

1 Mar 2018

CASH CONVERTERS INT. LTD (CCV)

Growth ahead!

Cash Converters Limited recently reported NPAT of \$9.4m (we expected \$9.2m), in line with guidance for profit to be in line with 2H17. No DPS declared (none expected). EBITDA was \$21.5m (we expected \$20.5m). Operating cash flow (our measure which excludes loan book growth) was \$16.2m (we expected \$16.3m).

Capex was \$5.7m and the loan book grew by \$40m (more than we expected). Net debt was \$55.3m (we expected \$32m).

Guidance for growth in 2H18

Company guidance is simply for "a stronger second half to the year, with continuing growth in MACC, SACC and GLA lending expected to deliver increases in revenue and profitability." Given that the June half has a full benefit of loans written around Christmas, a stronger 2H is typical. However, because of the historic earnings volatility, the formal guidance is important, particular as the current management team now has a track record of meeting guidance.

Hartleys expects FY18 NPAT \$19.8m, FY19 NPAT \$25.4m

The MACC loan book grew to \$30.1m, GLA (autos) \$31.6m, pawn broking \$10.5m and the SACC book is \$77.4m. Given profit is earned over subsequent periods, it suggests a stronger 2H. We have assumed a u-shaped recovery, with CY17 marking the bottom. We continue to expect meaningful growth, and the loan book balances at December suggest this is likely. We expect FY18 EBITDA \$45.7m (2H18 \$24.4m) and FY18 NPAT \$19.8m.

We expect FY19 EBITDA \$55.8m and NPAT \$25.4m.

Upgrade to Buy (from Speculative Buy)

CCV still appears to have significant risks (regulation, mainstream financial exclusion, political risk, and new product rollout). However, we upgrade to Buy (from Speculative Buy) given the Company has now met guidance twice in a row, and appears to be navigating the risks. We rate the stock as high risk though given the exogenous risks (in particular the class action).

We have a twelve month price target of \$0.52, implying FY20 EV/EBIT of 4.8x. Key risks include an adverse outcome for current litigation.

Fig 1: Earnings Changes

| | 6/17A Actual | old | 6/18F New | % diff | old | 6/19F New | % diff |
|-----------------------------------|-----------------|-------------|--------------|--------------|-------------|--------------|--------------|
| Revenue | 269.7 | 275.2 | 268.2 | -2.5% | 307.8 | 301.2 | -2.1% |
| Norm. EBITDA | 45.7 | 45.3 | 45.7 | 0.9% | 55.0 | 55.8 | 1.4% |
| - margin | 17.0% | 16.5% | 17.0% | 3.6% | 17.9% | 18.5% | 3.6% |
| Depreciation/Amortisation | -8.1 | -8.2 | -7.6 | -6.5% | -8.6 | -8.0 | -5.9% |
| EBIT | 37.6 | 37.1 | 38.1 | 2.6% | 46.5 | 47.8 | 2.8% |
| Net Interest | -7.6 | -6.6 | -9.4 | 42.1% | -6.5 | -11.1 | 69.5% |
| Pretax Profit | 30.0 | 30.5 | 28.7 | -5.9% | 39.9 | 36.7 | -8.1% |
| Tax | -9.0 | -9.2 | -8.6 | -5.9% | -12.0 | -11.0 | -8.1% |
| Norm. Net Profit After Tax | 20.7 | 21.1 | 19.8 | -6.0% | 27.6 | 25.4 | -8.2% |
| - margin | 7.7% | 7.7% | 7.4% | 9.0% | 8.4% | | |
| Reported Group Profit | 22.1 | 21.1 | 19.8 | -6.0% | 27.6 | 25.4 | -8.2% |
| DPS | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | |
| Norm. EPS (diluted) | 4.2 | 4.3 | 4.0 | -6.0% | 5.6 | 5.1 | -8.2% |
| P/E (\$0.375) | 9.0x | 8.8x | 9.3x | | 6.7x | 7.3x | |
| Ordinary Shares (end) | 493.0 | 493.0 | 493.0 | 0.0% | 499.7 | 499.7 | 0.0% |
| Ordinary Shares (avg wgt) | 490.3 | 493.0 | 493.0 | 0.0% | 496.4 | 496.4 | 0.0% |
| Net Debt | 26.7 | 43.4 | 45.7 | 5.2% | 39.6 | 44.1 | 11.4% |

Source: Hartleys Estimates

| | |
|---------------------|---------|
| Share Price: | \$0.380 |
| Valuation: | \$0.62 |
| 12mth price target: | \$0.52 |

Brief Business Description:

MACC lending, SACC lending, consumer finance, car finance & second hand retailer.

Hartleys Brief Investment Conclusion:

Regulatory, political and financial risks remain high. Earnings cycle due to bottom.

Chairman & CEO:

Mr Stuart Grimshaw (Chairman, EZ Corp)
Mark Reid - CEO

Top Shareholders:

EZ Corp 30.8%
Perpetual Ltd 9.8%

Company Address:

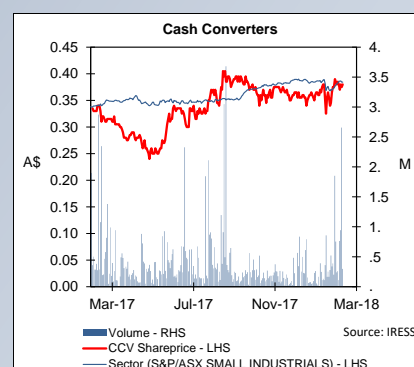
Level 18, 37 St. Georges Tce
Perth, WA, 6000

| | |
|-------------------------|-----------------|
| Issued Capital: | 493.1m |
| - fully diluted | 499.8m |
| Market Cap: | \$187.4m |
| - fully diluted | \$189.9m |
| Net Debt (30 Dec '17a): | \$55.3m |

| | FY17a | FY18e | FY19e |
|---------------------|-------------|-------------|-------------|
| Op Cash Flw | 51.2 | 25.3 | 34.6 |
| Free Cash Flw | 37.9 | 17.7 | 27.6 |
| NPAT (A\$m)* | 20.7 | 19.8 | 25.4 |
| EPS (\$, dil) | 4.2 | 4.0 | 5.1 |
| P/E (diluted) | 9.2x | 9.6x | 7.5x |
| EV / EBITDA | 5.3x | 5.3x | 4.3x |
| DPS (\$) | - | - | - |
| Franking | 100% | 100% | 100% |
| Dividend Yield | 0.0% | 0.0% | 0.0% |
| N.D. / equity | 10.2% | 16.2% | 14.4% |

Source: Hartleys Research

*Normalised



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Hartleys has provided corporate advice to CCV within the past 12 months for which it has earned fees. The analyst has a beneficial interest in CCV shares. See disclosure on back page.

Cash Converters International Ltd (CCV)

| Company Information | | |
|------------------------|-----------------|------------------------------|
| Today's Date | 1 Mar 2018 | Level 18, 37 St. Georges Tce |
| Share Price | \$0.380 | Perth, WA, 6000 |
| 52 Week High-Low | \$0.41 - \$0.24 | Ph: (08) 9221 9111 |
| Market Cap (\$m) | \$187.4 | Fax: (08) 9221 9011 |
| Enterprise Value (\$m) | \$242.7 | www.cashconverters.com.au |

| | |
|----------------------|-------|
| Ordinary Shares | 493.1 |
| Fully Diluted Shares | 499.8 |

Price Target Methodology

| | |
|---------------------------------------------------------------|---------------|
| Spot DCF - 9 years explicit + terminal value (Base Case) | \$0.62 |
| 12mth fwd DCF - 9 years explicit + terminal value (Base Case) | \$0.70 |
| 12mth forward P/E of 14.0x (peak) | \$0.89 |
| Price / NTA 1x \$0.26 | \$0.26 |
| 12mth fwd Div Yield of 4.2% (Gross yield=6.0%) | \$0.00 |
| 12mth Price Target | \$0.52 |

| | |
|----------------------------------|-------|
| P / E (FY19) at Price Target | 10.2x |
| P / E (FY20) at Price Target | 7.4x |
| EV/EBITDA (FY20) at Price Target | 4.3x |
| EV/EBIT (FY20) at Price Target | 4.8x |

| Multiples (\$/price at \$0.38) | 6/16A | 6/17A | 6/18F | 6/19F |
|------------------------------------------|-------------|-------------|-------------|-------------|
| P / E (basic, weighted) | -16.6x | 8.4x | 9.5x | 7.4x |
| P / E (normalised, fully diluted) | 5.2x | 9.2x | 9.6x | 7.5x |
| P / E (normalised, weighted dil.) | 5.1x | 9.2x | 9.5x | 7.4x |
| P / E (ord mkt cap / rep NPAT) | -16.9x | 8.5x | 9.5x | 7.4x |
| Dividend Yield | 7.9% | 0.0% | 0.0% | 0.0% |
| Group Free Cash Flow (f.c.f.) / EV | 9.0% | 15.3% | -7.8% | 0.6% |
| Equity f.c.f. / Mkt Cap | 7.4% | 14.5% | -16.8% | -7.5% |
| Norm f.c.f. / Mkt cap | 7.4% | 14.5% | -16.8% | -7.5% |
| Mkt cap / operating cash flow | 1.8x | 3.5x | 4.3x | 3.3x |
| EV/EBITDA multiple | 3.5x | 5.3x | 5.3x | 4.3x |
| EV/EBIT multiple | 4.0x | 6.5x | 6.4x | 5.1x |
| Price / Book Value | 0.8x | 0.7x | 0.7x | 0.6x |
| Price / NTA | 1.7x | 1.5x | 1.3x | 1.1x |

| Ratios | 6/16A | 6/17A | 6/18F | 6/19F |
|----------------------------------------|--------------|--------------|--------------|--------------|
| Return on Average Equity | 14.6% | 8.3% | 7.3% | 8.6% |
| Return on Assets | 8.5% | 5.0% | 4.6% | 5.3% |
| ROIC pre-tax | 26.1% | 18.4% | 18.4% | 21.3% |
| ND / ND + Equity | 20.1% | 9.3% | 14.0% | 12.6% |
| Net Interest Cover (EBIT) | 7.5 | 4.9 | 4.1 | 4.3 |
| Reported eps growth | nm | nm | -10.9% | 27.3% |
| Norm. eps growth | 13.5% | -44.2% | -3.3% | 27.3% |
| Free Cash Flow Analysis | 6/16A | 6/17A | 6/18F | 6/19F |
| Net Operating Cash Flow | 79.1 | 51.2 | 25.3 | 34.6 |
| Capex (Reported) inc loan book | -57.2 | -14.1 | -44.2 | -33.0 |
| Group Free Cash Flow (rep'ted) | 21.9 | 37.1 | -19.0 | 1.6 |
| Fixed Debt Repayments | -8.0 | -10.0 | -12.5 | -15.6 |
| Equity Free Cash Flow (rep'ted) | 13.9 | 27.1 | -31.5 | -14.1 |
| HP Lease Capex (non-cash) | 0.0 | 0.0 | 0.0 | 0.0 |
| Free Cash Flow (normalised) | 13.9 | 27.1 | -31.5 | -14.1 |
| Capex (inc HP) / depreciation | 102% | 91% | 99% | 87% |

| Share Data | 6/16A | 6/17A | 6/18F | 6/19F |
|-------------------------|-------|-------|-------|-------|
| Ord Issued shares (m) | 485.0 | 493.0 | 493.0 | 499.7 |
| growth | 0.8% | 1.7% | 0.0% | 1.3% |
| Weighted ave shares (m) | 485.0 | 490.3 | 493.0 | 496.4 |
| growth | 5.9% | 1.1% | 0.6% | 0.7% |
| Diluted shares wgtd (m) | 493.0 | 498.3 | 493.0 | 496.4 |
| growth | 5.8% | 1.1% | -1.1% | 0.7% |

Unpaid Capital (inc estimated DRP)

| Year Expires | Number | % ord | Avg Price | \$m unpaid |
|--------------|------------------|-------------|-------------|-------------|
| 30-Jun-18 | - | 0.0% | \$ - | \$ - |
| 30-Jun-19 | 6,634,152 | 1.3% | \$ - | \$ - |
| 30-Jun-20 | - | 0.0% | \$ - | \$ - |
| 30-Jun-21 | - | 0.0% | \$ - | \$ - |
| 30-Jun-22 | - | 0.0% | \$ - | \$ - |
| TOTAL | 6,634,152 | 1.3% | \$ - | \$ - |

Directors & Senior Management

| | Substantials | |
|---------------------------------------------|---------------|-------|
| Mr Stuart Grimshaw (Chairman, EZ Corp) | EZ Corp | 30.8% |
| Mr Peter Cumins (Executive Deputy Chairman) | Perpetual Ltd | 9.8% |
| Ms Ellen Comerford (Non-exec) | CBA | 5.1% |
| Ms Andrea Waters (Non-exec) | | |
| Mr Lachlan Given (Non-exec, EZ Corp) | | |
| Mr Kevin Dundo (Non-exec.) | | |
| Mark Reid - CEO | | |
| CFO - Martyn Jenkins | | |

Analyst: Trent Barnett
Phone: +61 8 9268 3052

Sources: IRESS, Company Information, Hartleys Research

Recommendation:

Buy

| Profit & Loss (\$m) | 6/16A | 6/17A | 6/18F | 6/19F |
|--------------------------------------|---------------|---------------|---------------|---------------|
| Group Revenue | 304.9 | 269.7 | 268.2 | 301.2 |
| growth | -18.7% | -11.5% | -0.6% | 12.3% |
| Underlying EBITDA - Group | 69.1 | 45.7 | 45.7 | 55.8 |
| growth | 13.0% | -33.8% | 0.0% | 22.1% |
| EBITDA / Sales | 22.7% | 17.0% | 17.0% | 18.5% |
| Depreciation/Amortisation | -8.6 | -8.1 | -7.6 | -8.0 |
| EBIT | 60.4 | 37.6 | 38.1 | 47.8 |
| EBIT / Sales | 19.8% | 13.9% | 14.2% | 15.9% |
| Net Corporate Interest | -8.0 | -7.6 | -9.4 | -11.1 |
| Norm Pretax Profit | 52.4 | 30.0 | 28.7 | 36.7 |
| Norm. Tax | -15.7 | -9.0 | -8.6 | -11.0 |
| Effective Tax Rate | 30.0% | 30.0% | 30.0% | 30.0% |
| Minorities | 0.0 | -0.3 | -0.3 | -0.3 |
| Normalised NPAT to equity | 36.7 | 20.7 | 19.8 | 25.4 |
| Norm. Net Profit / Sales | 12.0% | 7.7% | 7.4% | 8.4% |
| Abnormals / discontinued | -47.8 | 1.4 | 0.0 | 0.0 |
| Reported Profit to equity | -11.1 | 22.1 | 19.8 | 25.4 |
| Reported EPS (basic, w'ted) | -2.3 | 4.5 | 4.0 | 5.1 |
| Normalised EPS (dil, w'ted) | 7.4 | 4.2 | 4.0 | 5.1 |
| DPS (\$) | 0.0300 | 0.0000 | 0.0000 | 0.0000 |
| Franking | 100% | 100% | 100% | 100% |
| Payout Ratio | 39.7% | 0.0% | 0.0% | 0.0% |
| Cashflow Statement (\$m) | 6/16A | 6/0F | 6/18F | 6/19F |
| EBITDA | 69.1 | 45.7 | 45.7 | 55.8 |
| Working Capital Change | 33.9 | 7.8 | -2.5 | 0.9 |
| Cash from Operations | 103.0 | 53.5 | 43.2 | 56.7 |
| Corporate Interest | -9.2 | -7.6 | -9.4 | -11.1 |
| Tax Paid | -14.7 | 5.3 | -8.6 | -11.0 |
| Net Operating Cash Flow | 79.1 | 51.2 | 25.3 | 34.6 |
| Capital Expenditure | -8.8 | -7.4 | -7.5 | -7.0 |
| Other (including loan book) | -25.3 | 5.5 | -36.7 | -26.1 |
| Invest. & acq / other | -23.1 | -12.2 | 0.0 | 0.0 |
| Net Investing Cash Flow | -57.2 | -14.1 | -44.2 | -33.0 |
| Proceeds from Equity Issues | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Change in Debt & Leases | 8.1 | -27.6 | 49.0 | -1.6 |
| Dividends Paid | -8.1 | -2.2 | 0.0 | 0.0 |
| Net Financing Cash Flow | 0.0 | -29.8 | 49.0 | -1.6 |
| Movement in Cash | 21.9 | 7.3 | 30.0 | 0.0 |
| HP Lease Capex (non-cash) | | | | |
| Balance Sheet (\$m) | 6/16A | 6/0F | 6/18F | 6/19F |
| Cash | 73.6 | 80.6 | 110.6 | 110.6 |
| Receivables | 16.9 | 7.6 | 8.7 | 10.0 |
| Inventories | 17.6 | 21.0 | 22.2 | 22.2 |
| Other (including loan book) | 126.5 | 93.5 | 91.7 | 96.8 |
| Total Current Assets | 234.6 | 202.6 | 233.1 | 239.5 |
| Property, Plant & Equipment | 13.9 | 10.2 | 10.7 | 9.8 |
| Intangibles (inc. Goodwill) | 131.0 | 134.0 | 133.4 | 133.3 |
| Other | 43.1 | 52.0 | 90.5 | 111.5 |
| Total Non Current Assets | 188.0 | 196.2 | 234.7 | 254.6 |
| Total Assets | 422.6 | 398.8 | 467.8 | 494.1 |
| Accounts Payable | 32.3 | 21.3 | 21.1 | 23.3 |
| Interest Bearing Liabilities | 70.0 | 46.3 | 46.3 | 46.3 |
| Other | 15.6 | 7.1 | 7.1 | 7.1 |
| Total Current Liabilities | 117.9 | 74.7 | 74.5 | 76.7 |
| Accounts Payable | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Bearing Liabilities | 64.0 | 60.9 | 109.9 | 108.4 |
| Other | 0.3 | 2.4 | 2.4 | 2.4 |
| Total Non Current Liabilities | 64.3 | 63.4 | 112.3 | 110.8 |
| Total Liabilities | 182.2 | 138.0 | 186.8 | 187.5 |
| Net Assets | 240.4 | 260.8 | 280.9 | 306.6 |
| Net Asset Value / Share (\$) | 0.50 | 0.53 | 0.57 | 0.61 |
| NTA / Share (\$) | 0.23 | 0.26 | 0.30 | 0.35 |
| Net Debt (net cash) | 60.4 | 26.7 | 45.7 | 44.1 |

Last Earnings Estimate Changes:
1 March 2018

Fig. 2: Half year P & L and Balance Sheet

| Profit & Loss (\$m) | Dec-15a | Jun-16a | Dec-16a | Jun-17a | Dec-17a | Jun-18e |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Group Revenue | 198.3 | 106.6 | 143.4 | 126.2 | 122.9 | 145.3 |
| <i>Sequential growth</i> | <i>5.8%</i> | <i>-46.3%</i> | <i>35%</i> | <i>-12.0%</i> | <i>-2.7%</i> | <i>18.3%</i> |
| Underlying EBITDA - Group | 37.0 | 32.1 | 25.6 | 20.1 | 21.3 | 24.4 |
| <i>Sequential growth</i> | <i>26.7%</i> | <i>-13.3%</i> | <i>-20.2%</i> | <i>-21.5%</i> | <i>6.1%</i> | <i>14.3%</i> |
| EBITDA / Sales | 18.7% | 30.1% | 17.9% | 15.9% | 17.4% | 16.8% |
| Depreciation/Amortisation | -4.6 | -4.0 | -3.8 | -4.3 | -3.8 | -3.8 |
| EBIT | 32.4 | 28.0 | 21.8 | 15.8 | 17.5 | 20.6 |
| EBIT / Sales | 16.3% | 26.3% | 15.2% | 12.5% | 14.3% | 14.1% |
| Net Corporate Interest | -3.9 | -4.1 | -5.2 | -2.4 | -4.2 | -5.2 |
| Norm Pretax Profit | 28.5 | 23.9 | 16.7 | 13.3 | 13.3 | 15.4 |
| Norm. Tax | -8.5 | -7.2 | -5.0 | -4.0 | -4.0 | -4.6 |
| Effective Tax Rate | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% |
| Minorities | 0.0 | 0.0 | 0.2 | -0.5 | 0.0 | -0.3 |
| Normalised NPAT to equity | 19.9 | 16.8 | 11.5 | 9.2 | 9.3 | 10.5 |
| Norm. Net Profit / Sales | 10.1% | 15.7% | 8.0% | 7.3% | 7.6% | 7.2% |
| Abnormals / discontinued | -4.0 | -43.7 | 0.0 | 1.4 | 0.0 | 0.0 |
| Group Reported Profit | 15.9 | -27.0 | 11.5 | 10.6 | 9.4 | 10.4 |
| Reported EPS (basic, weighted) | 3.64 | -5.92 | 2.3 | 2.17 | 1.89 | 2.09 |
| Normalised EPS (dil, wghd) | 4.49 | 2.96 | 2.3 | 1.85 | 1.88 | 2.09 |
| DPS (\$) | 0.0200 | 0.0100 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Franking | 100% | 100% | 100% | 100% | 100% | 100% |
| Payout Ratio | 44.6% | 33.8% | 0.0% | 0.0% | 0.0% | 0.0% |
| Balance Sheet (\$m) | Dec-15a | Jun-16a | Dec-16a | Jun-17a | Dec-17a | Jun-18e |
| Cash | 49.2 | 73.6 | 84.8 | 80.6 | 99.4 | 110.6 |
| Receivables | 16.1 | 16.9 | 14.4 | 7.6 | 22.9 | 8.7 |
| Inventories | 23.3 | 17.6 | 18.9 | 21.0 | 20.6 | 22.2 |
| Other (including loan book) | 153.0 | 126.5 | 101.5 | 93.5 | 117.9 | 91.7 |
| Total Current Assets | 241.6 | 234.6 | 219.6 | 202.6 | 260.9 | 233.1 |
| Property, Plant & Equipment | 25.3 | 13.9 | 12.1 | 10.2 | 10.4 | 10.7 |
| Intangibles (inc. Goodwill) | 135.2 | 131.0 | 132.1 | 134.0 | 135.7 | 133.4 |
| Other | 36.3 | 43.1 | 51.8 | 52.0 | 47.6 | 90.5 |
| Total Non Current Assets | 196.8 | 188.0 | 196.0 | 196.2 | 193.7 | 234.7 |
| Total Assets | 438.4 | 422.6 | 415.5 | 398.8 | 454.5 | 467.8 |
| Accounts Payable | 26.3 | 32.3 | 31.5 | 21.3 | 19.9 | 21.1 |
| Interest Bearing Liabilities | 57.4 | 70.0 | 58.2 | 46.3 | 137.2 | 46.3 |
| Other | 10.8 | 15.6 | 12.7 | 7.1 | 7.8 | 7.1 |
| Total Current Liabilities | 94.5 | 117.9 | 102.4 | 74.7 | 164.9 | 74.5 |
| Accounts Payable | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Bearing Liabilities | 65.9 | 64.0 | 62.2 | 60.9 | 17.5 | 109.9 |
| Other | 3.2 | 0.3 | 4.7 | 2.4 | 1.1 | 2.4 |
| Total Non Current Liabilities | 69.1 | 64.3 | 66.9 | 63.4 | 18.6 | 112.3 |
| Total Liabilities | 163.6 | 182.2 | 169.3 | 138.0 | 183.5 | 186.8 |
| Net Assets | 274.8 | 240.4 | 246.3 | 260.8 | 271.0 | 280.9 |
| Net Asset Value / Share (\$) | 0.57 | 0.50 | 0.51 | 0.53 | 0.55 | 0.57 |
| NTA / Share (\$) | 0.29 | 0.23 | 0.24 | 0.26 | 0.27 | 0.3 |
| Net Debt (net cash) | 74.1 | 60.4 | 35.7 | 26.7 | 55.3 | 45.7 |

Source: Company Data, Hartleys Estimates.

Earnings guidance is for growth in 2H18

The balance sheet is okay, but the Company suffers from mainstream financial exclusion which adds risk. The FIIG bond matures in September 2018

Fig. 3: Cash Flow*Cash flow was good.*

| Cashflow Statement (\$m) | Dec-15a | Jun-16a | Dec-16a | Jun-17a | Dec-17a | Jun-18e |
|----------------------------------------|--------------|-------------|--------------|--------------|--------------|--------------|
| EBITDA | 37.0 | 32.1 | 25.6 | 20.1 | 21.3 | 24.4 |
| Working Capital Change | 20.9 | 13.0 | 2.7 | 5.1 | 3.5 | -6.0 |
| Cash from Operations | 57.9 | 45.1 | 28.3 | 25.2 | 24.9 | 18.4 |
| Corporate Interest | -4.3 | -5.0 | -3.3 | -4.3 | -4.6 | -4.8 |
| Tax Paid | -2.4 | -12.3 | -3.0 | 8.3 | -4.2 | -4.5 |
| Net Operating Cash Flow | 51.3 | 27.8 | 22.0 | 29.2 | 16.2 | 9.1 |
| Capital Expenditure | -6.0 | -2.8 | -3.1 | -4.3 | -5.7 | -1.8 |
| Other (including loan book) | -21.1 | -4.2 | 8.7 | -3.2 | -40.1 | 3.3 |
| Investments & acquisitions | -23.1 | 0.0 | 0.1 | -12.2 | 0.7 | -0.7 |
| Net Investing Cash Flow | -50.2 | -7.0 | 5.7 | -19.7 | -45.1 | 0.8 |
| Proceeds from Equity Issues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Change in Debt & Leases | -4.1 | 12.2 | -14.0 | -13.6 | 47.6 | 1.3 |
| Dividends Paid | 0.0 | -8.1 | -2.2 | 0.0 | 0.0 | 0.0 |
| Net Financing Cash Flow | -4.1 | 4.2 | -16.2 | -13.6 | 47.6 | 1.3 |
| Movement in Cash | -3.1 | 25.0 | 11.4 | -4.1 | 18.7 | 11.3 |
| HP Lease Capex (non-cash) | | | | | | |
| Free Cash Flow Analysis | Dec-15a | Jun-16a | Dec-16a | Jun-17a | Dec-17a | Jun-18e |
| Net Operating Cash Flow | 51.3 | 27.8 | 22.0 | 29.2 | 16.2 | 9.1 |
| Capex (Reported) inc loan book | -27.1 | -7.0 | 5.6 | -7.5 | -45.7 | 1.5 |
| Group Free Cash Flow (rep'ted) | 24.2 | 20.8 | 27.6 | 21.7 | -29.6 | 10.6 |
| Fixed Debt Repayments | -20.9 | -21.4 | -21.2 | -19.0 | -21.8 | -25.9 |
| Equity Free Cash Flow (rep'ted) | 3.3 | -0.6 | 6.4 | 2.7 | -51.4 | -15.3 |
| HP Lease Capex (non-cash) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Free Cash Flow (normalised) | 3.3 | -0.6 | 6.4 | 2.7 | -51.4 | -15.3 |
| Capex (inc HP) / depreciation | 130% | 69% | 83% | 99% | 150% | 48% |

Source: Hartleys Estimates, SRG

Fig. 4: Earnings Changes

| | 6/17A | 6/18F | | | 6/19F | | | 6/20F | | |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| | Actual | old | New | % diff | old | New | % diff | old | New | % diff |
| Revenue | 269.7 | 275.2 | 268.2 | -2.5% | 307.8 | 301.2 | -2.1% | 353.2 | 346.6 | -1.8% |
| Norm. EBITDA | 45.7 | 45.3 | 45.7 | 0.9% | 55.0 | 55.8 | 1.4% | 72.4 | 70.5 | -2.6% |
| - margin | 17.0% | 16.5% | 17.0% | 3.6% | 17.9% | 18.5% | 3.6% | 20.5% | 20.3% | -0.7% |
| Depreciation/Amortisation | -8.1 | -8.2 | -7.6 | -6.5% | -8.6 | -8.0 | -5.9% | -8.4 | -7.9 | -6.2% |
| EBIT | 37.6 | 37.1 | 38.1 | 2.6% | 46.5 | 47.8 | 2.8% | 64.0 | 62.7 | -2.1% |
| Net Interest | -7.6 | -6.6 | -9.4 | 42.1% | -6.5 | -11.1 | 69.5% | -7.4 | -12.3 | 67.5% |
| Pretax Profit | 30.0 | 30.5 | 28.7 | -5.9% | 39.9 | 36.7 | -8.1% | 56.6 | 50.3 | -11.1% |
| Tax | -9.0 | -9.2 | -8.6 | -5.9% | -12.0 | -11.0 | -8.1% | -17.0 | -15.1 | -11.1% |
| Norm. Net Profit After Tax | 20.7 | 21.1 | 19.8 | -6.0% | 27.6 | 25.4 | -8.2% | 39.3 | 34.9 | -11.2% |
| - margin | 7.7% | 7.7% | 7.4% | | 9.0% | 8.4% | | 11.1% | 10.1% | |
| Reported Group Profit | 22.1 | 21.1 | 19.8 | -6.0% | 27.6 | 25.4 | -8.2% | 39.3 | 34.9 | -11.2% |
| DPS | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | | 2.00 | 2.00 | |
| Norm. EPS (diluted) | 4.2 | 4.3 | 4.0 | -6.0% | 5.6 | 5.1 | -8.2% | 7.9 | 7.0 | -11.2% |
| P/E (\$0.380) | 9.2x | 8.9x | 9.5x | | 6.8x | 7.4x | | 4.8x | 5.4x | |
| Ordinary Shares (end) | 493.0 | 493.0 | 493.0 | 0.0% | 499.7 | 499.7 | 0.0% | 499.7 | 499.7 | 0.0% |
| Ordinary Shares (avg wgt) | 490.3 | 493.0 | 493.0 | 0.0% | 496.4 | 496.4 | 0.0% | 499.7 | 499.7 | 0.0% |
| Net Debt | 26.7 | 43.4 | 45.7 | 5.2% | 39.6 | 44.1 | 11.4% | 50.1 | 58.8 | 17.3% |

Source: Hartleys Estimates, IRESS

RECOMMENDATION & RISKS

PRICE TARGET

Our twelve month price target is \$0.52 (from \$0.51 previously).

| Valuation Methodology | Weighting | Spot | 12 mth out |
|-----------------------------------------------------------|-----------|---------------|---------------|
| DCF | 20% | \$0.62 | \$0.70 |
| 12mth forward P/E of 14.0x (peak) | 20% | \$0.66 | \$0.89 |
| 12mth fwd forward EV/EBIT of 4.0x | 10% | \$0.27 | \$0.36 |
| 12mth fwd forward EV/EBIT of 10.0x | 10% | \$0.81 | \$1.06 |
| Price / NTA 1x \$0.26 | 25% | \$0.26 | \$0.26 |
| 12mth fwd Div Yield of 4.2% (Gross yield=6.0%) | 15% | \$0.00 | \$0.00 |
| Risk weighted composite | | \$0.43 | \$0.52 |
| 12 Months Forward | | \$0.52 | |
| Shareprice - Last | | \$0.380 | |
| 12 mth total return (% to 12mth target + dividend) | | 38% | |

Source: Hartleys Estimate

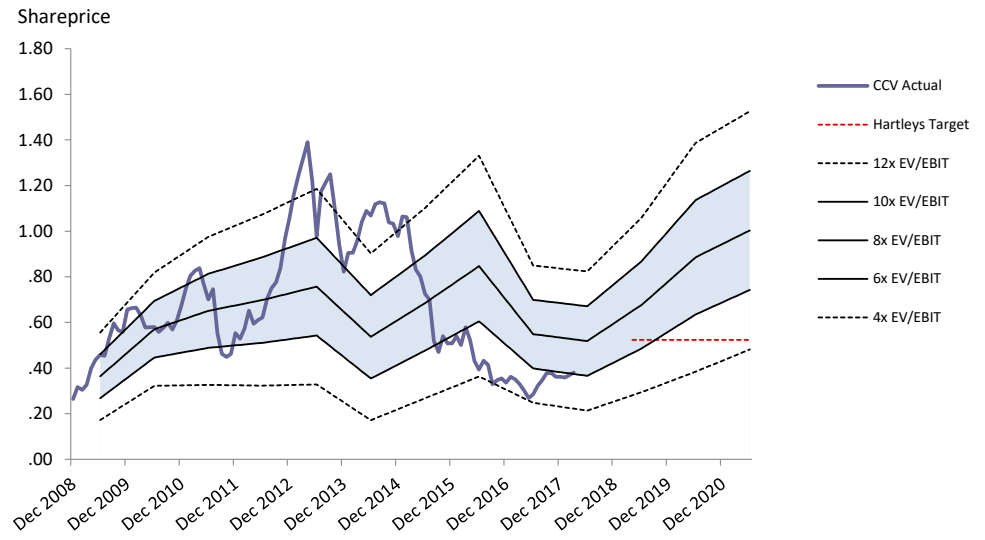
Fig. 5: Key assumptions and risks for valuation

| Assumption | Risk of not realising assumption | Downside risk to valuation if assumption is incorrect | Comment |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| We assume Personal Finance returns have stabilised in Australia. We assume a v-shaped recovery in net Australian loan growth, but there is a substantial mix change away from SACC towards MACC | High | Extreme | The assumption that the MACC product can offset the decline in SACC product is a large assumption |
| No material financial impact of Q'land court case | Moderate | High | We assume that there is no financial impact. Given the history, this is a risk |
| No material legislative changes | Moderate | High | We assume that minimal legislative changes occur beyond current proposals. |
| <i>Conclusion</i> | <i>We believe we have been realistic in our base case assumptions. The biggest risk is the Queensland court case</i> | | |

Source: Hartleys Estimates

EV/EBIT BANDS

Fig. 6: EV/EBIT Band



Source: Hartleys Estimate

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Hartleys Recommendation Categories

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

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