IndyMac looks to close 2004 on high note, guides 2005 EPS to $4.00 range

February 18, 2004
By Thomas Kane

Dubbing 2004 a "transitional year" for the bank, IndyMac Bancorp Inc. Chairman and CEO Michael Perry said on Feb. 18 that earnings should begin to rebound toward the end of 2004, with the thrift working its way back to a $4.00 per share earnings range for 2005.

In addition, Perry reaffirmed the company's 2004 guidance range of $2.90 to $3.25 per share.

The bank earned $3.01 per share in 2003, and the current Thomson First Call mean earnings estimates for 2004 and 2005 are $3.12 per share and $3.73 per share, respectively.

"Volumes are going to be down, and we project earnings to be flat to slightly up," Perry said during his presentation at the Roth Capital Partners 16th Annual Growth Stock Conference in Dana Point, CA. "The bottom line is that we see 2004 as a transitional year. We see our earnings rebounding nicely by the third and fourth quarter of this year, with the first quarter being the trough of our earnings."

He added, "We also see us aggressively increasing our dividend through 2004 … because our belief is that if we're not giving it in earnings per share, we better be giving it in terms of strong dividend growth."

Perry pointed to continued growth in the investment portfolio, as well as strong market share gains, as the key drivers to IndyMac's near-term success. Perry also said that the thrift's net interest margin should come to 2.80% for 2004.

Finally, Perry noted that the Pasadena, CA-based IndyMac would look to expand its deposit franchise through de novo growth as opposed to acquisitions. The company currently has 10 branches in California, and Perry said that it plans to expand the network to between 50 and 100 retail branches over the next five years. ■

Commercial Capital eyes NorCal expansion, continued revenue growth

February 18, 2004
By Tim Zawacki

In its short history as a public company, Commercial Capital Bancorp Inc. had always based its story on organic growth opportunities. Then came the January announcement that it would buy Hawthorne Financial Corp. for $475.8 million.

Once that deal closes this summer, CCBI CEO Stephen Gordon said, organic growth will again be a key theme, along with benefits from the merger's integration.

Speaking late Feb. 18 at the Roth Capital Partners 16th Annual Growth Stock Conference in Dana Point, CA, Gordon said his Irvine, CA-based thrift is "probably going to do something in terms of organic growth" in Northern California, once the Hawthorne acquisition is complete.

Gordon did not elaborate on what that something might entail, but he emphasized that the transaction would be important in building "greater critical mass" as a statewide lender in California. CCBI is currently the fourth-largest multi-family lender in the Golden State, with loan offices across the state, Gordon said. But its bank branches are concentrated in Southern California. Likewise, Hawthorne's 15 branches are centered mostly in Los Angeles County.

Overall, Gordon said, the acquisition gives CCBI a "stronger foundation for continued growth" and will take the thrift "to the next level."

The CEO admitted that investors had been asking plenty of questions about the deal's impact on CCBI's rate of growth. While he offered no specific projections on top-line growth following the combination (the thrift expects 25% cost savings from the deal), Gordon said the deal positions the merged company "for much stronger growth" in the future.

"If anything, [the deal] assures that our growth rate continues," Gordon said. "This is a relatively low-risk transaction. ... We're confident that we can grow at the same rate, if not a higher rate."

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Commercial Capital *continued*

One area CCBI might look to grow is Hawthorne's small construction and development business, Gordon suggested. Hawthorne had $228.5 million in construction and development loans on its books at year-end 2003, representing just over 10% of the companywide total.

Gordon reiterated previously reported pro forma projections for the combined company, saying that the cost-savings figure of $11 million pretax was "very achievable." He noted that the combination of the two thrifts would be a kind of "reverse integration," since CCBI will migrate to Hawthorne's computer systems.

"This is very unique," Gordon said.

In the end, Gordon said, CCBI and Hawthorne are "great success stories that just got better." ■

Accredited sees up to $1.00 in first-quarter profits

February 17, 2004
By Tim Zawacki

Accredited Home Lenders Holding Co. expects first-quarter earnings of between 90 cents and $1.00 per share, said co-founder and Executive Vice President Ray McKewon, speaking Feb. 17 at the Roth Capital Growth Stock Conference in Dana Point, CA.

The two estimates for the company's first quarter currently stand at 95 cents and $1.21 per share, according to Thomson First Call, and the full-year mean estimate is $5.07.

The company's full-year guidance projects a range of earnings from $5.00 to $5.25 per share. That range was originally set in December, and McKewon reiterated it again during his presentation.

McKewon emphasized that the company's first-quarter model includes a number of variables that may or may not impact results, including increased pricing competition, a decline in business volume due to seasonality, higher origination costs, rising interest rates and a tighter net interest margin.

One place Accredited will not be generating any loan volume is the city of Oakland, CA. McKewon said that the company is not writing any loans in that city, as a result of its new antipredatory lending law.

"Eventually, that city council will determine that the legislation is not beneficial to their citizenry," McKewon said.

Accredited has six full-time attorneys on staff, McKewon said, to interpret and respond to new and existing antipredatory lending laws around the country. The company operates in all 50 states, he said.

The most difficult issue to resolve, he said, is determining what the law is, often based on unquantifiable phrases such as "net customer benefit." Despite the company's best efforts, McKewon said that "the plaintiffs' bar will determine whether or not we did it right a few years from now."

Still, he is optimistic that progress will be made either at the state or federal levels.

"I anticipate that the playing field will level out over time," McKewon said. "Until then, we'll have fun with attorneys." ■

Cash America to cash in on deals, cash advances, CEO says

February 17, 2004
By Tim Zawacki

Six months after Cash America International Inc. completed the $52.3 million acquisition of Cashland Inc., CEO Daniel Feehan said Feb. 17 at the Roth Capital Growth Stock Conference in Dana Point, CA, that his Ft. Worth-based pawnshop is ready to do more deals.

In addition to the Cashland deal, which added 121 locations, Feehan said Cash America acquired 15 independent pawnshops in 2003. He said the company will look to buy between 10 and 15 independent pawnshops this year, in addition to more significant transactions that could add scale in the cash advance business.

"There is a plethora of ... attractive acquisition candidates," Feehan said.

While he expects existing pawn-lending operations to generate organic expansion, Feehan said the cash advance business "supercharges our growth." Cash America ranks among the nation's six largest players in the business, thanks in large measure to the Cashland deal.

In addition to acquisitions and producing unit growth through the maturation of existing locations, Cash America expects to open 50 cash advance locations and 15 pawnshops in 2004. The company will target new markets for some of those locations; Feehan said that there is "a significant part of the U.S." in which his company does not currently operate. The company will also consolidate existing locations to combine cash advance and pawn-lending capabilities.

Many of the independent pawnshops Cash America has acquired do not offer cash advance services, Feehan noted, offering immediate growth opportunities.

Overall, Feehan said, business opportunities will continue to increase for companies like his as banks move up-market, away from the target market of customers with household incomes of less than $50,000.

New business will be "driven by customers who, today, don't know that they're going to be customers," Feehan said. ■

After tripling share price, EZCORP CEO wants more

February 17, 2004
By Tim Zawacki

Shares of EZCORP Inc. have gained more than 200% over the last 12 months, but CEO Joe Rotunda still is not satisfied with his Austin-based pawnshop's valuation.

Speaking Feb. 17 at the Roth Capital Growth Stock Conference in Dana Point, CA, Rotunda called his shares, which traded during the day at a five-year high of $11.83 apiece, "substantially undervalued."

Rotunda said he is attempting to tell EZCORP's story to Wall Street in 2004 after being "fairly quiet" in years past, focusing on building the company's balance sheet and infrastructure.

Now that that work is done, Rotunda said his "still undiscovered" company is "ready to grow."

In addition to growing pawn loans and improving yields in that business, Rotunda said the expansion of the company's EZMoney payday lending business will be key.

The company had four call center markets and four storefront payday lending locations as of the end of fiscal 2003 (Sept. 30, 2003). Four months later, it had seven new call center markets and 30 new storefronts, with more on the way. For the next full fiscal year, EZCORP plans to add a total of 13 new call center markets and 75 to 85 new storefronts.

EZCORP's 2004 earnings guidance of between 50 cents and 55 cents per share contemplates a drag of 10 cents to 15 cents per share from the new store additions. Rotunda said it usually takes from six to nine months for new stores to make positive contributions to earnings.

If the economy improves, Rotunda said, EZCORP is insulated from any decrease in demand.

"Generally, the behaviors are the same," he said. In "good times or bad, it doesn't matter." ■

First Cash cashes in on payday lending, Mexico

February 17, 2004
By Tim Zawacki

While other publicly held pawnshops begin to build their payday lending operations, First Cash Financial Services Inc. has been in the business for five years, and CFO R. Douglas Orr said the Arlington, TX-based company is going to stick to its game plan.

Speaking Feb. 17 at the Roth Capital Growth Stock Conference in Dana Point, CA, Orr said the company will open a total of about 50 new stores in 2004, following the opening of 47 new locations in 2003. About two-thirds of last year's newly opened stores were Mexican pawnshops, while the rest were check-cashing or short-term advance stores. At the end of 2003, First Cash had 235 stores in total — 75 in the payday lending business, 60 Mexican pawnshops and 100 U.S. pawnshops.

"We continue to see advancement and greater acceptance of the payday lending model," Orr said. Among recent initiatives in the business has been adding cash advance products in stores in Oklahoma, which recently began allowing lenders to conduct such a business.

Most of the company's gross revenues are generated by merchandise sales, but profit contributions are nearly equally divided between that business, short-term-advance operations and pawn service charges. It is a balance that, Orr said, the company seeks to maintain.

First Cash has settled into a "comfortable, sustainable rhythm of opening new stores," Orr said, with a strict focus on quality control at new branches. He emphasized that the company has the strongest balance sheet among its publicly traded pawnshop peers, giving it "a whole lot of flexibility and firepower."

But unlike some of its peers, First Cash will not rely on acquisitions to drive growth.

"We're not buying someone else's problems," Orr said.

The company expects to report 2004 earnings of between $1.75 and $1.83 per share, up from 2003 profits of $1.46, with income from stores opened in the last year contributing to strong year-over-year growth. ■