

**1 August 2024**

**Cash Converters International (ASX:CCV) Coffee Microcaps webinar**

**Duration 23 minutes 35 seconds**

00:00:03:21 - 00:00:25:08

**Sam Budiselik (CEO of Cash Converters International)**

Thank you, Mark. Yeah, look, as you were saying, Mark, since we last caught up a lot has changed for Cash Converters, we've had a couple of, significant acquisitions and, further developments, just reviewing our business segments. And, I'm delighted to be here. Thank you for having us to talk about that. I think I'll just start with a bit of a refresher on Cash Converters.

00:00:25:10 - 00:00:49:12

**Sam Budiselik**

It's obviously a business that, has been around for nearly (40 years), 40-year anniversary this year. So for a long time. But over that time, it's really changed a lot. I think the best way to think about Cashies, in the modern day is that, we do still operate that, store, retail by sell, network that we have been known for over time.

00:00:49:14 - 00:01:19:15

**Sam Budiselik**

But what's really developed over recent years is the, personal finance business, the service of our customers requiring, small loan amounts. And the two businesses operate in tandem, you know, very well, we'll talk about that. Over time, we've invested in our technology heavily. So, whilst we're known for that bricks and mortar retail network, we have a very sophisticated online business servicing, retail customers and our, our finance customers as well.

00:01:19:17 - 00:01:49:24

**Sam Budiselik**

We did grow originally through a franchise model. Starting out of expanding nationally, moving internationally. But our core markets, we focus on a really, Australia, New Zealand and the UK. And we'll talk about that in a bit. I did want to show a video of a store, which I'll play now just to give, the viewers a feel for the, the changing, feel and look of the stores.

00:01:50:01 - 00:01:57:06

**Sam Budiselik**

Hopefully you can see that video Mark.

00:02:45:11 - 00:03:18:16

**Sam Budiselik**

I hope that played well Mark. So whilst the, whilst the stores, still in place that the inventory mixes have really changed, to a higher end, mix of inventory, the circular economy element of our business is still very key to our business model. Buying and selling and repurposing, goods. But in the overall scheme of things, when you line that up against the personal finance business, that that store segment contributes about a third of the company's earnings and two thirds coming from the personal finance business.

00:03:18:16 - 00:03:43:11

**Sam Budiselik**

So, you know, you can really see the need, in the community for the personal finance services that we offer. It's, it's really appealing to about 3 million Australians who, for whatever reason, struggle to access, credit and regulated credit in Australia. And, we'll talk about how we do that. But the Cash Converters brand is highly trusted.

00:03:43:13 - 00:04:00:22

**Sam Budiselik**

Unaided awareness of sort of 90% when, surveys, market surveys are run. Very well known and regarded particularly in our customer segment. And as the market's changing, we're reaching, a wider customer audience, which is exciting.

00:04:00:24 - 00:04:25:14

**Sam Budiselik**

Just briefly, in terms of our business model, we operate a very large business. You know, we deal with a lot of customers, through various touchpoints that we process, you know, around 600,000 retail, buy, sell transactions through our stores a year. So someone coming in, selling an item, someone coming in and looking for something, generally more value conscious consumers.

00:04:25:14 - 00:04:50:19

**Sam Budiselik**

But, you know, as I say, that inventory profiles changing where we're reaching a more middle market, than we have done in the past. We receive, circa 780,000 applications for small loans, a year. And, you know, we're operating online with it's a high volume, a lower approval rate environment. And we're sourcing personal loan applications through our store network.

00:04:50:19 - 00:05:11:17

**Sam Budiselik**

And the stores are important with the personal finance business because it's a much it's a much stickier and more direct relationship with the customer, than an online, applicant. But both channels are important. And I think it just shows that need for cash in society. there's definitely a growing pressure on customers with cost of living.

00:05:11:19 - 00:05:34:19

**Sam Budiselik**

I think, the advent of buy now, pay later, a few years in has people, concerned that they're losing control of managing their expenses and their credit. And, you know, coming back to Cash Converters and other regulated non-bank lenders, such as ours to, to deal, which is great, with 100, nearly 100,000 active personal loan customers in our loan book.

00:05:34:19 - 00:05:59:13

**Sam Budiselik**

It's it's a big business with a lot of transactional data flowing through. As I mentioned, we do operate, what we'll call corporate stores, company owned stores. And, I think the best way to think of that is really the franchise network model that was originally, the preferred model for growing the network. You know, over time, we think buying those franchise stores back and we'll, we'll talk about why that's a good idea.

00:05:59:13 - 00:06:35:09

**Sam Budiselik**

But, you know, of the 150 stores in Australia, we now on, about half of the network, 75 of those stores and 75 remain franchise. We operate online and globally, and we'll talk about that in a minute. I think really central to our business model now is, is technology. And it's, it's front facing customer facing, apps and mobile websites and, customer self-service capability, where our customers can log on online and check line balances and make loan repayments and download loan statements like it would be at the bank.

00:06:35:11 - 00:06:57:19

**Sam Budiselik**

And, also, all of our retail is offered, through what we call our web shop, our retail site and you know, whilst it's displayed in store, it can be dispatched, you know, nationally and we do often sort of partner into the, the leading online commerce sites who are looking for eyeballs and inventory on listings.

00:06:57:21 - 00:07:29:03

**Sam Budiselik**

You know, our, our store offers the opportunity for someone to go on if they're local and view the item. But all of the inventory that we sell is backed by warranty, returns policies and has the backing of, a trusted brand behind it where I think people feel comfortable buying from us. So if they have an issue, they'll be well serviced. Predominantly though, you know, the technology that we deploy is really around our credit models because, borrowing customers, don't have a lot of, you know, mains strength data available.

00:07:29:05 - 00:07:52:04

**Sam Budiselik**

So we really, don't rely so much on a credit file like a bank would. We load the bank statement information for a customer and other data points and build our own credit profile of that customer and our own risk score to determine, you know, really, we're trying to predict the propensity to repay, when we're giving someone a loan, off of fairly limited data.

00:07:52:04 - 00:08:10:21

**Sam Budiselik**

So we build our own credit over time. That's really important. And, you know, the product offerings we've got in that personal finance business, small medium loans, it's that sort of line size showing on screen and the retail buy sell as mentioned. And we do have, we do have a small, income line for franchise fees.

00:08:10:21 - 00:08:32:15

**Sam Budiselik**

And I'll just talk about that on the next slide. So the business model shown here, really is depicting a global model. But as mentioned at the start, we're very focused on Australia and New Zealand and the UK. the orange bubbles there show, the corporate operated and owned stores in those markets that we own and run.

00:08:32:17 - 00:09:01:09

**Sam Budiselik**

And the other stores in those markets in the gray bubbles are, franchised. And that provides optionality for the company going forward to continue, buying those stores back and folding them into our network. And, it's a it's a low risk way for us to continue to grow our earnings. it allows us to, in some instances fund, existing franchisees to then continue expanding and growing the good operators.

00:09:01:11 - 00:09:28:03

**Sam Budiselik**

You know, we want to introduce new franchisees into our model per say, because our strategy is really to, take control of the networks in those key markets and, continue to own those stores. The rest of the world, we run a license, master franchise or license, operation. And, our partners there really use that brand and, our IP, but they operate that business as a standalone entity in those markets.

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**Sam Budiselik**

It gives us good brand recognition globally and exposure, more than anything in those other markets. In terms of our financials, the company, its cap market cap is around 138 million at 30th June. We did put out an unaudited Q4 update, calling out, you know, full year revenue of \$382 million. That's up about 26% on the prior year.

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**Sam Budiselik**

Gross loan book is trending up to 300 million there. We've got a strong balance sheet with 50 odd mil of cash on the balance sheet and, you know, generating, really reasonable EBITDA and net profit. We've been paying a two cent per annum dividend for the last three years, which is a yield of around 10% that comes fully franked.

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**Sam Budiselik**

So, you know, we really try and balance the business investing for growth and, making that return to shareholders.

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**Sam Budiselik**

Like I said, without technology, you know, it's such a core part of this business now, and it's not to be underestimated how important it is and how hard it is to, replicate what we've built. It's a real barrier to entry to this market. You need a lot of relevant data about this customer segment, to train your credit models and to make the right, lending decision, and also to meet your, compliance obligations and really build a complete picture of that borrower at that point of application and with a lot of volume, it enables us to do that.

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**Sam Budiselik**

And then we've plugged the business into the, you know, open banking and omni payments platforms that just essentially means that, you know, we can shift cash instantly into bank accounts for customers and take payments. We use technology to authenticate products, like handbags, for example, where we can provide an authenticity statement and, you know, it's really enabled us to open new markets and engage in different product lines that, you know, you can imagine quite hard to value and assess at times.

00:11:27:10 - 00:12:01:18

**Sam Budiselik**

So, the businesses really pivoted into, into a big tech house wrapped around an old business model, really. You know, the look and feel of retail is sort of saying that that store video, the, you know, the newer concept stores in Prahran and South Melbourne and soon to be Bondi, small footprint, high value inventory, you know, a really different sort of mix and feel of, handbags, you know, collectible sneakers, trainers, high end watches, jewellery and electronics.

00:12:01:20 - 00:12:27:06

**Sam Budiselik**

And it's attracting a new market and it's, it's a lot more, I think, acceptable nowadays to embrace the circular economy, particularly in the younger cohort of consumers who are more concerned about the environment and reuse. And this is less stigma attached, I think, to, purchasing pre-owned, which is which is terrific. And we're right at the centre of that in terms of the finance business.

00:12:27:06 - 00:12:49:20

**Sam Budiselik**

Like I say, that's the bigger engine for our business. And, something that's really growing strongly as the banks have moved out of, you know, the risk off sort of environment for the banks with a lot to deal with on borrowers. with the banks are looking at the prime, finance market. That's a that's a credit score of sort of 800 - 900, our customer scores of sub 500.

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**Sam Budiselik**

So we're really dealing with borrowers who have, irregular income or have had an issue with credit in the past. And that's really our specialty risk assessing these customers and serving that part of the market, and it's a big and growing market, as you'd anticipate, with the cost of living pressures on customers at the moment, we're just seeing more and more applications coming to the business.

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**Sam Budiselik**

So it's demand growing. And, you know, we've only got a very small slice of that market at the moment. Just briefly, the highlights Mark I touched on, good revenue growth. You know, strong loan book growth. I think that's the key with the loan book is to the diversification of the loan book. You know, we were known for small loans.

00:13:30:12 - 00:14:15:14

**Sam Budiselik**

We've really moved away from that part of the market as we've started offering, new product releases and, opening to a wider range of customers and also offering our good repeat customers, lower cost loan options over time and innovating and further driving the business in that direction is what we're all about. And then to close, our strategy really simply is, to, to continue buying back those franchise stores, where the owner wants an exit or we see some strategic value, and expanding our network by doing that and, innovating and offering new loan products and growing the current loan books as sectors of the credit economy become regulated that

00:14:15:14 - 00:14:35:20

**Sam Budiselik**

weren't prior, like, you know, buying now, pay later. There's a lot of focus on, potential consumer harm in that market, which is a good thing, I think, for consumers. And, you know, strong balance sheet and continuing, dividend payments is really our core focus. My apologies for dropping out, Mark that I'll, I'll leave it there and happy to take any questions.

00:14:35:22 - 00:14:52:05

**Mark Tobin**

Okay. Perfect. Yeah. Yeah, we've had a few come through already Sam. So the first one is and I think you probably would have touched on it in the, in the, in the preso when, we thought we lost you there for a minute or two, the vehicle loan book, you've taken the decision to, you know, exit that particular offering.

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**Mark Tobin**

And the first question we've got two questions around. The first one is, you know, as that book was kind of generally wound down and matures and it kind of rolls off, is that going to be replaced by growth in, in other books are, you know, is that capital going to be redeployed into something else maybe. Just give us, you know, kind of where to from here as the vehicle loan book unwinds?

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**Sam Budiselik**

Yeah, great question. I think, you know, as the third biggest, provider of vehicle finance in our part of the market, we just took a view that we were subscale and, the amount of our cash equity, cash in that book was high. It was about half of the loan book. And, the return on that capital was substandard in terms of where we could redeploy that capital to generate a better return.

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**Sam Budiselik**

So, we went through a sale process. We decided we've got confidence in our provisions. We will run that book down, you know, 50% of that book will come in. That's over the first year, and maybe 90% of that cash over three years. And we'll take that cash over time, continue growing our core loan books, and use that cash to acquire our stores back.

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**Sam Budiselik**

And, and both of those avenues generate a superior return on that capital than leaving that in that loan book.

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**Mark Tobin**

Okay. I think it touched on the second question as well. There was a question on, you know, profitability margins as you kind of exit the loan book. Is that kind of going to be recycled into higher margin, higher profitability products? But it sounds like it is.

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**Sam Budiselik**

Yeah, correct. Yeah, I think that vehicle market, it's a tough market supplying you know, the value of that security at times is questionable. They're older cars. You know, you're out repossessing a car from someone who's not paying. It's not a great consumer experience. So redeploying that capital into our core Cash Converters branded business, is where we're really focused now. You know, that's what we do well, so that's what we'll continue doing.

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**Mark Tobin**

And then a question on, you know, the buying back of the franchise source, which is kind of continues in the background all the time. A question on, you know, when you take it back, how does that profitability improve? Have you got



like an example you can refer to. And when you take one back is do you find more loans get written through that particular franchise or is it, you know, better in the inventory stock turns controls. You know is it that side that lends itself to the improved profitability?

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**Sam Budiselik**

Yeah, I think our franchise network I mean, first of all, it's a strong, profitable, network. The businesses are profitable, and the owners have been in the network for a long time. So the exits are generally people looking to retire and, you know, later in life that they're looking for an exit. The way we look at these businesses is that will we've got, complete visibility of top line revenue, sitting on our point of sale platform and our lending platform.

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**Sam Budiselik**

but the cost basis will adjust for corporate ownership. So, you know, we'll dial the cost base up. In summary, just put a bit more resource into that store generally. And then we'll look at that earnings profile as a result of that and apply a multiple three and a half to four and a half, something like that generally, depending on the nature of the network, bringing them in.

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**Sam Budiselik**

So the value accretive. But, they do enable us to then, accelerate our product development release. You know, I think the business is a franchise model, as a starting point will likely continue to morph to a corporate model, over time as we essentially de-franchise, and drive the financial service business into the new market that that sitting in now.

00:18:46:14 - 00:19:11:22

**Mark Tobin**

Okay. And then as I kind of said at both our presentations in Melbourne and Sydney, the live events regulation never too far away from this business. Question around, you know, do we they're saying, you know, they understand the rules and regulations around SACCs. So, you know, your, your small loans with maybe touch on, you know, rates and rigid, new payment regulations around it.

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**Mark Tobin**

The MACCs and you know, the larger size loans that, you know, you're starting to starting to move into, while it's not, I guess, a large part of the book right now,

it's kind of where the book is trending. So just maybe is there a difference in the regulations when you kind of go over and is it more favourable to or less favourable versus the small ones?

00:19:34:05 - 00:19:56:05

**Sam Budiselik**

Yeah, look firstly we are regulated. That's not always known. I think that's a real advantage. We don't have to go through the possible pain that the buy now, pay later sector, you know likely we'll be heading into. But we are very well regulated, there's good credit policy around this space of the market.

00:19:56:07 - 00:20:17:04

**Sam Budiselik**

With the medium amount loan, you can never say never. So we've innovated another loan product, that line of credit, and will continue doing so to diversify our overall loan book. But I think the core premise of like, you know, our customers need, cash. They need support to buy a washing machine, repair a car, you know, meet life's unexpected expenses.

00:20:17:04 - 00:20:35:07

**Sam Budiselik**

And we do it in a highly regulated way sitting under ASIC and Austrac. I think there'll be, I would imagine they'd be tweaks to regulation over time on going as you'd anticipate, which is a good thing and we're all for that. And we've got a front seat with Treasury and ASIC on that in that respect.

00:20:35:09 - 00:20:50:22

**Sam Budiselik**

But, you know, I think the MACC product itself, because, you know, the headline costs that people get concerned about a lower in the MACC and then lower again in the lock, we've moved the business into that space. And I think now advocates and regulators are comfortable with.

00:20:50:24 - 00:21:12:09

**Mark Tobin**

Okay. And then just one for me quickly. I know, you know, the UK business is a considerable part of, you know, Cash Converters' overall business. And as you said, the focus area, new change in government there and I see, you know, Rachel Reeves, the new Chancellor, she's, you know, been kind of outlining what she wants to get done.

00:21:12:11 - 00:21:35:23

**Mark Tobin**

Is there any noises coming out from the new government? Yeah. Promises that might turn into policy. You know, changes that you're kind of expecting there on the positive or the negative that, you know, shareholders should be watchful of or you're watching out for as she kind of heads into her kind of first budget and kind of first term in office.

00:21:36:00 - 00:21:59:24

**Sam Budiselik**

Yeah, I think it's a great question. The UK we don't offer an unsecured line product in the UK. It's only pawn brokering and that's the market and generally due to some recent or sorry, historical regulatory changes, there's a big need for cash in the UK too, as you can imagine. And there is in general a walk back, have some pretty, punitive credit changes that happened over time.

00:21:59:24 - 00:22:20:01

**Sam Budiselik**

So if anything, a new government, it brings an opportunity for them to review supporting this part of the economy. The biggest listed pawnbroker in the UK has a book of around 100 million pounds. you know, where sort of 5 or 6 million pounds. So, you know, and it's a big growing pawn market and it's a well-regulated product.

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**Sam Budiselik**

So I think opportunity in the UK to continue growing that pawn book is huge. And, something we'll stay focused on. But in general, in New Zealand, in the UK have taken, you know, a really, really restrictive credit policy to subprime support and near prime support. And, and they're having to walk it back because, the need is there, the need is growing.

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**Sam Budiselik**

And that unintended consequence of making it harder for people to get regulated credit means they go into unregulated markets. And I think politically, people are realising that's not a good outcome. You know, have a bigger regulated provider of credit in this space is a better outcome. You know, we sit front and centre of that in the UK and also it's a good opportunity for us all.

00:23:03:23 - 00:23:24:11

**Mark Tobin**



Okay. So Sam we are bang on time there. So thank you, very much for joining us. And, I know you're joining us from Melbourne because you are at TechKnow. So, safe travels back to WA, we'll hopefully catch up with you sometime the back end of 24 here.

00:23:24:13 - 00:23:26:11

**Sam Budiselik**

Look forward to it. Thanks for having me, Mark. Good to see you.

ENDS

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