and credit collections-focussed. Note too that the PNC and CLH lending products are aimed at "near prime" borrowers. Other lenders operating in the "near prime" borrower segment include SocietyOne, Liberty, pepper money, Rate%Setter and the soon-to-be-listed Latitude.

We have also included Flexigroup (FXL) in our competitor analysis, another ASX-lasted consumer-oriented short-term financier. Short summaries of CCV's ASX-listed competitors follow. (Note that while the ASX-listed banks and credit unions also offer personal loan products, the latter financial institutions are overwhelmingly focussed on lending to "prime" borrowers. They also raise deposits. On the basis of these differences, both groups are excluded.)

- Money3 Corporation Ltd (MNY). MNY offers a range of products to service the needs of a steadily growing customer base. The loan products offered are (1) secured automotive loans from $2,000-35,000 over periods up to 60 months and (2) larger amount credit contract (LACC) unsecured personal loans above $2,000 for terms up to 24 months and (3) unsecured personal loans under $2,000 for terms under 12 months (Small Amount Credit Contracts (SACCs). The Company operates under both the MNY and Cash Train brands. MNY also has three main distribution channels. The first, a broker channel, receives secured automotive leads from over 150+ accredited brokers spread throughout Australia. The second is a Branch network, which services customers wanting on-the-spot cash loans and prefer face-to-face contact. The third channel is an Online

channel, which services digitally savvy customers who prefer to make applications at a time and place that suits them.

- Credit Corp Ltd (CCP). CCP has two main operating segments. The first is Debt Ledger Purchasing, which acquires consumer debts at a discount to their face value from credit providers with the objective of recovering amounts in excess of the purchase price over the collection life cycle of the receivables to produce a return. The latter unit, which also provides a debt collection services and now includes a small US-based operation, is still the major profit driver for CCP, accounting for some 72% of CCP group NPAT in FY18. The second unit is Consumer Lending, which offers various financial products to credit impaired consumers.
- Pioneer Credit Ltd (PNC). PNC has, until more recently, been a financial services provider specializing in the acquisition and servicing of unsecured retail debt portfolios. PNC has been innovative in the Purchased Debt Portfolios segment, more recently going into Lenders Mortgage Insurance Residuals. Its sphere of operations has also gradually expanded. The Company has, for some time, been in the brokered personal credit and loan products space. Even more recently, PNC has made a cautious push into on balance sheet lending products, with three initial offerings (taking these loan product customers "on their Pathway to Prime". PNC is now targeting a $30m loan book by December 2018.
- Collection House Ltd (CLH). CLH has three broad divisions. The first, Purchased Debt Ledgers (PDLs), accounts for the greater part of the Company's earnings base. At this point in time, the unit's major business is Lion Finance, CLH's PDL entity, which is responsible for the collection of PDLs the Company buys from Australian credit providers. CLH recently added its Safe Horizons and ThinkMe Finance businesses to the PDL segment. The former provides financial hardship services on behalf of organisations, while ThinkMe Finance is a licensed specialist finance broker for the provision of credit. The second broad division of CLH is Collection Services, which is made up of a number of brands, providing services to businesses, Government organisations and individuals. The businesses within Collection Services comprise Collection House Ltd (including NZ and Philippines), CLH Lawyers, Midstate CreditCollect, Collective Learning and Development and CLH Business Services. The third division is Group Support Services, which houses a number of specialist support services, including Finance, HR, Technology, Risk Management/Compliance and Analytics.
- Flexigroup Ltd (FXL). FXL is a diversified financial services group providing leasing, vendor finance programs, interest free and visa cards, mobile broadband, lay-by and other payment solutions to consumers and businesses. From a geographic perspective, it has operations in Australia, NZ and Ireland. In the commercial and consumer leasing segment, FXL has five specialized brands: Lisa, FlexiRent (consumer leasing solutions offered through Australia's top retailers), FlexiWay (consumer leasing available through some of Australia's top technology and home appliances retailers), FlexiCommercial (a tax effective and cash-flow efficient way to access the latest business technology and equipment) and Smartway (Customer leasing offered through JB Hi-Fi stores across Australia). In the Interest Free Finance segment, the FXL brands are Lombard, Once and Q Card (the latter being a NZ-based product offering). Interest Free products allow customers to facilitate purchases at participating retailers (home improvement retailers included). FXL also offers two No Interest Ever! Payment plans. These are (1) Certegy Ezi-Pay (a lay-by like product) and (2) Oxipay, which allows clients to shop online or instore at any Oxipay retail partner and spread the cost of their purchase over four payments.

Figure 10 below provides some comparable forward looking metrics for the abovementioned ASX-listed stocks. The FY19 through FY20 forecasts are sourced from Bloomberg (note that for MNY, PNC and CLH, we have also incorporated PSL analyst forecasts; we have also taken care to only use those analyst projections that have issued since these companies' last reporting dates).

Figure 10: Valuation Metrics of Key ASX-Listed Competitors of CCV

Company	ASX Code	Market Cap ($m)	PE (times)			EPS Growth (%)			Share Price ($)	Div. Yield (%)	Franking (%)	Broker Estimates
			FY18	FY19	FY20	FY18	FY19	FY20		FY19		
Money3	MNY	385.0	11.1	10.7	9.6	8.9	3.6	11.3	2.18	4.5	100.0	4
Credit Corp	CCP	1,075.0	16.8	15.5	13.7	16.5	8.2	13.1	22.54	3.2	100.0	7
Pioneer Credit	PNC	208.0	12.3	10.2	8.6	37.5	20.5	18.3	3.38	4.8	100.0	4
Collection House	CLH	223.0	9.9	8.8	8.2	26.9	12.7	7.0	1.63	5.3	100.0	8
Flexigroup	FXL	760.0	8.8	7.8	7.4	-4.2	13.5	5.7	2.03	4.5	100.0	5
Sector Average		530.2	11.8	10.6	9.5	17.1	11.7	11.1		4.5	100.0	5.6
Cash Converters	CCV	194.0	8.4	7.8	7.1	-24.0	7.9	9.8	0.32	0.0	na	2

Source: Bloomberg, Patersons Research

Notes:

1. *MNY, CCP, PNC, CLH, FXL and CCV all report year ended June (projections as at 18 September 2018).*
2. *PSL Research covers MNY, PNC, CLH and CCV, with these projections included in the above consensus projections.*

Key points of comparison/differentiation:

- CCV, CLH and PNC are all around the same size.
- CLH and PNC are, at this point in time, relative minnows in the personal lending space. Most of their revenue base is derived from PDLs and/or credit collections. That said, both look to be gradually expanding their consumer finance units from low bases, with the latter company looking at this stage to be more aggressive in this ramp up process. CLH is expected to provide more detail on its push into personal lending at its upcoming FY18 AGM.
- MNY continues to wind back its SACC loan book and will soon exit this segment all together, redirecting freed up capital resources to its preferred lending segment of secured autos, Initial FY19 guidance is set to issue at the latter company's FY18 AGM.
- CCP is "best of breed" in the stocks selected, although the larger portion of its revenue and earnings bases are sourced from the Purchased Debt Ledgers operation. It, like CCV, has offshore operations. Initial FY19 earnings guidance is quite positive.
- The prospective FY19 and FY20 PEs of many of CCV's competitors are mid-single digit to low double-digit – even FXL despite its ongoing business operations revamp.
- CCV's valuation metrics are less than demanding, in the context of those for its major competitors.
- Our prospective FY19 dividend yield for CCV is zero, on the assumption that the Company will this fiscal year continue to reinvest in the re-shaping of the business.

MAKE UP OF PSL-CALCULATED CCV DCF VALUATION AND WACC

Our current CCV valuation and 12-month price target are both derived via a discounted cash flow (DCF) analysis. Note that this incorporates (1) the dilutive impact of the recent pro-rata non renounceable entitlement share raising (completed in June 2018).

Figure 11: Valuation Metrics

NPV of Forecasts	179	143		
Perpetuity [e/(r-g)]	166	185		
Total Operational NPV	**346**	**328**	$0.60	$0.53
Value of Debt	-55	-8	-$0.10	-$0.01
Value of Tax Losses / Low Tax Rate	0	0	$0.00	$0.00
Value of Franking Credits	4	5	$0.01	$0.01
Value of Minorities	0	0	$0.00	$0.00
Value of Exploration and R&D	0	0	$0.00	$0.00
Value of Investments (incl. Associates)	26	33	$0.05	$0.05
Adjustment for Non.Ordinary Shares / Options	0	0	$0.00	$0.00
Analyst Premium / Discount		0%		
Total NPV	**321**	**359**	**$0.56**	**$0.58**

Source: Patersons Research

The above valuation results in a prospective fiscal 2019 capital return of around 86%. There is no yield return as we assume CCV does not start paying dividends again until FY20.

Our WACC for CCV is 11.5%. Figure 12 below details its component parts. Note that the high beta reflects the relatively small capitalisation of CCV and the drag on free float by the major holding of long time circa 35% holder EZCORP International.

Figure 12: WACC Make Up

Risk Free Rate	3.3%
Risk Premium	6.5%
Sector Beta	1.0
Analyst Beta Adj	0.6
Beta	1.60
Cost of equity	13.7%
Cost Of Debt	7.0%
Tax Rate	30%
Post-tax cost of debt	4.9%
Target D/(D+E)	25%
WACC Disc. rate	**11.5%**

Source: Patersons Research

SENSITIVITY ANALYSIS

Figure 13 below provides a pointer to the sensitivity of our DCF-derived 12-month price target to shifts in the WACC discount rate and our long-term EBITDA forecasts (FY19 through FY28).

Figure 13 Sensitivity Analysis

Shifts in WACC on Price Target							
WACC (%)	10.0	10.5	11.0	11.5	12.0	12.5	13.0
12 Month Price Target ($)	0.71	0.66	0.62	0.58	0.55	0.52	0.49

Shifts in EBITDA Forecasts (FY19 thru FY28) on Price Target							
EBITDA Variation From Forecast	-5 pps	-3 pps	-1 pps	0	+1 pps	+3 pps	+5 pps
12 Month Price Target ($)	0.55	0.56	0.57	0.58	0.59	0.61	0.62

Source: Patersons Research

CCV BOARD OF DIRECTORS AND SENIOR MANAGEMENT TEAM

The CCV Board of Directors

Stuart Grimshaw: Non-Executive Chairman. Stuart joined the CCV board in November 2014 and was appointed Non-Executive Chairman in September 2015. He is also currently the Chief Executive Officer of EZCORP Inc, a near 35% shareholder in CCV. Stuart was previously the Managing Director and Chief Executive Officer of Bank of Queensland Limited (BOQ). During his tenure at BOQ, he initiated fundamental changes to BOQ's culture, operating model and strategic direction, and established a strong track record of execution. His BOQ stint also saw the bank attract and develop exceptional talent across the top four management levels and gain market recognition for a unique culture and brand. Prior to his time at BOQ, Stuart held a wide variety of other roles across many functions of banking and finance, including eight years at the Commonwealth Bank of Australia (CBA). At CBA, he started as Chief Financial Officer and over time became Group Executive, responsible for core business lines including Institutional and Business Banking as well as Wealth Management (Asset Management and Insurance). Prior to joining CBA, he worked for the National Australia Bank and was the Chief Executive Officer of the Great Britain area, with responsibility for large UK consumer banks Yorkshire Bank and Clydesdale Bank. Stuart has a Bachelor of Commerce and Administration (Victoria University, Wellington, NZ) and an MBA (Melbourne University, Australia). He has also completed the Program for Management Development at Harvard Business School. At the sporting level, Stuart represented New Zealand at the 1984 Olympics in Field Hockey.

Peter Cumins: Executive Deputy Chairman. Peter joined the CCV Group in August 1990 as Finance and Administration Manager, becoming General Manager in March 1992 and Group Managing Director in April 1995. He was elevated to Executive Deputy Chairman in January 2017. Peter was earlier appointed a director of EZCORP Inc board in July 2014. He is a qualified accountant and has overseen the major growth in the number of franchisees in Australia as well as the international development of the Cash Converters franchise system. His experience in the management of large organisations has included senior executive positions in the government health sector, specifically with the Fremantle Hospital Group, where he was Finance and Human Resources Manager.

Andrea Waters: Independent Non-Executive Director. Andrea joined the CCV board on 9 February 2017 and chairs the Audit Committee. She is also a non-executive director of Bennelong Funds Management Ltd, Care Super and CityWide Service Solutions, MyState Limited and Colonial Foundation Limited (a not-for-profit foundation). Andrea brings specialist knowledge and experience in the areas of audit and risk. She is a Chartered Accountant, having had an extensive career at KPMG as a Financial Services Audit Partner until 2012, specialising in managed investments and superannuation. She has significant experience with audit committees, and in her capacity as a non-executive director, is able to apply this knowledge and experience in her oversight of governance and business audit practices. Andrea is also accredited with facilitating the 'Financial Literacy for Directors' and 'Driving Financial Performance' modules for Company Director courses for the Australian Institute of Company Directors. She has a Bachelor of Commerce (University of Melbourne), is a Fellow of the Institute of Chartered Accountants in Australia and a member of the Australian Institute of Company Directors.

Ellen Comerford: Independent Non-Executive Director (has resigned, effective 30 September 2018). Ellen joined the board on 9 February 2017 and chairs the Remuneration Committee. She is also a non-executive director of Hollard Hollings Australia, Hollard Insurance Company in Australia and Heartland Bank Limited in NZ and she is a member of Chief Executive Women. Ellen has over 30 years of financial services experience across a range of banking and insurance businesses. Most recently, she was CEO and MD of Genworth Australia (a S&P/ASX 200 listed company). She has also held various positions with leading global title and specialty insurance company, First American Financial Corporation, both in Australia and internationally, including CEO and MD of the Australia and New Zealand operations, and Chief Operating Officer for the International Division. Prior to this, she was at Citigroup for approximately 14 years. Ellen brings significant experience in enhancing performance culture within businesses with a commitment to promoting diversity. She has a Bachelor of Economics (Macquarie University).

Kevin Dundo: Independent Non-Executive Director. Kevin joined the board on 20 February 2015. He practises as a lawyer and specialises in the commercial and corporate field, with experience in the mining sector, the service industry and the financial services industry. He is a member of the Law Society of Western Australia, Law Council of Australia, Australian Institute of Company Directors and a Fellow of the Australian Society of Certified Practising Accountants. Kevin is currently a Non-Executive Director and Chairman of the Audit Committee of ASX-listed Imdex Ltd (ASX:IMD) and Non-Executive Chairman of ASX-listed Red 5 Ltd (ASX:RED).

Lachlan Given: Non Executive Director. Lachlan joined the board on 22 August 2014. He is the Executive Vice Chairman of EZCORP Inc. and Director of The Farm Journal Corporation, a 134 year old pre-eminent US agricultural media company. He is also a Director of Senetas Corporation Ltd (ASX: SEN), the world's leading developer and manufacturer of certified, defence-grade encryption solutions; CANSTAR Pty Ltd, the leading Australian financial services ratings and research firm; ad Tab.com, a leading provider of physical and digital records management solutions in the US, Canada and Europe. Lachlan began his career working in the investment banking and equity capital markets divisions of Merrill Lynch in Hong Kong and Sydney where he specialised in the origination and execution of a variety of M&A, equity and equity-linked and fixed income transactions. He graduated from the Queensland University of Technology with a Bachelor of Business majoring in Banking and Finance (with distinction).

The Senior Management of CCV

Sam Budiselik: Interim Chief Executive Officer (Interim CEO). Sam became a member of the key management personnel (KMP) on 3 July 2017. He took on the role of CCV's Chief Operating Officer effective 1 January 2018. He was appointed Interim Chief Executive Officer on 27 August 2018.

Brad Edwards: General Counsel & Company Secretary. Brad was appointed General Counsel and Company Secretary in July 2017. With a background in law, Brad has extensive private practice and corporate experience, most notably with the Bank of Queensland Group for 15 years where he held the roles of Company Secretary and General Counsel. Brad's career encompasses financial services, including retail franchising, regulatory matters, dispute resolution and class action litigation, capital markets, and mergers and acquisitions. He has a Bachelor of Law degree from Queensland University of Technology and attended the Stanford University Graduate School of Business. Brad is a passionate supporter of surf lifesaving and has voluntarily occupied the role of Director of Surf Life Saving Queensland as well as Director of The Prince Charles Hospital Foundation

Ben Cox: General Manager, Corporate Distribution. Ben has just been appointed to this role. He will run the Australian store network. Ben joined Cash Converters in Australia in March 2018 following more than a decade working as one of Cash Converters' most successful UK franchisees. With an unparalleled understanding of the Cash Converters' customer and a passion for pawn broking, the Company intends to use Ben's considerable experience in delivering growth in store profitability.

Cash Converters Int. Ltd (CCV) **$0.32**

Valuation (DCF)	Val'n	12M Targ	Val/Shr	Targ./Shr
Total Operational NPV	346	328	0.60	0.53
Value of Debt	-55	-8	-0.10	-0.01
Value of Tax Loss / Low Tax Rai	0	0	0.00	0.00
Value of Franking Credits	4	5	0.01	0.01
Value of Minorities	0	0	0.00	0.00
Value of Exploration and R&D	0	0	0.00	0.00
Value of Invest. (incl. Associate	26	33	0.05	0.05
	0	0	0.00	0.00
Analyst Premium / Discount	0	0	0.00	0.00
Total NPV	321	359	0.56	0.58

WACC	
Risk Free Rate	3.3%
Risk Premium	6.5%
Sector Beta	1.0
Analyst Beta Adj	0.6
Beta	1.60
Cost of equity	13.7%
Cost Of Debt	7.0%
Tax Rate	30%
Post-tax cost of debt	4.9%
Target D/(D+E)	25%
WACC Disc. rate	**11.5%**

Directors	
Name	**Position**
Stuart Grimshaw	Non Executive Chairman
Peter Cumins	Executive Deputy Chairman
Lachlan Given	Non Executive Director
Kevin Dundo	Non Executive Director
Andrea Waters	Non Executive Director
Ellen Comerford	Non Executive Director

Sub. Shareholders	M	%
Shareholder		
Ezcorp International Inc	214.2	34.8%
Perpetual Ltd	48.5	7.9%
Adam Smith Asset Mgt Pty Ltd	42.9	7.0%
FMR LLC	26.1	4.2%
Commonwealth Bank of Aust.	24.9	4.0%
Subtotal		57.9%

Profit & Loss ($M)	2018A	2019F	2020F	2021F
Operating Revenues	260.3	276.0	292.9	310.9
COGS/Other Op Costs	-212.7	-227.2	-240.5	-253.1
EBITDA	**47.6**	**48.8**	**52.3**	**57.8**
Goodwill/Other Amort.	-7.4	-7.8	-8.2	-8.6
EBIT	**40.2**	**41.0**	**44.1**	**49.2**
Net Interest	-8.9	-4.5	-4.0	-4.0
Pretax Profit	**31.3**	**36.5**	**40.1**	**45.2**
Tax expense (recurring)	-8.8	-10.6	-11.6	-13.1
NPAT (Pre Non-Recur)	**22.5**	**25.9**	**28.5**	**32.1**
Non Recur Items	0.0	0.0	0.0	0.0
NPAT (Reported)	**22.5**	**25.9**	**28.5**	**32.1**

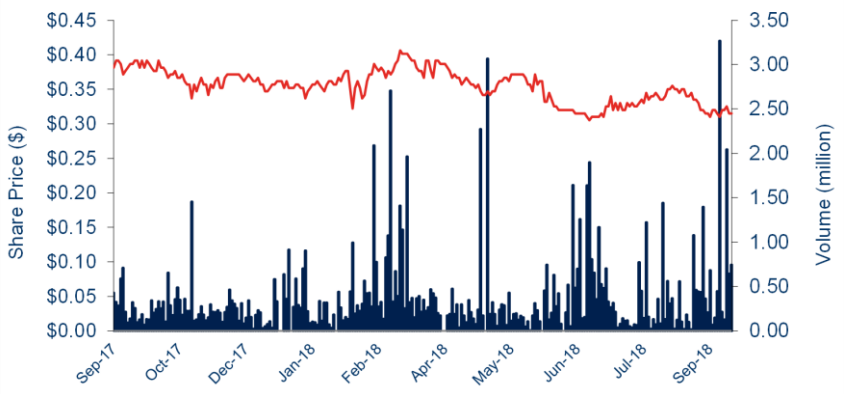
Cash Flow ($M)	2018A	2019F	2020F	2021F
	47.6	**48.8**	**52.3**	**57.8**
Working Capital Chgs	-53.4	-1.3	-1.8	-1.9
Interest & Tax	-14.4	-14.7	-15.0	-16.4
Other Operating C/Flows	-1.2	0.7	0.6	0.6
Operating C/Flows	**-21.5**	**33.5**	**36.1**	**40.2**
Required Capex	-2.7	-5.5	-5.9	-6.2
Dividends	0.0	0.0	-6.5	-13.6
Free Cash Flow	**-24.2**	**25.0**	**20.8**	**17.4**
Acquisitions/Disposals	-6.9	-6.0	-6.0	-6.0
Other Investing Items	1.3	0.0	0.0	0.0
Equity	37.9	0.0	0.0	0.0
Debt Increase/(Decrease)	51.0	-22.0	-17.8	-14.4
Net Cash Flow	**59.1**	**0.0**	**0.0**	**0.0**

Balance Sheet ($M)	2018A	2019F	2020F	2021F
Cash/S/T Deposits	140.0	50.0	50.0	50.0
Trade/Other Debtors	22.7	23.7	23.9	9.2
Investments	119.0	119.0	119.0	119.0
Other Curr. Assets	6.8	6.4	6.8	7.3
Total Current Assets	**309.2**	**221.5**	**223.6**	**225.9**
Property/Plant/Equip't	9.1	11.4	13.9	16.5
Non Curr. Investments	32.8	34.2	35.4	36.3
Intangibles	137.1	137.1	137.1	137.1
Other Non Curr. Assets	10.1	10.1	10.1	10.1
Total Non Curr. Assets	**200.0**	**203.7**	**207.3**	**210.9**
Total Assets	**509.1**	**425.2**	**430.9**	**436.8**
Current Borrowings	139.4	0.0	0.0	0.0
Trade/Other Creditors	19.5	20.6	20.9	21.3
Other Curr. Liabilities	0.5	0.9	1.4	0.0
Total Curr. Liabilities	**165.9**	**28.5**	**29.9**	**31.4**
Non Curr. Borrowings	19.0	46.4	28.6	14.2
Other Non Curr Liabilities	1.9	2.0	2.2	2.3
Total Non Curr. Liab.	20.8	48.4	30.8	16.5
Total Liabilities	**186.7**	**76.9**	**60.6**	**47.9**
Total S/Holder Equity	322.4	348.3	370.3	388.9

EPS/DPS	2018A	2019F	2020F	2021F
EPS (Reported) (Diluted)	4.5	4.2	4.6	5.2
EPS (Pre Non Recur. Items)	4.6	4.2	4.6	5.2
EPS growth (%)	7.8	-5.7	9.9	12.6
DPS (cents)	0.0	0.0	2.2	2.2
Franking (%)	100	100	100	100
Dividend Yield (%)	0.0	0.0	7.0	7.0
Payout Ratio (%)	0.0	0.0	47.5	42.5

Ratios	2018A	2019F	2020F	2021F
Profitability				
EBITDA Margin (%)	18.3	17.7	17.9	18.6
EBIT Margin (%)	15.4	14.9	15.1	15.8
ROA (%)	5.3	5.8	7.0	7.8
ROE (%)	7.7	7.7	7.9	8.5
Tax Rate (%)	28.0	29.0	29.0	29.0
Valuation				
Price/Earnings (x)	7.1	7.5	6.8	6.1
EV/EBITDA (x)	4.47	3.90	3.30	2.74
Price/NTA (x)	1.05	0.92	0.83	0.80
Balance Sheet				
Net Debt/Equity (%)	5.7	na	na	na
Net Debt/Net Debt + Equity	5.4	-1.1	-6.1	-8.6
Interest Cover (x)	4.5	9.1	11.0	12.3
NTA ($/share)	0.30	0.34	0.38	0.39
Shares (M, period end)	616.4	616.4	616.4	616.4

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.

1300 582 256
patersons@psl.com.au
www.psl.com.au

Patersons Securities Limited Disclosure of Interest

Patersons Securities and its respective officers and associates may have an interest in the securities or derivatives of any entities referred to in this material

Patersons Securities does, and seeks to do, business with companies that are the subjects of its research reports.

Patersons Securities Corporate Relationship Disclosure

88E	Patersons Securities have acted for 88 Energy Limited (88E) within the past year and have received fees for these services.
AGR	Patersons Securities have acted for Aguia Resources Limited (AGR) within the past year and have received fees for these services.
AGY	Patersons Securities have acted for Argosy Minerals Limited (AGY) within the past year and have received fees for these services.
AJL	Patersons Securities have acted for AJ Lucas Group Limited (AJL) within the past year and have received fees for these services.
AKM	Patersons Securities have acted for Aspire Nmining Limited (AKM) within the past year and have received fees for these services.
AXL	Patersons Securities have acted for Axsesstoday Limited (AXL) within the past year and have received fees for these services.
BOE	Patersons Securities have acted for Boss Resources Limited (BOE) within the past year and have received fees for these services.
BRB	Patersons Securities have acted for Breaker Resources NL (BRB) within the past year and have received fees for these services.
BUX	Patersons Securities have acted for Buxton Resources Limited (BUX) within the past year and have received fees for these services.
CSS	Patersons Securities have acted for Clean Seas Seafood Limited (CSS) within the past year and have received fees for these services.
CTL	Patersons Securities have acted for Centennial Mining Limited (CTL) within the past year and have received fees for these services.
DRG	Patersons Securities have acted for Draig Resources Limited (DRG) within the past year and have received fees for these services.
DRO	Patersons Securities have acted for DroneShield Limited (DRO) within the past year and have received fees for these services.
GLL	Patersons Securities have acted for Galilee Energy Limited (GLL) within the past year and have received fees for these services.
IBG	Patersons Securities have acted for Ironbark Zinc Limited (IBG) within the past year and have received fees for these services.
IPT	Patersons Securities have acted for Impact Minerals Limited (IPT) within the past year and have received fees for these services.
NUS	Patersons Securities have acted for Nusantara Resources (NUS) within the past year and have received fees for these services.
PEX	Patersons Securities have acted for Peel Mining Limited (PEX) within the past year and have received fees for these services.
PGO	Patersons Securities have acted for Primary Gold Limited (PGO) within the past year and have received fees for these services.
SYA	Patersons Securities have acted for Sayona Mining Limited (SYA) within the past year and have received fees for these services.
UUV	Patersons Securities have acted for UUV Aquabotix Ltd (UUV) within the past year and have received fees for these services.
WKT	Patersons Securities have acted for Walkabout Resources Ltd (WKT) within the past year and have received fees for these services.
XAM	Patersons Securities have received corporate advisory fees from Xandau Mines Limited (XAM) within the past year.
XTE	Patersons Securities have acted for Xtek Limited (XTE) within the past year and have received fees for these services.

1300 582 256
patersons@psl.com.au
www.psl.com.au

Patersons Securities Limited Disclosure of Interest

Patersons Securities and its respective officers and associates may have an interest in the securities or derivatives of any entities referred to in this material

Patersons Securities does, and seeks to do, business with companies that are the subjects of its research reports.

Patersons Securities Corporate Relationship Disclosure

88E Patersons Securities have acted for 88 Energy Ltd (88E) within the past year and have received fees for these services.

AGR Patersons Securities have acted for Aguia Resources Ltd (AGR) within the past year and have received fees for these services.

AGY Patersons Securities have acted for Argosy Minerals Ltd (AGY) within the past year and have received fees for these services.

AJL Patersons Securities have acted for AJ Lucas Group Ltd (AJL) within the past year and have received fees for these services.

AKM Patersons Securities have acted for Aspire Mining Ltd (AKM) within the past year and have received fees for these services.

AO1 Patersons Securities have acted for AssetOwl Limited (AO1) within the past year and have received fees for these services.

AXL Patersons Securities have acted for Axsesstoday Ltd (AXL) within the past year and have received fees for these services.

BOE Patersons Securities have acted for Boss Resources Ltd (BOE) within the past year and have received fees for these services.

BRB Patersons Securities have acted for Breaker Resources NL (BRB) within the past year and have received fees for these services.

BUX Patersons Securities have acted for Buxton Resources Ltd (BUX) within the past year and have received fees for these services.

CSS Patersons Securities have acted for Clean Seas Seafood Ltd (CSS) within the past year and have received fees for these services.

CTL Patersons Securities have acted for Centennial Mining Ltd (CTL) within the past year and have received fees for these services.

DRG Patersons Securities have acted for Draig Resources Ltd (DRG) within the past year and have received fees for these services.

DRO Patersons Securities have acted for DroneShield Ltd (DRO) within the past year and have received fees for these services.

GLL Patersons Securities have acted for Galilee Energy Ltd (GLL) within the past year and have received fees for these services.

IBG Patersons Securities have acted for Ironbark Zinc Ltd (IBG) within the past year and have received fees for these services.

IPT Patersons Securities have acted for Impact Minerals Ltd (IPT) within the past year and have received fees for these services.

NUS Patersons Securities have acted for Nusantara Resources (NUS) within the past year and have received fees for these services.

PEX Patersons Securities have acted for Peel Mining Ltd (PEX) within the past year and have received fees for these services.

RCL Patersons Securities have acted for Readcloud Limited (RCL) within the past year and have received fees for these services.

STN Patersons Securities have acted for Saturn Metals Limited (STN) within the past year and have received fees for these services.

SYA Patersons Securities have acted for Sayona Mining Ltd (SYA) within the past year and have received fees for these services.

UUV Patersons Securities have acted for UUV Aquabotix Ltd (UUV) within the past year and have received fees for these services.

VMY Patersons Securities have acted for Vimy Resources Ltd (VMY) within the past year and have received fees for these services.

WKT Patersons Securities have acted for Walkabout Resources Ltd (WKT) within the past year and have received fees for these services.

XAM Patersons Securities have received corporate advisory fees from Xanadu Mines Ltd (XAM) within the past year.

XTE Patersons Securities have acted for Xtek Ltd (XTE) within the past year and have received fees for these services.

PATERSONS

1300 582 256
patersons@psl.com.au
www.psl.com.au

Research

Cathy Moises - Head of Research	Phone:	(+61 3) 9242 4030	Email:	cmoises@psl.com.au
James Farr - Associate Analyst	Phone:	(+61 8) 9263 1215	Email:	jfarr@psl.com.au
Daniel Veasey - Research Assistant	Phone:	(+61 8) 9225 2818	Email:	dveasey@psl.com.au

Strategy & Economics

Tony Farnham - Economic Strategist / Analyst	Phone:	(+61 2) 9258 8973	Email:	tfarnham@psl.com.au
Greg Galton - Director Private Wealth	Phone:	(+61 8) 9263 1612	Email:	ggalton@psl.com.au

Commodities

Cathy Moises - Head of Research	Phone:	(+61 3) 9242 4030	Email:	cmoises@psl.com.au
Cam Hardie - Analyst	Phone:	(+61 3) 9242 4153	Email:	chardie@psl.com.au
Xavier Braud - Analyst	Phone:	(+61 8) 9225 2813	Email:	xbraud@psl.com.au

Industrials

Martyn Jacobs - Analyst	Phone:	(+61 3) 9242 4153	Email:	mjacobs@psl.com.au
Jon Scholtz - Analyst	Phone:	(+61 8) 9225 2836	Email:	jscholtz@psl.com.au
Phil Carter - Analyst	Phone	(+61 8) 9225 2819	Email:	Pcarter@psl.com.au
Hira Sakrani - Associate Analyst	Phone:	(+61 3) 9242 4052	Email:	hsakrani@psl.com.au

Institutional Dealing

Dan Bahen	Phone:	(+61 8) 9263 1274	Email:	dbahen@psl.com.au
Michael Brindal	Phone:	(+61 8) 9263 1186	Email:	mbrindal@psl.com.au
Artie Damaa	Phone:	(+61 2) 8238 6215	Email:	adamaa@psl.com.au
Paul Doherty	Phone:	(+61 3) 8803 0108	Email:	pdoherty@psl.com.au
Chris Kelly	Phone:	(+61 3) 9242 4078	Email:	ckelly@psl.com.au
Jeremy Nugara	Phone:	(+61 3) 8803 0166	Email:	jnugara@psl.com.au
Phil Schofield	Phone:	(+61 2) 8238 6223	Email:	pschofield@psl.com.au
Sandy Wylie	Phone:	(+61 8) 9263 1232	Email:	swylie@psl.com.au

Disclaimer: Patersons believes that the information or advise (including any financial product advice) contained in this report has been obtained from sources that are accurate at the time of issue, but it has not independently checked or verified that information and as such does not warrant its accuracy or reliability. Except to the Extent that liability cannot be excluded. Patersons accepts no liability or responsibility for any indirect loss or damage caused by any error in or omission from this report. You should make and rely on your own independent inquiries. If not specifically disclosed otherwise, investors should assume that Patersons is seeking or will seek corporate finance business from the companies disclosed in this report.

Warning: This report is intended to provide general securities advice, and does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situtation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your financial circumstances and investment objectives.

Disclosure: Patersons, its directors and/or employees may earn brokerage, fees, commissions and other benefits as a result of a transaction arising from any advice mentioned in this report. Patersons as principal, its directors and/or employees and their associates may hold securities in the companies the subject of this report, as at the date of publication. These interests do not influence Patersons in giving the advice contained in this report. Details of any interests may be obtained from your adviser. Patersons as principal, its directors and/or employees and their associates may trade in these securities in a manner which may be contrary to recommendations given by an authorised representative of Patersons to clients. They may sell shares the subject of a general 'Buy' recommendation, or buy shares the subject of a general 'Sell' recommendation.

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may no be of investment frage due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside these ranges because of price movements and/or volatility. Such interim deviations from specified rnages will be permitted but will become subject to review by Research Management. This Document is not to be passed to any third party without prior written consent.

Patersons Securities Limited ABN 69 008 896 311 AFSL 239 052

The Authorising Licensee, Patersons Securities Limited, is a Participant of ASX Group; Participant of National Stock Exchange (NSX); Participant of Chi-X Australia; Stockbrokers and Financial Advisers Association Principal Member.