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Article Title: "Pawnshop Operator Runs For The Border "

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Of all the places it eyed for expansion, First Cash Financial Services has decided that the best opportunities lie in its own back yard.

The Arlington, Texas-based operator of pawnshops and check cashing/payday loan stores plans to limit expansion mostly to its home state and across the border in northern Mexico.

"We looked hard at our expansion opportunities, (and these) are clearly superior to any other expansion option we have at the present time," said Chief Financial Officer Douglas Orr. "We're on our home turf (in Texas). We understand the market. We understand the customer. Mexico is a very logical extension. It's very easy for us to manage those stores from our Texas home base."

First Cash owns 274 pawn and payday shops in 11 states and Mexico.

It's also an equal partner with Cash & Go Ltd. in 40 payday-loan kiosks in Texas convenience stores.

It's the third largest pawnshop operator in the U.S. In recent years, however, First Cash has branched out into more popular payday cash-advance stores.

The company also is opening more pawnshops in Mexico, where demand is still robust. It has more than 90 pawnshops in northern Mexico.

Tough Barriers

First Cash's plan in Texas is to open payday loan and check-cashing stores exclusively. In the U.S., that side of the business is more profitable than the pawn trade. First Cash already has more than 80 stores in the Lone Star State.

The payday loan business in Texas is underpenetrated relative to the rest of the country. Due to state regulations that cap interest-rate fees they can collect on loans, payday loan operators partner with out-of-state banks.

"That's kept out some of the smaller mom and pop operators," Orr said.

Pending legislation in Texas that would loosen regulations could make it easier for smaller operators to enter the payday loan market, however.

"It would mean more competition for all of them," said analyst Traci Mangini of Think Equity Partners. "But the larger chains operating in Texas have developed a very strong name and customer base."

Meanwhile, pawn competition in Mexico remains wide open.

"You do not have a well-developed consumer finance industry in Mexico," said Henry Coffey, analyst with Ferris, Baker Watts. "It's a cash-based society. There are not a lot of credit card users."

Yet few U.S.-style pawnshops operate there. And government-operated pawnshops are said to be inefficient.

"The concept we're rolling out is very attractive to the Mexican consumer in terms of presentation, merchandising and customer service," Orr said.

Think Equity's Mangini says First Cash has earned its reputation as an innovator.

"It was the first of the big pawnshop operators to offer payday services," she said. "Now they're the first to go to Mexico."

While fellow pawn operators Cash America and Ezcorp have added payday services, they still haven't followed First Cash into Mexico.

It's possible they will.

"Cash America has mentioned they have considered it, but I don't think it's a near-term focus," Mangini said.

There are risks to setting up shop in Mexico, including potential government interference and regulatory changes. That doesn't seem likely for now.

"The government has been very cooperative," Orr said.

That's partly because Mexico is competing with China and other countries for U.S. investments, he says.

One advantage of setting up shop in Mexico is that mature stores there produce margins that are 4% to 5% higher than those at U.S. shops, Mangini says.

And because of lower real-estate and labor costs, it's less expensive to open and run stores in Mexico.

First Cash opened 40 stores in the first nine months of this year, 13 of them in the last quarter. It plans to open up to 55 for the full year and 60 next year - using its own cash.

If the recent past is any indication, two-thirds will be in Mexico and one-third will be in Texas.

Chances are the new stores won't have much problem earning a decent living. First Cash's sales and earnings have grown in double digits every quarter for the last two years.

Third-quarter revenue this year rose 25% from the prior year to \$46.5 million. Same-store sales grew 14%. Profit was up 24% to 31 cents a share.

Analysts polled by First Call expect full-year earnings to rise 26% to \$1.22 a share, then gain 24% to \$1.51 in 2005.