Gray Swan Event Factors ™

Nicholas Financial, Inc.

NICK (NASDAQ Global) CIK: 1000045 United States

-1.28% Gray Swan **Event Factor** We expose risks that are frequently missed by equity analysts. These risks materialize when a company publicly discloses failures in their accounting, internal controls and management decisions. We call them Gray Swan Events. Gray Swan Events are reliably predictable public company disclosures which, while infrequent, nearly always lead to a decline in the underlying company's stock price.

Our GSE factors encapsulate this risk in one number which analysts can quickly apply to their estimated future stock price calls to make those calls more accurate.

Determinants:

Gray Swan Event	12-Month Forward-looking Probability	Historical Impact	Risk Factor	vs. Avg				
Security Class Action	3.03%	-5.30%	-0.16%	+0.17%				
Financial Restatements	16.93%	16.93% -2.49%						
CEO Change	30.89%	-1.39%	-0.43%	-0.30%				
CFO Change	26.30%	26.30% -0.78%						
Material Weakness	24.08%	-0.26%	-0.06%	-0.04%				
Mergers & Acquisitions	-	-	0.00%	0				
		Gray Swan Event Factor	-1.28%	-0.66%				

Company financial disclosures are imperfect and never fully represent all risks. Equity analysts scrutinize financial disclosures searching for hidden risks and adjust their valuations accordingly. A Gray Swan Event Factor Report helps analysts do this quicker, while also covering considerably more risk factors than a typical analyst could evaluate. We evaluate up to five years of history for 31 accounting, internal controls, and management issues for Nicholas Financial, Inc. and compare those to its peer companies (see exhibit A). Thus, each Gray Swan Event Factor fairly and appropriately calculates a company's future price-risk for unknown, or even deliberately hidden problems that may emerge in the company's future financial disclosures. The last column shows the difference between the risk factor for Nicholas Financial, Inc. and the average. The numbers are red when the risk factor has above average risk and blue when it has below average risk.

Applying:

Valuation $_2$ = (100 - 1.28)% x Valuation $_1$

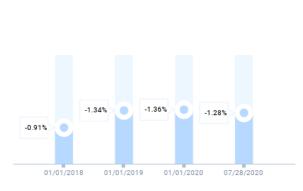
Determine your future price estimate (Valuation1) for Nicholas Financial before analyzing and assessing its accounting, internal controls and management integrity risks. Multiply Valuation1 by (100 less the Gray Swan Event Factor) to get the adjusted price target (Valuation2).

Your adjusted target price will more accurately represent Nicholas Financial's future price because it incorporates the expected effects of potential accounting, internal controls and management integrity risks for the next 12 months. Gray Swan Event Factors are updated periodically.

Factor Benchmarking:

Historical Factors:

Nicholas Financial, Inc.



Industry Peer Group

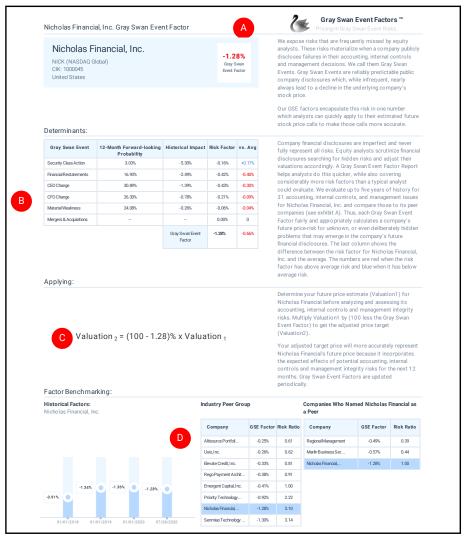
Company	GSE Factor	Risk Ratio
Altisource Portfoli	-0.25%	0.61
Usio, Inc.	-0.26%	0.62
Elevate Credit, Inc.	-0.33%	0.81
Rego Payment Archit	-0.38%	0.91
Emergent Capital, Inc.	-0.41%	1.00
Priority Technology	-0.92%	2.22
Nicholas Financial,	-1.28%	3.10
Senmiao Technology	-1.30%	3.14

Companies Who Named Nicholas Financial as a Peer

Company	GSE Factor	Risk Ratio
Regional Management	-0.49%	0.39
Marlin Business Ser	-0.57%	0.44
Nicholas Financial,	-1.28%	1.00



- Every car driver has some risk of getting in a car accident. Likewise, every public company has some risk of a hidden problem in accounting, internal controls, and/or management integrity. Also, just like a driver's age, record of tickets, past accidents, year of car, model of car, etc., are excellent predictors of a possible car accident and the cost of that accident, a company's past accounting record and the industry's record of stock-price declines for accounting problems are excellent predictors of a company's accounting/disclosure failures and its concurrent stockprice decline.
- We have identified six infrequent, but predictable, Gray Swan Events where investors have a clear pattern of depressing a stock's price after the event is disclosed. These six events rarely occur independently. They occur concurrent with other minor events. We calculate our Gray Swan Event Factor for each company by reviewing our database of all these events. We determine the significance of concurring events, the frequency of these events and their time intervals for companies in the same industry, size (large, midcap, small). We weight recent events higher than older events. We then calculate investor price responses to those instances of concurring and gray swan events by comparing the stock's price 30days before the event and 30days after. Finally, we multiply the expected probability of an event happening in the future for a company by the average historical price decline for that event to determine the event's factor. We then combine event factors into one Gray Swan Event Factor.
- Gray Swan Event Factors are an industry standard number like "Beta" or "WACC" numbers. An analyst can study a company's accounting disclosures, internal controls and management practices for 8-10 hours to find risks and issues, or they can simply apply the company's Gray



Swan Event Factor to the analyst's valuation number to calculate a more accurate future price target for the company. To use a Gray Swan Event Factor, analysts first calculate their own price target using their own proprietary method (Valuation1). The analyst's Valuation1 is then multiplied by (100 less the Gray Swan Event Factor) to yield the more accurate Valuation2 price. Estimated time to apply factor = 2 minutes.

We provide an historical graph showing each company's Gray Swan Event Factors at the start of each of the prior years. We also provide a table of peer companies and place the target company in the appropriate order in the peer table. These two references provide context for the company's current Gray Swan Event Factor.

<u>Permissions and Rights</u>: Watchdog Research, Inc. grants paid subscribers distribution rights to share copies of this Gray Swan Event Factor Report upon the inclusion of this disclosure statement in their analysis:

"We subscribe to Watchdog Research, Inc.'s Gray Swan Event Factor advisory service to more accurately predict potential future stock price losses from possible failures in accounting, transparency and management actions. Potential future-loss calculations are based on an in-depth 5-year review of each company's accounting and public disclosures covering 31 variables. The 12-month Gray Swan Event Factor for Nicholas Financial, Inc. is -1.28%. We have considered this -1.28% potential loss-risk factor while setting our target price for Nicholas Financial, Inc..

Upon request, we can provide a full copy of Gray Swan Event Factor Report for private use. Watchdog Research, Inc. is an independent research organization that does not make "buy, sell or hold" recommendations and does not trade in public stocks."



Exhibit A



Nicholas Financial, Inc. Watchdog Report

Watchdog Research, Inc. is an independent research provider and publisher of Watchdog Reports and Gray Swan Event Factors.

Watchdog Reports identify red and yellow flags, issues, and other anomalies in a company's financial reporting. Reports contain warning signs, red flags, material disclosures, and peer analysis for use in valuation, risk analysis, due diligence research, and idea generation. Watchdog Reports are designed to assist investment professionals fulfill their fiduciary or suitability obligations and to help investors, executives, board members, regulators and educators learn what they need to know about risks related to publicly traded companies. A single subscription to Watchdog Reports covers 4,500+companies and costs \$5,000.

Each company's Gray Swan Event Factor report includes a Watchdog Report for the related company as an exhibit. An individual subscriptions for Gray Swan Event Reports gives a subscriber access to over 4,500 reports and is \$8,000 for a single subscription.

The company is headquartered in Ave Maria, FL. Watchdog Research, Inc. utilizes over 75 specialists and analysts to provide accurate and timely information to our readers.

Nicholas Financial, Inc.

Auditor: RSM US LLP since 2018

SEC Reviewer: H Stephen Kim

Outside Counsel (most recent): Hill Ward & Henderson PA

NICK (NASDAQ Global) | CIK:1000045 | United States | SEC fillings

Watchdog Report "

Key Facts Business address: Clearwater, Florida, United States Industry: Other Activities Related to Credit Intermediation (NAICS SEC filer status: Non-Accelerated Filer as of Mar 2020 Market Cap: \$106m as of Jul 27, 2020 Annual revenue: \$62.1m as of Mar 31, 2020 **Corporate Governance** CEO: Douglas Marohn since 2017 CFO: Irina Nashtatik since 2020 1st level Board Chairman: Ralph T. Finkenbrink since 2014 Audit Committee Chair: Jeffrey C. Royal

Watchdog Research, Inc., offers both individual and group subscriptions, data feeds and/or custom company reports to our subscribers. Subscribe: We have delivered 300,000 public company reports to over 27,000 individuals, from over 9,000 investment firms and to 4,000+ public company corporate board members.



How to analyze this company's Watchdog Report? Skip to the last page

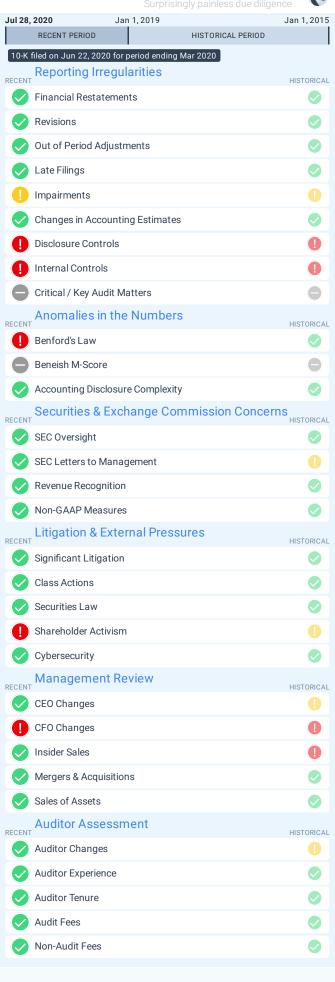
Information in this report is effective Jul 28, 2020 and is taken from the company's public financial and regulatory filings. Latest filing 10-K filed 06/22/2020. Over 75 accounting and data analysts scrutinize and review crucial information, footnotes, disclosures, etc., from these filings. Material facts are captured and processed using our proprietary methods which identify key risk factors our readers need to know. Each Watchdog Report represents 30 or more hours of analysis and processing.

Accounting and financial disclosure data from Audit Analytics. Executive compensation data from Shore Group and Intrinio.

Data from Sharadar.

Data from Barchart via Quandl.

Data from Exchange Data International via Quandl





2nd level

3rd level

4th level

Overview

Price and Volume History

This graph shows the price and trading history for Nicholas Financial. Warning signs and red flags are marked on the graph according to their disclosure dates.



- 1 Jul 9, 2020 Change in CFO
- 2 Jun 22, 2020 Impairment
- 3 Jun 22, 2020 Disclosure Controls
- 4 Jun 22, 2020 Internal Controls
- 5 Feb 14, 2020 Disclosure Controls
- 6 Nov 14, 2019 Disclosure Controls
- 7 Oct 30, 2019 Change in CFO
- 8 Aug 14, 2019 Disclosure Controls
- 9 Jun 28, 2019 Disclosure Controls
- Jun 28, 2019 Internal Controls
- Feb 14, 2019 Disclosure Controls

- Nov 14, 2018 Disclosure Controls
- Aug 14, 2018 Disclosure Controls
- 14 Jul 6, 2018 Auditor change
- 15 Jun 27, 2018 Disclosure Controls
- 16 Jun 27, 2018 Internal Controls
- 17 Feb 7, 2018 Change in CFO
- 18 Jun 21, 2017 SEC letters to management
- 19 Jun 14, 2017 Impairment
- 20 Jun 12, 2017 Change in CEO
- 21 May 14, 2015 Insider Sale



Notifications

Important notifications related to the company are listed here. Notifications may come from the SEC, exchanges such as the NYSE or NASDAQ, or Watchdog Research. Examples of notifications include announcements of bankruptcy proceedings, company name changes, and noncompliance with SEC regulations or exchange rules.

There are no notifications for Nicholas Financial at least since 2015.

Peer Group

Peer groups are used by companies to benchmark executive compensation and performance. Each company identifies its own peer group. Peer groups vary from company to company.

Peer Group

Company	Ticker	Market Cap
CNFinance Holdings Ltd *	CNF	\$246m
Priority Technology Holdings, Inc. *	PRTH	\$166m
Nicholas Financial, Inc.	NICK	\$106m
Weidai Ltd. *	WEI	\$78.9m
Elevate Credit, Inc. *	ELVT	\$73.3m
Emergent Capital, Inc. *	EMGC	\$55.5m
Usio, Inc. *	USIO	\$41.9m
Rego Payment Architectures, Inc. *	RPMT	\$23.9m
Senmiao Technology Ltd. *	AIHS	\$18.4m
Petrogress, Inc. *	PGAS	\$242k

^{*} Suggested by Watchdog.

Companies Who Named Nicholas Financial as a Peer

Company	Ticker	Market Cap
Regional Management	RM	\$174m
Nicholas Financial, Inc.	NICK	\$106m
Marlin Business Services Corp.	MRLN	\$87.6m



Peer Flag Comparison

The return to a company's stock is not the only measure of executive performance. Ethics matter, and growth can quickly reverse and gains evaporate if a company's accounting and financial reporting processes are not fundamentally sound and trustworthy. How does Nicholas Financial's accounting quality compare to its peer group?

PEER GROUP FLAGS

4

2

1

5

4

Reporting	Irregularities
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Financial Restatements

Revisions

Out of Period Adjustments

Impairments

Changes in Accounting Estimates

Disclosure Controls

Internal Controls

Critical / Key Audit Matters

Anomalies in the Numbers

Benford's Law

Beneish M-Score

Accounting Disclosure Complexity

0	5		4
	5	4	

NICK

8

5

9

7

8

4

5

Securities & Exchange Commission Conce

SEC Oversight

SEC Letters to Management

Revenue Recognition

Non-GAAP Measures

cerns			
	5	1	3
1	3	5	1
	8	1	
	9		

Litigation & External Pressures

Significant Litigation

Class Actions

Securities Law

Shareholder Activism

Cybersecurity

Management Review

CEO Changes

CFO Changes

Insider Sales

Mergers & Acquisitions

Sales of Assets

Auditor Assessment

Auditor Changes

Auditor Experience

Auditor Tenure

Audit Fees

Non-Audit Fees

NICK **PEERGROUP FLAGS**

	6		3
	7		2
Ø	8		1
•	7	1	1
	9		

1		4	3
•	1	3	3
•	9		
Ø	8		1
	9		

1	5		4
Ø	6	3	
	7	2	
Ø	2	7	
Ø	7	2	



Reporting Irregularities



Financial Restatements & Revisions

A financial restatement or revision is a serious event in the financial life of a company. When previous estimates of revenue, earnings, or equity are significantly lowered, financial restatements can have a dramatic impact on the valuation and projected growth of a company.



Financial restatements are always accompanied by a disclosure that their previous financial reports can no longer be relied upon. A revision is a change to a company's financials that is not accompanied by such a disclosure.



Nicholas Financial has not restated their financials at least since 2015.

Nicholas Financial has not revised their financials at least since 2015.

Out of Period Adjustments

An adjustment or "out-of-period adjustment" is a one-time accounting entry that is intended to correct immaterial errors from previous reporting periods. Adjustments have a one-time impact on earnings when they are reported and indicate the existence accounting errors in previous financial reports. Analysts should pay close attention to the nature and magnitude of adjustments. The frequent use of adjustments may signal deeper issues with a company's accounting and financial reporting.



Nicholas Financial has not made any adjustments to their financials at least since 2015.

Late Filings

Late filings can be significant warning signs. Why didn't the company file its financial report on time? Late filings may signal an impending financial restatement or deeper problems with a company's accounting processes.



Nicholas Financial has not filed any late financial statements at least since 2015. All financial statements have been filed on or before the appropriate deadline.



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Impairments

An impairment is a permanent reduction in the value of an asset.



Nicholas Financial has reported 2 impairments on 2 annual reports since 2015.



Changes in Accounting Estimates

Some assets and liabilities require accountants to make assumptions about future performance in order to estimate their value. Occasionally, economic conditions cause these assumptions to be revised, resulting in a change in accounting estimates. A change in accounting estimates can have a significant impact on the bottom line and may be used strategically by management to disguise otherwise weak financial results.

The impact of changes in accounting estimates on pretax income are provided when available. If the impact of changes is measured in terms of net income, it is denoted with an asterisk (*).



Nicholas Financial has not reported any changes in accounting estimates at least since 2015.

Internal and Disclosure Controls

Internal controls are put in place in order to prevent fraud and financial misstatements. A company with ineffective internal controls is said to have a "material weakness." A material weakness is a serious warning sign about a company's accounting quality.

Disclosure Controls

10-K	10-Q	10-Q	10-Q	10-K	10-Q	10-Q	10-Q	10-K	10-Q	10-Q	10-Q	10-K	10-Q	10-Q	10-Q	10-K	10-Q	10-Q	10-Q	10-K	
Intern	al Cor	ntrols	of Fin	ancial	Repo	orting						 									
10-K				10-K				10-K				10-K				10-K				10-K	
	201	15			201	16			201	17			201	18			201	19			2020

Nicholas Financial reported a material weakness on 2018, 2019 and 2020.

Management attests that the disclosure controls are not effective as of 03/31/2020.

The auditor attests that internal controls of financial reporting are not effective as of 03/31/2020.

The company has an elevated risk of a financial restatement.

IS	~ I	^	CI	ID	D	AT	

06/22/2020 on SEC Form 10-K [™]

PERIOD END DATE

03/31/2020

MANAGEMENT ASSESSMENT

Ineffective disclosure controls

Ineffective internal controls

ISSUES CITED

Material weakness

IT, software, security & access issues

Accounting documentation, policies, or procedures

DISCLOSURE DATE

02/14/2020 on SEC Form 10-Q 2

PERIOD END DATE

12/31/2019

MANAGEMENT ASSESSMENT

Ineffective disclosure controls

ISSUES CITED

Material weakness

Accounts/loans receivable, investments & cash

IT, software, security & access issues

Insufficient management review in control procedures

DISCLOSURE DATE

11/14/2019 on SEC Form 10-Q 2

PERIOD END DATE

09/30/2019

MANAGEMENT ASSESSMENT

Ineffective disclosure controls

ISSUES CITED

Material weakness

Accounts/loans receivable, investments & cash

IT, software, security & access issues

Insufficient management review in control procedures



DISCLOSURE DATE

08/14/2019 on SEC Form 10-0 2

PERIOD END DATE

06/30/2019

MANAGEMENT ASSESSMENT

Ineffective disclosure controls

ISSUES CITED

Material weakness

Accounts/loans receivable, investments & cash

IT, software, security & access issues

Insufficient management review in control procedures

DISCLOSURE DATE

06/28/2019 on SEC Form <u>10-K</u> ☑

PERIOD END DATE

03/31/2019

MANAGEMENT ASSESSMENT

Ineffective disclosure controls

Ineffective internal controls

ISSUES CITED

Material weakness

Accounts/loans receivable, investments & cash

Insufficient management review in control procedures

Account reconciliation issues

Accounting documentation, policies, or procedures

IT, software, security & access issues

Accounting personnel resources, competency/training

DISCLOSURE DATE

02/14/2019 on SEC Form 10-Q 2

PERIOD END DATE

12/31/2018

MANAGEMENT ASSESSMENT

Ineffective disclosure controls

ISSUES CITED

Material weakness

Gain or loss recognition issues

Accounts/loans receivable, investments &

Insufficient management review in control procedures

DISCLOSURE DATE

11/14/2018 on SEC Form 10-0 2

PERIOD END DATE

09/30/2018

MANAGEMENT ASSESSMENT

Ineffective disclosure controls

ISSUES CITED

Material weakness

Gain or loss recognition issues

Accounts/loans receivable, investments & cash

Insufficient management review in control procedures

DISCLOSURE DATE

08/14/2018 on SEC Form 10-Q 2

PERIOD END DATE

06/30/2018

MANAGEMENT ASSESSMENT

Effective disclosure controls

ISSUES CITED

Material weakness

Gain or loss recognition issues

Accounts/loans receivable, investments & cash

Insufficient management review in control procedures

DISCLOSURE DATE

06/27/2018 on SEC Form 10-K [™]

PERIOD END DATE

03/31/2018

MANAGEMENT ASSESSMENT

Ineffective disclosure controls

Ineffective internal controls

ISSUES CITED

Material weakness

Gain or loss recognition issues

Accounts/loans receivable, investments & cash

Insufficient management review in control procedures

Material or numerous year-end adjustments

Accounting documentation, policies, or procedures

Accounting personnel resources, competency/training



Reporting Irregularities **Anomalies in the Numbers** Litigation & External Pressures Management Review SEC Concerns Auditor Assessment Overview

Anomalies in the Numbers



Benford's Law

Benford's Law is used to detect financial manipulation and fraud. When financial statements do not follow Benford's Law, there is reason to suspect problems with the accounting or financial reporting process.



Numbers generated by natural processes conform to Benford's Law.

Nicholas Financial's financial statements in 2019 do not conform to Benford's Law. Nicholas Financial has an elevated risk of financial manipulation or fraud.

Accounting Disclosure Complexity

Companies committed to transparency make their reports easier for investors to understand and compare. By contrast, a high degree of Accounting Disclosure Complexity makes it difficult to measure executive performance and the company's financial health. Accounting Disclosure Complexity may also be used to obfuscate serious accounting problems and other issues.



Nicholas Financial's highest level of accounting disclosure complexity was in the 6th decile in 2018. Nicholas Financial's most recent accounting disclosure complexity was in the 5th decile in 2020.



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Securities & Exchange Commission Concerns



SEC Oversight

Investors should consider a company's home country when evaluating the risk of an investment. Many foreign companies list their shares on U.S. exchanges, but these companies are not subject to the same filing requirements as U.S. companies, and those who invest in these securities may lack the full protection of U.S. securities law. In general, the riskiness of foreign securities listed on U.S. exchanges is related to the trustworthiness of the countries in which they are located.

This is an American company.

SEC Letters to Management

Regulators at the Securities and Exchange Commission (SEC) review each company's financial reporting. When the SEC has questions about a company's filing, they will write letters to the company asking for clarification about different accounting issues.





Nicholas Financial has had 1 conversation with the SEC since 2015.

FROM	A			
H Stephen Kim (SEC)				
ТО				
Ralph T Finkenbrink				
DISSEMINATION DATE	06/21/2017			
LETTERS	5			
FIRST LETTER	<u>02/07/2017</u> ^년			
LAST LETTER	05/23/2017			
ISSUES CITED				
Commitments, contingencies, and related disclosure issues				
Loans receivable issues related to valuationa, col collectability	llateral, and			
Discussion of critical accounting policies and esti	imates (MD&A)			



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Litigation & External Pressures



Is the company involved in any lawsuits? This part of the Report summarizes recent and ongoing litigation that may have a significant impact on your investment.



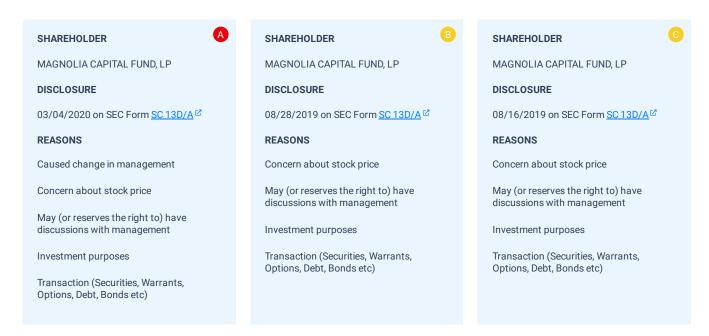
Nicholas Financial has no significant litigation at least since 2015.

Shareholder Activism

A large shareholder may use his ownership stake to influence management and affect the strategy and direction of the company. While some activist shareholders contribute to oversight and may push for better financial performance or even a change in leadership, they may also pursue social, political, or environmental goals that can adversely affect a company's operations and profitability. Note that shareholders reported here may no longer be current shareholders if they have sold their shares.



Nicholas Financial last reported activist shareholders on 03/04/2020. Activist shareholders reported significant conflicts with management on 03/04/2020.





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MAGNOLIA CAPITAL FUND, LP

DISCLOSURE

06/21/2019 on SEC Form SC 13D/A 2

REASONS

Concern about stock price

Investment purposes

Transaction (Securities, Warrants, Options, Debt, Bonds etc)

SHAREHOLDER

MAGNOLIA CAPITAL FUND, LP

DISCLOSURE

07/11/2018 on SEC Form SC 13D/A ☑

REASONS

Concern about stock price

May (or reserves the right to) have discussions with management

Investment purposes

Transaction (Securities, Warrants, Options, Debt, Bonds etc)

SHAREHOLDER

MAGNOLIA CAPITAL FUND, LP

DISCLOSURE

07/31/2017 on SEC Form <u>SC 13D/A</u> ☑

REASONS

Intent to change or nominate the board of directors

May (or reserves the right to) have discussions with management

Investment purposes

Transaction (Securities, Warrants, Options, Debt, Bonds etc)

SHAREHOLDER

MAGNOLIA CAPITAL FUND, LP

DISCLOSURE

06/23/2017 on SEC Form SC 13D/A 2

REASONS

Concern about stock price

May (or reserves the right to) have discussions with management

Investment purposes

Transaction (Securities, Warrants, Options, Debt, Bonds etc)

SHAREHOLDER

MAGNOLIA CAPITAL FUND, LP

DISCLOSURE

03/17/2017 on SEC Form SC 13D 2

REASONS

Intent to change or nominate the board of directors

May (or reserves the right to) have discussions with management

Investment purposes

Transaction (Securities, Warrants, Options, Debt, Bonds etc)

Board composition

SHAREHOLDER

MAHAN ROGER

DISCLOSURE

02/27/2017 on SEC Form SC 13D/A 2

REASONS

Investment purposes

SHAREHOLDER



MAHAN ROGER

DISCLOSURE

04/24/2015 on SEC Form SC 13D/A

REASONS

Investment purposes

SHAKEHULDEK



Cybersecurity

Cybersecurity is an area of increasing concern for many companies. A breach of confidential personal or financial data brings bad press, customer backlash and loss of goodwill, and substantial exposure to class actions. The SEC issued guidance in 2018 indicating cybersecurity risks should be treated like all other economic and business risks in regard to internal controls, financial reporting, and public disclosures.







Nicholas Financial has not disclosed any data breaches or cybersecurity issues.

Management Review



Management Turnover

Investors should always pay attention to CEO and CFO changes. These two officers are responsible for a company's performance and financial reporting. Why did they depart? There are many possible answers to this question, not all of them good.



Reported CEO Changes

↑ Douglas Marohn President / CEO

Appointed effective: 12/12/2017 (<u>8-K</u> [□] on 12/11/2017)

→ Ralph T. Finkenbrink President / CEO

Retired effective: 09/30/2017 (8-K on 06/12/2017)

Personal / Health Reasons

Reported CFO Changes

↑ Irina Nashtatik CFO

Appointed effective: 07/07/2020 (8-K ☐ on 07/09/2020)

Position Change within Company

↓ Irina Nashtatik CFO (Interim)

Resigned effective: 07/07/2020 (<u>8-K</u> [™] on 07/09/2020)

Position Change within Company

↓ Kelly M. Malson CFO

Resigned effective: 11/15/2019 (<u>8-K</u> on 10/30/2019)

↑ Kelly M. Malson CFO

Appointed effective: 06/15/2018 (<u>8-K</u> [☑] on 05/30/2018)

↑ Chad Steinorth Vice President / CFO (Interim)

Appointed effective: 03/01/2018 (<u>8-K</u> [☑] on 02/20/2018)

↓ Katie MacGillivary CFO

Resigned effective: 03/01/2018 (<u>8-K</u> [™] on 02/07/2018)

Other Opportunity



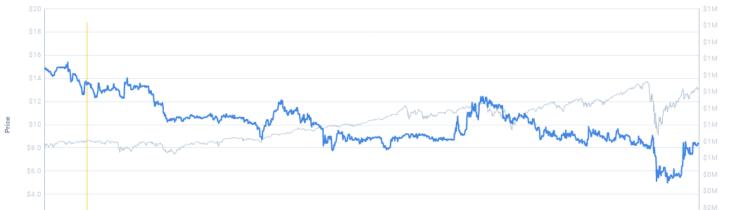
Insider Sales

What are the CEO and CFO doing? Do they have confidence in the company, or are they unloading their shares? A large sale of stock is a big warning sign and may indicate a lack of confidence in the future prospects of the company. These two officers know more about the company than you do, and if they think it is a good time to sell, maybe you should too.

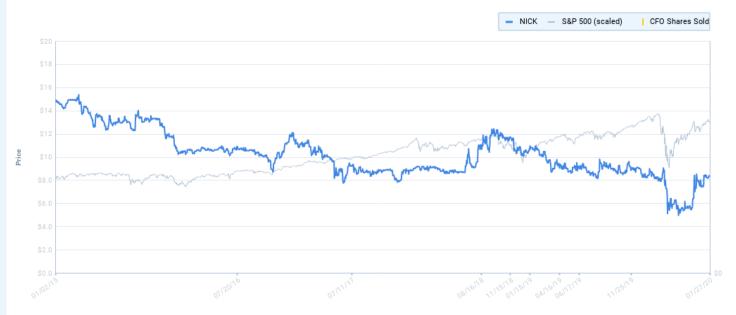
There are significant insider sales from the company's officers.

Here are the significant insider sales for the CEO:





Here are the significant insider sales for the CFO:



Here are the significant insider sales for Nicholas Financial:

Date	Owner	Title	Shares sold	Value	Holdings	% Sold	
05/14/2015	FINKENBRINK RALPH	President and CEO	88,603.0	\$1.32m	76,200.0	53.7%	0

Mergers & Acquisitions and Sales of Assets

Mergers & acquisitions are a key part of a company's strategy. The right merger or acquisition can allow a company to dramatically increase its market share or expand into a new market. However, these decisions should be carefully scrutinized by investors, as they present a serious risk to investors if the benefits fail to materialize or accounting issues are discovered after the transaction has closed.

Mergers & AcquisitionsSales of Assets

Mergers & acquisitions may also result in the well-known "winner's curse" of auctions, when a company pays more for an acquisition than it is worth. When this happens, the company may eventually have to write-off significant amounts of goodwill.

There are no mergers & acquisitions and no sales of assets reported for Nicholas Financial.



Auditor Assessment

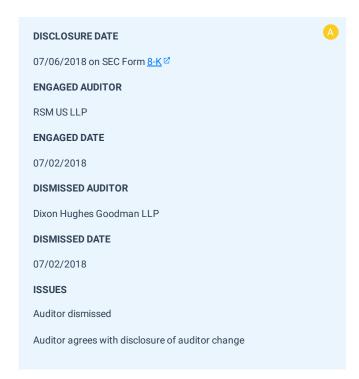


Auditor Changes

Did the auditor change recently? If so, why? A change in auditor may be required by a regulatory or corporate policy, but it can also be caused by underlying conflicts or disputes with management over fees, disclosures, accounting practices, or other issues. Investors should review disclosures related to a change in auditor to get a sense of whether there may be deeper issues with a company's accounting or management practices that may signal trouble ahead.



Dixon Hughes Goodman LLP was dismissed on 07/02/2018. Nicholas Financial engaged RSM US LLP on 07/02/2018.

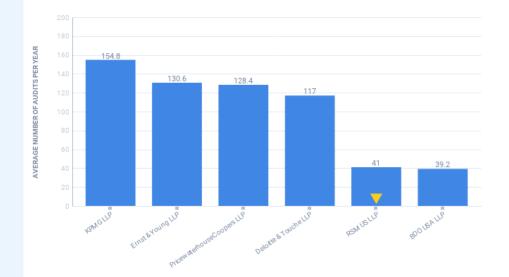




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Auditor Experience

How much experience does the auditor have in this industry? This graph shows the average number of audits of the largest auditors in this industry in the last five years (based on our population). The current auditor is marked with an arrow.

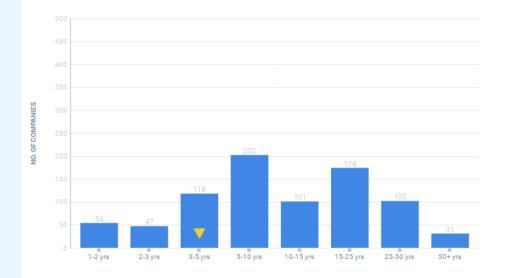


Current auditor is RSM US LLP.

Auditors with relatively little industry experience may be more likely to make mistakes. Auditors that do more audits tend to have greater industry expertise.

Auditor Tenure

How long have they had the same auditor? This graph shows a histogram of the number of companies in the industry (from our population) and the corresponding auditor tenure. Current auditor tenure for Nicholas Financial is marked with an arrow.



RSM US LLP has been Nicholas Financial's auditor for the last 3 years.

Mistakes may be more common in the early years of an auditor's tenure as they gain knowledge of a company's accounting policies and processes. On the other hand, there is some concern that a lengthy tenure may make auditors too "cozy" with the company and reluctant to report on issues or problems.

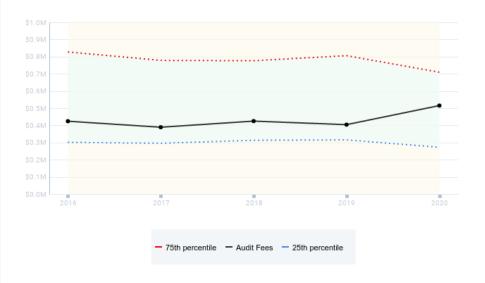


Auditor Assessment



Audit Fees

Audit fees are fees paid to the auditor for the audit and services related to the audit. This graph compares recent audit fees to the rest of the industry based on audit fee to revenue ratios (or audit fees to asset ratios for financial companies).



MOST RECENT AUDIT FEES

\$515k **27.47**%

AUDIT FEES TO REVENUE RATIO

0.72%

Nicholas Financial's audit fees increased by 27.47% from last year. Nicholas Financial's most recent audit fees are in the normal range.

High audit fees create incentives that undermine auditor independence. On the other hand, low audit fees may result in a lower quality audit.



Non-Audit Fees

Non-audit fees are fees paid to the auditor for the services unrelated to the audit.



MOST RECENT NON-AUDIT FEES

\$23.4k **~-55.33**%

NON-AUDIT FEES TO AUDIT FEES RATIO

4.55%

Nicholas Financial's most recent non-audit fees are in the normal range.

Relatively high non-audit fees create incentives that undermine the auditor's objectivity and are often used as a proxy measure of auditor independence.



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Appendix

Appendix A. SEC Letters to Management



Conversation disseminated on 06/21/2017

FROM: H Stephen Kim (SEC) TO:

TO: Ralph T Finkenbrink

5 ☑

LETTERS

ISSUES CITED

Commitments, contingencies, and related disclosure issues

Loans receivable issues related to valuationa, collateral, and collectability

Discussion of critical accounting policies and estimates (MD&A)

LETTERS

dated 02/07/2017 dated 03/07/2017 dated 05/01/2017

dated 05/17/2017 dated 05/23/2017 **RELATED FILINGS**

10-Q 11/09/2016 10-K 06/14/2016



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How to analyze a company's Watchdog Report

If you walk into a doctor's office complaining about a pain in your left shoulder, your doctor's training kicks-in and he will immediately begin assessing your age and physical appearance, checking your vital signs and asking you a very specific series of questions about your symptoms. After just a few brief moments of assessing you, the doctor will either begin life-saving intervention or simply hand you an ice pack for your sore arm after a workout.

Like that doctor, we assume you are reading our Watchdog Report because you want to quickly assess the health of the company you are analyzing. You want to know if the company is undergoing any major problems or is simply displaying minor issues. Here is how to get your answer:

BEFORE YOU START

Make sure you have a basic understanding of the company. Know its market cap, the size of its revenues, profits and assets and liabilities. Review any major news related to the financials of the company and its management team.

STEP 1

(L) 10 SEC

Scan down the right side of the first page of the company's report, paying attention to the 'RECENT' column to find the latest yellow and red flags.

■ STEP 2

C 2 SEC

When you see a red or yellow flag, click the title next to the flag and you will instantly jump to that section of the company's report.

STEP 3

(\$) 60 SEC

Read that section's headline, the timeline and review the specific issue highlighted for the company's red or yellow flag.

STEP 4

(J)3 MIN

Each section will usually have a link to the original filing or legal summary for the issue. Click that link. If it takes you to a SEC Edgar page, review the original filing. **HINT:** Use your browser's "find" button to search for a key word or number related to the issue as shown on the Watchdog Report.

STEP 5

(15 SEC

Review the stock price movement chart on page two of the report. If you check the report online, you can adjust the timeline to a narrow time. The stock movement chart will overlay each of the red and yellow flags to stock price changes. Make note of those red and yellow flags around major stock price declines. These issues are worth reviewing in detail.

STEP 6

U1 MIN

Before continuing, it is worth comparing the company to its peers. Go to the third page of the report and compare the red and yellow flags for the company (first column) to the number of companies with red and yellow flags from your company's peer group. Is the company an outlier with a red or yellow flag in an area that other peers have only green? If so, the outlying issues are also worth reviewing in detail.

■ STEP 7

C 5 MIN

Repeat steps 2-4 for each red or yellow flag. At the end of this process, you'll have a good idea of the core issues the company has reported.

STEP 8



Now comes the creative, but hard part. Like a doctor trying to understand what might be wrong with a patient, you must now use your judgment, past knowledge and the insights you gathered in the prior steps to develop your own view of how serious the issues are facing the company.

If you see a consistent pattern of delays, accounting irregularities, management turnover, legal troubles, the company is clearly in trouble. Use the peer group analysis step above to see why your company may be different than its peers. Think of the various issues as connected. It seems passé but a bad management team is going to be bad in multiple ways. The challenge is to find the thread that runs through all the issues to understand any management failures.

When you find a pattern of unusual accounting moves, it is almost always tied to management protecting their own interests over investors. You should also consider what particular forces in the industry are affecting the company more than its peers. If you can assess that, try to think about how a company's management might "adjust" the financial disclosures to mask the weakness. It helps to think like a detective here. Everyone is entitled to a presumption of innocence, but if management was trying to hide something, how might they go about doing so?

This step is where we leave you with our 4,500+ Watchdog Reports. Good luck with your analysis!



About Watchdog Research, Inc.

Watchdog Research, Inc. is an independent research provider and publisher of Watchdog Reports. Watchdog Reports identify red flags, issues, and other anomalies in financial reporting. Our reports contain warning signs, red flags, material disclosures, and peer analysis for use in valuation, risk analysis, due diligence research, and idea generation.

Watchdog Reports are designed to assist investment professionals fulfill their fiduciary or suitability obligations and to help investors, executives, board members, regulators and educators learn what they need to know about publicly traded companies.

The company is headquartered in Ave Maria, FL. Watchdog Research, Inc. utilizes over 75 specialists and analysts to provide accurate and timely information to our readers.

Our management team is:

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CTO: Radu Cugut. Radu has led the award-winning technology team that developed the Watchdog Report and services. He, his wife and son split their time between his home in Ave Maria, FL and his home in Timisoara, Romania where he oversees five talented development professionals. Radu has a bachelors in Computer Science and a masters in Banking and Financial Information Systems, both from the West University of Timisoara.

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Director of Research: John Cheffers. John is responsible for writing our blogs and for our press relationships. He received his bachelors from Washington University in St. Louis, and has worked for Audit Analytics and Ave Maria University. He graduated Ave Maria University School of Law where his research was selected for publication in the Law Review. He currently lives in Pennsylvania with his wife and two children.



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