FIRSTCASH, INC
Form 10-K
February 05, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to ___________

Commission file number 001-10960
FIRSTCASH, INC.
(Exact name of registrant as specified in its charter)

Delaware	75-2237318
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1600 West 7th Street, Fort Worth, Texas	76102
(Address of principal executive offices)	(Zip Code)

(817) 335-1100
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.01 per share	The Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
xYes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
oYes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. xYes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). xYes o No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

x Large accelerated filer	o Accelerated filer
o Non-accelerated filer	o Smaller reporting company
	o Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). oYes x No

As of June 29, 2018, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $3,326,000,000 based on the closing price as reported on the New York Stock Exchange.

As of January 28, 2019, there were 43,565,075 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement relating to its 2019 Annual Meeting of Stockholders to be held on or about June 11, 2019, is incorporated by reference in Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

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FORM 10-K
For the Year Ended December 31, 2018

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FORWARD-LOOKING INFORMATION

This annual report contains forward-looking statements about the business, financial condition and prospects of FirstCash, Inc. and its wholly owned subsidiaries (together, the “Company”). Forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, can be identified by the use of forward-looking terminology such as “believes,” “projects,” “expects,” “may,” “estimates,” “should,” “plans,” “targets,” “intends,” “could,” “w “anticipates,” “potential,” “confident,” “optimistic” or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy, objectives, estimates, guidance, expectations and future plans. Forward-looking statements can also be identified by the fact these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties.

While the Company believes the expectations reflected in forward-looking statements are reasonable, there can be no assurances such expectations will prove to be accurate. Security holders are cautioned that such forward-looking statements involve risks and uncertainties. Certain factors may cause results to differ materially from those anticipated by the forward-looking statements made in this annual report. Such factors may include, without limitation, the risks, uncertainties and regulatory developments discussed and described in (1) this annual report, including the risks described in Part I, Item IA, “Risk Factors” hereof, and (2) other reports filed with the SEC. Many of these risks and uncertainties are beyond the ability of the Company to control, nor can the Company predict, in many cases, all of the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements. The forward-looking statements contained in this annual report speak only as of the date of this annual report, and the Company expressly disclaims any obligation or undertaking to report any updates or revisions to any such statement to reflect any change in the Company’s expectations or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

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PART I

Item 1. Business

General

The Company is a leading operator of retail pawn stores in the U.S. and Latin America. As of December 31, 2018, the Company had 2,473 locations, consisting of 1,094 stores in 24 U.S. states and the District of Columbia, 1,323 stores in all 32 states in Mexico, 39 stores in Guatemala, 13 stores in El Salvador and four stores in Colombia.

The Company’s primary business is the operation of full-service pawn stores, also known as “pawnshops,” which make pawn loans secured by personal property such as consumer electronics, jewelry, tools, household appliances, sporting goods and musical instruments. Pawn stores also generate significant retail sales of merchandise acquired through collateral forfeitures on forfeited pawn loans and over-the-counter purchases of merchandise directly from customers. For the year ended December 31, 2018, 97% of the Company’s revenues were derived from pawn operations. The Company’s strategy is to focus on growing its full-service pawn operations in the U.S. and Latin America through a combination of new store openings and strategic acquisition opportunities as they arise.

Pawn stores provide customers with instant access to capital through small non-recourse pawn loans or buying merchandise from its customers. Pawn loans can be quickly and easily accessed by customers who often have limited access to traditional credit products. Pawn loans are safe and affordable non-recourse loans for which the customer has no legal obligation to repay. The Company does not attempt to collect on delinquent loans, does not take legal actions against its customers, does not blacklist its customers, nor does it issue any negative external credit reporting, but rather relies only on the resale of the pawn collateral for recovery.

Pawnshops also contribute to the modern “circular economy.” The retail merchandise sold in pawnshops is almost entirely sourced locally from its customers and is sold at significant discounts compared to similar “new” items offered by other retailers. By acquiring and reselling popular consumer products, the Company and its customers are extending the lifetime value of goods. The Company also provides an interest-free layaway program which assists cash and credit-constrained shoppers in acquiring retail merchandise by offering affordable payments over time.

The Company organizes its operations into two reportable segments: the U.S. operations segment and the Latin America operations segment. The U.S. operations segment consists of all pawn and consumer loan operations in the U.S. and the Latin America operations segment consists of all pawn and consumer loan operations in Latin America, which includes operations in Mexico, Guatemala, El Salvador and Colombia. For the year ended December 31, 2018, 69% of total revenues were derived from the U.S. and 31% were derived from Latin America. For additional historical information on the composition of revenues from the U.S. and Latin America, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations.”

On September 1, 2016, the Company completed its merger with Cash America International, Inc. (“Cash America”), whereby Cash America merged with and into a wholly owned subsidiary of the Company (the “Merger”). The accompanying audited consolidated results of operations for the year ended December 31, 2016 includes the results of operations for Cash America for the period September 2, 2016 to December 31, 2016, thereby affecting comparability to fiscal 2018 and 2017 amounts, which include the results of operations for Cash America for the full respective periods.

The Company was formed as a Texas corporation in July 1988. In April 1991, the Company reincorporated as a Delaware corporation. The Company’s principal executive offices are located at 1600 West 7th Street, Fort Worth, Texas 76102, and its telephone number is (817) 335-1100.

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Pawn Industry

The Company's pawn stores directly compete in both the specialty retail and consumer finance industries. Pawn stores are neighborhood-based retail stores that buy and sell consumer items such as consumer electronics, jewelry, tools, appliances, sporting goods and musical instruments. Pawn stores also provide a quick and convenient source of small consumer loans to unbanked, under-banked and credit-challenged customers. These consumers are typically not effectively or efficiently served by traditional lenders such as banks, credit unions, credit card providers or other small loan providers.

United States

The pawn industry in the U.S. is well established, with the highest concentration of pawn stores located in the Southeast, Midwest and Southwest regions of the country. The operation of pawn stores is governed primarily by state laws and accordingly, states that maintain regulations most conducive to profitable pawn operations have historically seen the greatest concentration of pawn stores. Management believes the U.S. pawn industry, although mature, remains highly fragmented. The two major publicly traded companies in the pawn industry, which includes the Company, currently operate approximately 1,600 of the estimated 12,000 to 14,000 pawn stores in the U.S. The Company believes the majority of pawnshops in the U.S. are owned by individuals operating five or fewer locations.

Mexico and Other Latin American Markets

The majority of pawn stores in Latin America are smaller than U.S. pawn stores, with limited retail space and pawn loans typically collateralized by gold jewelry or small consumer electronics. In contrast, a majority of the Company's pawn stores in Latin America are larger format, full-service stores, similar to the U.S. stores, which lend on a wide array of collateral and have a larger retail sales floor. Accordingly, competition in Latin America with the Company's larger format, full-service pawn stores is limited. A large percentage of the population in Mexico and other countries in Latin America is unbanked or under-banked and has limited access to consumer credit. The Company believes there is significant opportunity for further expansion in Mexico and other Latin American countries due to the large potential consumer base and limited competition from other large format, full-service pawn store operators.

Business Strategy

The Company's business plan is to increase revenues and long-term profitability by opening new ("de novo") retail pawn locations, acquiring existing pawn stores in strategic markets and attempting to increase revenue and operating profits in existing stores. In pursuing its business strategy, the Company seeks to establish clusters of several stores in specific geographic areas with favorable regulations and customer demographics and to achieve certain economies of scale relative to management and supervision, pricing and purchasing, information and accounting systems and marketing.

The Company has opened or acquired 1,750 pawn stores in the last five fiscal years. Net store additions have grown at a compound annual store growth rate of 22% over this period. The Company intends to open additional stores in locations where management believes appropriate demand and other favorable conditions exist. The following table details stores opened and acquired over the five year period ended December 31, 2018:

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	Year Ended December 31,				
	2018	2017	2016	2015	2014
U.S. operations segment:					
Merged Cash America locations	—	—	815	—	—
New locations opened	—	2	—	—	8
Locations acquired	27	1	3	33	25
Total additions	27	3	818	33	33
Latin America operations segment:					
New locations opened	52	45	41	38	31
Locations acquired	366	5	179	32	47
Total additions	418	50	220	70	78
Total:					
Merged Cash America locations	—	—	815	—	—
New locations opened	52	47	41	38	39
Locations acquired	393	6	182	65	72
Total additions	445	53	1,038	103	111

For additional information on store count activity, see “Locations and Operations” below.

New Store Openings

The Company plans to continue opening new pawn stores, primarily in Latin America, and to a much lesser extent, in the U.S. The Company typically opens new stores in under-developed markets, especially where customer demographics are favorable and competition is limited or restricted. After a suitable location has been identified and a lease and the appropriate licenses are obtained, a new store can typically be open for business within six to 12 weeks. The investment required to open a new location includes store operating cash, inventory, funds for pawn loans, leasehold improvements, store fixtures, security systems, computer equipment and other start-up costs.

Acquisitions

Due to the fragmented nature of the pawn industry, the Company believes attractive acquisition opportunities will continue to arise from time to time in both Latin America and the U.S. Before making an acquisition, management assesses the demographic characteristics of the surrounding area, considers the number, proximity and size of competing stores, and researches federal, state and local regulatory standards. Specific pawn store acquisition criteria include an evaluation of the volume of merchandise sales and pawn transactions, outstanding customer pawn loan balances, historical pawn yields, merchandise sales margins, pawn loan redemption rates, the condition and quantity of inventory on hand and the location, condition and lease terms of the facility.

Enhance Productivity of Existing and Newly Opened Stores

The primary factors affecting the profitability of the Company’s existing store base are the volume and gross profit of merchandise sales, the volume of and yield on pawn loans and store operating expenses. To encourage customer traffic, which management believes is a key determinant of a store’s success, the Company has taken several steps to distinguish its stores and to make customers feel more comfortable. In addition to a clean and secure physical store facility, the stores’ exteriors typically display attractive and distinctive signage similar to that used by contemporary specialty retailers.

The Company has employee-training programs that promote customer service, productivity and professionalism. The Company utilizes a proprietary computer information system that provides fully-integrated functionality to support point-of-sale retail operations, real-time merchandise valuations, loan-to-value calculations, inventory management, customer recordkeeping, loan management, compliance and control systems and employee compensation. Each store is connected on a real-time basis to a secure data center that houses the centralized databases and operating systems. The information systems provide management with the ability to continuously monitor store transactions and operating results.

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The Company maintains a well-trained internal audit staff that conducts regular store audits to test compliance of financial and operational controls. Management believes the current operating and financial controls and systems are adequate for the Company's existing store base and can accommodate reasonably foreseeable growth in the near term.

Services Offered by the Company

Pawn Merchandise Sales

The Company's pawn merchandise sales are primarily retail sales to the general public from its pawn stores. The items the Company sells generally consist of pre-owned consumer electronics, jewelry, tools, household appliances, sporting goods and musical instruments. The Company also melts certain quantities of scrap jewelry and sells the gold, silver and diamonds in commodity markets. Merchandise sales accounted for approximately 67% of the Company's revenue during fiscal 2018.

Merchandise inventory is acquired primarily through forfeited pawn loan collateral and, to a lesser extent, through purchases of used goods directly from the general public. Merchandise acquired by the Company through forfeited pawn loan collateral is carried in inventory at the amount of the related pawn loan, exclusive of any accrued service fees. The Company also acquires limited quantities of new or refurbished general merchandise inventories directly from wholesalers and manufacturers.

The Company does not provide direct financing to customers for the purchase of its merchandise, but does permit its customers to purchase merchandise on an interest-free "layaway" plan. Should the customer fail to make a required payment pursuant to a layaway plan, the item is returned to inventory and previous payments are typically forfeited to the Company. Interim payments from customers on layaway sales are recorded as deferred revenue and subsequently recorded as retail merchandise sales revenue when the merchandise is delivered to the customer upon receipt of final payment or when previous payments are forfeited to the Company.

Retail sales are seasonally highest in the fourth quarter associated with holiday shopping and, to a lesser extent, in the first quarter associated with tax refunds in the U.S.

Pawn Lending Activities

The Company's pawn stores make small, secured loans to its customers in order to help them meet short-term cash needs. All pawn loans are collateralized by personal property such as consumer electronics, jewelry, tools, household appliances, sporting goods and musical instruments. The pledged collateral provides the only security to the Company for the repayment of the loan. The Company does not investigate the creditworthiness of the borrower, primarily relying instead on the marketability and sales value of pledged goods as a basis for its credit decision. Pawn loans are non-recourse loans and a customer does not have a legal obligation to repay a pawn loan. There is no collections process and the decision to not repay the loan will not affect the customer's credit score.

At the time a pawn loan transaction is entered into, an agreement or contract, commonly referred to as a "pawn ticket," is delivered to the borrower for signature that sets forth, among other items, the name and address of the pawnshop, the borrower's name, the borrower's identification number from his/her driver's license or other government issued identification, date, identification and description of the pledged goods, including applicable serial numbers, amount financed, pawn service fee, maturity date, total amount that must be paid to redeem the pledged goods on the maturity date and the annual percentage rate.

Pledged property is held in a secured, non-public area of the pawn store through the term of the loan, unless the loan is repaid earlier. In certain markets, the Company also provides pawn loans collateralized by automobiles, which typically remain in the possession of the customer. The term of a pawn loan is typically 30 days plus an additional grace period of 14 to 90 days, depending on geographic markets and local regulations. Pawn loans may be either paid in full with accrued pawn loan fees and service charges or, where permitted by law, may be renewed or extended by the customer's payment of accrued pawn loan fees and service charges. If a pawn loan is not repaid prior to the expiration of the grace period, the pawn collateral is forfeited to the Company and transferred to inventory at a value equal to the principal amount of the loan, exclusive of accrued service fees. The Company does not record pawn loan losses or charge-offs because the amount advanced becomes the carrying cost of the forfeited collateral that is to be recovered through the merchandise sales function described above.

The pawn loan fees are typically calculated as a percentage of the pawn loan amount based on the size, duration and type of collateral of the pawn loan and generally range from 4% to 25% per month, as permitted by applicable law. As required by applicable law, the amounts of these charges are disclosed to the customer on the pawn ticket. Pawn loan fees accounted for approximately 30% of the Company's revenue during fiscal 2018.

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The amount the Company is willing to finance for a pawn loan is primarily based on a percentage of the estimated retail value of the collateral. There are no minimum or maximum pawn loan to fair market value restrictions in connection with the Company's lending activities. In order to estimate the value of the collateral, the Company utilizes its proprietary computer information system to recall recent selling prices of similar merchandise in its own stores. The basis for the Company's determination of the retail value also includes such sources as precious metals spot markets, catalogs, blue books, online auction sites and retailer advertisements. These sources, together with the employees' experience in selling similar items of merchandise in particular stores, influence the determination of the estimated retail value of such items. The Company does not utilize a standard or mandated percentage of estimated retail value in determining the amount to be financed. Rather, the employee has the authority to set the percentage for a particular item and to determine the ratio of pawn loan amount to estimated sales value with the expectation that, if the item is forfeited to the pawnshop, its subsequent sale should yield a gross profit margin consistent with the Company's historical experience. The recovery of the principal and realization of gross profit on sales of inventory is dependent on the Company's initial assessment of the property's estimated retail value. Improper assessment of the retail value of the collateral in the lending function can result in reduced marketability of the property resulting in a reduced gross profit margin.

The Company typically experiences seasonal growth in its pawn loan balances in the third and fourth quarters following lower balances in the first two quarters due to the heavy repayment of pawn loans associated with statutory bonuses received by customers in the fourth quarter in Mexico and with tax refund proceeds typically received by customers in the first quarter in the U.S.

Credit Services and Consumer Loan Activities

As of December 31, 2018, the Company operated 17 stand-alone consumer loan locations in the U.S. In addition, 262 pawn locations in the U.S. also offer consumer loan products, of which 113 are the smaller format Cashland stores located in Ohio. Effective June 30, 2018, the Company ceased to offer unsecured consumer loan products in Mexico and closed its remaining stand-alone consumer loan stores in that country. Total revenues from consumer loan and credit services operations accounted for approximately 3% of total revenues in 2018.

The Company offers fee-based credit services organization programs ("CSO Programs") to assist consumers in obtaining extensions of credit. The Company's stand-alone consumer loan stores and select pawn stores in the states of Texas and Ohio offer the CSO Programs. The Company's CSO Programs comply with the respective jurisdiction's credit services organization act, credit access business law or a similar statute. Under the CSO Programs, the Company assists customers in applying for a short-term extension of credit from independent, non-bank, consumer lending companies (the "Independent Lenders") and issues the Independent Lenders a guarantee for the repayment of the extension of credit. The Company also offers an automobile title lending product under the CSO Programs. Credit services fees accounted for 1% of the Company's revenue during fiscal 2018.

The Company also offers small, unsecured consumer loans to customers in various states within the U.S. To qualify for a consumer loan, a customer generally must have proof of steady income, residence and valid identification. At maturity, the loan and related fee is repaid by the customer with cash at the store or through a pre-authorized automated clearing house ("ACH") transaction. If the customer fails to repay the loan or the ACH transaction is returned, the Company initiates collection procedures. Consumer loan fees accounted for 2% of the Company's revenue during fiscal 2018.

On July 30, 2018, the governor of Ohio signed into law the Ohio Fairness in Lending Act (the "Ohio Act") which will significantly impact the consumer loan industry in Ohio. See "Governmental Regulation" for further information about the Act and its potential impact on the Company's results of operations.

See additional discussion of the credit loss provision and related allowances/accruals in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies.”

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Franchise Operations

As of December 31, 2018, the Company had 62 unconsolidated franchised check cashing locations in the U.S. operating under the “Mr. Payroll” brand. Each of the Company’s unconsolidated franchised check cashing locations is subject to a franchise agreement negotiated individually with each franchisee and has varying durations. The Company receives franchise fees from each franchisee based on the gross revenue of check cashing services provided within the franchisee’s facility.

As of December 31, 2018, the Company had 221 unconsolidated franchised pawn locations in Mexico operating under the “Prendamex” brand. Each of the Company’s unconsolidated franchised pawn locations is subject to a franchise agreement negotiated individually with each franchisee and has varying durations. The Company receives franchise fees from each franchisee based on pawn loan and inventory balances of the franchised stores.

Total revenue from franchise fees accounted for less than 1% of consolidated total revenue during fiscal 2018.

Locations and Operations

As of December 31, 2018, the Company had 2,473 store locations composed of 1,094 stores in 24 U.S. states and the District of Columbia, 1,323 stores in all 32 states in Mexico, 39 stores in Guatemala, 13 stores in El Salvador and four stores in Colombia.

The following table details store count activity for the twelve months ended December 31, 2018:

	Pawn Locations (1), (2)	Consumer Loan Locations (3)	Total Locations
U.S. operations segment:			
Total locations, beginning of period	1,068	44	1,112
Locations acquired	27	—	27
Locations closed or consolidated	(18)	(27)	(45)
Total locations, end of period	1,077	17	1,094
Latin America operations segment:			
Total locations, beginning of period	971	28	999
New locations opened	52	—	52
Locations acquired	366	—	366
Locations closed or consolidated	(10)	(28)	(38)
Total locations, end of period	1,379	—	1,379
Total:			
Total locations, beginning of period	2,039	72	2,111
New locations opened	52	—	52
Locations acquired	393	—	393
Locations closed or consolidated	(28)	(55)	(83)
Total locations, end of period	2,456	17	2,473

(1) At December 31, 2018, 262 of the U.S. pawn stores, primarily located in Texas and Ohio, also offered consumer loans and/or credit services primarily as an ancillary product. This compares to 313 U.S. pawn locations which

offered such products as of December 31, 2017. Effective June 30, 2018, the Company no longer offers an unsecured consumer loan product in Latin America. The table does not include 221 Mexico pawn locations operated by independent franchisees under franchising agreements with the Company.

(2) The Company closed 28 pawn stores, 18 in the U.S. and 10 in Latin America, during fiscal 2018, which were primarily smaller format stores emphasizing payday lending or underperforming locations which were consolidated into existing stores, an opportunity driven by merger and acquisition activity.

(3) The Company's U.S. free-standing consumer loan locations offer consumer loans and/or credit services products and are located in Ohio and Texas. The table does not include 62 U.S. check cashing locations operated by independent franchisees under franchising agreements with the Company.

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The Company maintains its primary administrative offices in Fort Worth, Texas, Monterrey, Mexico and Mexico City, Mexico.

As of December 31, 2018, the Company’s stores were located in the following countries and states:

	Pawn Locations (1)	Consumer Loan Locations (1)	Total Locations
U.S.:			
Texas	389	8	397
Ohio	110	9	119
Florida	75	—	75
Tennessee	53	—	53
Georgia	46	—	46
North Carolina	41	—	41
Indiana	33	—	33
Washington	33	—	33
Arizona	31	—	31
Colorado	30	—	30
Maryland	29	—	29
Illinois	27	—	27
Nevada	27	—	27
South Carolina	27	—	27
Louisiana	26	—	26
Kentucky	25	—	25
Missouri	24	—	24
Oklahoma	18	—	18
Alabama	8	—	8
Utah	7	—	7
Alaska	6	—	6
Virginia	6	—	6
District of Columbia	3	—	3
Wyoming	2	—	2
Nebraska	1	—	1
	1,077	17	1,094
Mexico:			
Estado de. Mexico (State of Mexico)	155	—	155
Veracruz	133	—	133
Puebla	109	—	109
Tamaulipas	87	—	87
Baja California	78	—	78
Nuevo Leon	64	—	64
Jalisco	62	—	62
Tabasco	54	—	54
Chiapas	50	—	50
Coahuila	43	—	43
Estado de Ciudad de Mexico (State of Mexico City)	43	—	43
Oaxaca	42	—	42

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	Pawn Locations (1)	Consumer Loan Locations (1)	Total Locations
Mexico (continued):			
Hidalgo	41	—	41
Chihuahua	40	—	40
Guanajuato	36	—	36
Quintana Roo	31	—	31
Sonora	30	—	30
Guerrero	26	—	26
Sinaloa	25	—	25
Michoacan	21	—	21
Morelos	18	—	18
San Luis Potosi	18	—	18
Aguascalientes	17	—	17
Campeche	16	—	16
Durango	15	—	15
Queretaro	14	—	14
Tlaxcala	12	—	12
Yucatan	11	—	11
Baja California Sur	10	—	10
Zacatecas	10	—	10
Nayarit	7	—	7
Colima	5	—	5
	1,323	—	1,323
Guatemala	39	—	39
El Salvador	13	—	13
Colombia	4	—	4
Total	2,456	17	2,473

(1) The table does not include 221 Mexico pawn locations and 62 U.S. check cashing locations operated by independent franchisees under franchising agreements with the Company.

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Pawn Store Operations

The typical Company large-format pawn store is a freestanding building or part of a retail shopping center with adequate, well-lit parking. The Company also operates smaller stores in Mexico in urban markets which may not have parking. Management has established a standard store design intended to distinguish the Company’s stores from the competition. The design consists of a well-illuminated exterior with distinctive signage and a layout similar to other contemporary specialty retailers. The Company’s stores are typically open six or seven days a week from 9:00 a.m. to between 6:00 p.m. and 9:00 p.m.

The Company attempts to attract customers primarily through the pawn stores’ visibility and neighborhood presence. The Company uses seasonal promotions, special discounts for regular customers, prominent display of impulse purchase items such as consumer electronics, jewelry and tools, tent and sidewalk sales, and a layaway purchasing plan to attract retail shoppers. The Company attempts to attract and retain pawn customers by lending a competitive percentage of the estimated sales value of items presented for pledge and by providing quick financing, renewal and redemption services in an appealing atmosphere.

Generally, each pawnshop employs a manager, one or two assistant managers, and between one and eight sales personnel, depending upon the size, sales volume and location of the store. The store manager is responsible for customer relations, reviewing pawn transactions and related collateral, inventory management, supervising personnel and assuring the store is managed in accordance with Company guidelines and established policies and procedures which emphasize safeguarding of Company assets, strict cost containment and financial controls. All store personnel are expected to monitor expenses to contain costs. All material invoices are paid from Company headquarters in order to enhance financial accountability. The Company believes careful monitoring of customer transaction metrics and operational expenses enables it to maintain financial stability and profitability.

Each store manager reports to a district manager, who typically oversees four to seven store managers. District managers typically report to a regional manager who, in turn, typically reports to a regional operations director. Regional operations directors report to a regional vice president of operations. There are four regional vice presidents of operations and a senior vice president of operations who report to the chief operating officer.

The Company believes the profitability of its pawnshops is dependent, among other factors, upon its employees’ ability to engage with customers and provide prompt and courteous service. The Company’s proprietary computer system tracks certain key transactional performance measures including pawn loan yields and merchandise sales margins and permits a store manager or clerk to rapidly recall the cost of an item in inventory and the date it was purchased, as well as the prior transaction history of a particular customer. It also facilitates the timely valuation of goods by showing values assigned to similar goods. The Company has networked its stores to allow employees to more accurately determine the retail value of merchandise and to permit the Company’s headquarters to more efficiently monitor each store’s operations, including merchandise sales, service charge revenue, pawn loans written and redeemed and changes in inventory.

The Company trains its employees through direct instruction and on-the-job pawn and sales experience. New employees are introduced to the business through an orientation and training program that includes on-the-job training in lending practices, layaways, merchandise valuation and general administration of store operations. Certain experienced employees receive training and an introduction to the fundamentals of management to acquire the skills necessary to advance into management positions within the organization. Management training typically involves exposure to income maximization, recruitment, inventory control and cost efficiency. The Company maintains a performance-based profit sharing compensation plan for all store employees based on sales, gross profit and other performance criteria.

Credit Services and Consumer Loan Operations

Similar to the Company's pawn store operations, the Company's credit services and consumer loan locations are typically part of a retail strip shopping center with good visibility from a major street and easy access to parking. Management has established a standard store design intended to distinguish the Company's stores from the competition, which consists of a well-illuminated exterior with distinctive signage. The interiors typically feature an ample lobby separated from employee work areas by glass teller windows. The Company's credit services and consumer loan locations typically have hours similar to the Company's pawn stores. The Company does not have any online credit services or consumer loan operations.

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Environmental Sustainability and Social Responsibility

The Company is committed to sustainability and to operating its business in a manner that results in a positive impact on its employees, communities and the environment.

Pawnshops are neighborhood-based stores which contribute to the modern “circular economy.” Each of the Company’s 2,456 pawn locations provides a quick and convenient source of small, non-recourse consumer loans and a neighborhood-based market for consumers to buy and resell popular consumer products in a safe environment. Virtually all collateral and inventory is pre-owned merchandise which is sourced and then recycled within each store’s geographic neighborhood. Unlike most retailers, the Company does not rely on manufacturing its inventories nor does it source any material volume of inventories from third party manufacturers or wholesalers. Accordingly, the Company does not own, operate or contract for any manufacturing, warehousing or distribution facilities which directly support the retail operations and, other than operating small store front locations of typically 5,000 square feet or less, the Company has virtually no carbon footprint related to its operations.

The Company also contributes to its communities by providing customers with instant access to capital through small non-recourse pawn loans or buying merchandise from its customers. Pawn loans can be quickly and easily accessed by customers who often have limited access to traditional credit products. Pawn loans are highly regulated, safe and affordable non-recourse loans for which the customer has no legal obligation to repay. The Company does not attempt to collect on delinquent loans, does not take legal actions against its customers, does not blacklist its customers, nor does it issue any negative external credit reporting, but rather relies only on the resale of the pawn collateral for recovery.

The Company has over 19,000 employees across five countries (the U.S., Mexico, Guatemala, El Salvador and Colombia). It is committed to creating a safe, trusted and diverse environment in which its employees can thrive. Its employees’ wages are typically well above minimum wage standards in each country in which it operates. It also provides its employees with extensive training and advancement opportunities, demonstrated by its long track record of employee advancement and promotion from within the organization. The Company maintains a robust know your customer, anti-money laundering and anti-bribery training program and requires its locations to adhere to a labor compliance program that meets or exceeds the standards established for coercion and harassment, discrimination and restrictions to freedom of association. The Company’s locations provide a safe, comfortable and healthy work environment and maintain compliance with all occupational safety, wage and hour laws and other workplace regulations.

The Company values diversity at all levels of its organization. In the U.S., approximately 68% of all employees are ethnically diverse, and in total, approximately 87% of all employees are ethnically diverse. The Company’s store management employee population, in particular, exhibits a high level of female and ethnic diversity, with approximately 54% being female and approximately 90% being either female and/or ethnically diverse.

The Company also believes in fairly compensating its employees and providing them with an ability to share in the Company’s profitability. For example, the majority of the Company’s front-line employees participate in a non-qualified profit sharing program which pays up to 8% of the gross profit they personally participate in through customer service activities.

Competition

The Company encounters significant competition in connection with all aspects of its business operations. These competitive conditions may adversely affect the Company’s revenue, profitability and ability to expand. The Company believes the primary elements of competition in the businesses in which it operates are store location, customer service, the ability to lend competitive amounts on pawn loans and to sell popular retail merchandise at competitive prices. In addition, the Company competes with other lenders and retailers to attract, motivate and retain employees with competitive compensation programs.

The Company’s pawn business competes primarily with other pawn store operators, other specialty consumer finance operators, rent-to-own stores and specialty consumer goods retailers. Management believes the pawn industry remains highly fragmented with an estimated 12,000 to 14,000 total pawnshops in the U.S. and 7,000 to 8,000 pawnshops in Mexico. Including the Company, there are two publicly-held, U.S.-based pawnshop operators, both of which have pawn operations in the U.S., Mexico, Guatemala and El Salvador. Of these two, the Company had the most pawn stores and the largest market capitalization as of December 31, 2018, and believes it is the largest public or private operator of large format, full-service pawn stores in the U.S. and Mexico. The pawnshop and other specialty consumer finance industries are characterized by a large number of independent owner-operators, some of whom own and operate multiple locations. In addition, the Company competes with other non-pawn lenders, such as banks and consumer finance companies, which generally lend on an unsecured as well as a secured basis. Other lenders may and do lend money on terms more favorable than those offered by the Company. Many of these financial institutions have greater financial resources than the Company’s with which to compete for consumer loans.

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In both its U.S. and Latin American retail pawn operations, the Company’s competitors include numerous retail and wholesale merchants, including jewelry stores, rent-to-own stores, discount retail stores, “second-hand” stores, consumer electronics stores, other specialty retailers, online retailers, online auction sites, online classified advertising sites and other pawnshops. Competitive factors in the Company’s retail operations include the ability to provide the customer with a variety of merchandise items at attractive prices. Many of the retail competitors have significantly greater size and financial resources than the Company.

Intellectual Property

The Company relies on a combination of trademarks, trade secrets, proprietary software, website domain names and other rights, including confidentiality procedures and contractual provisions to protect its proprietary technology, processes and other intellectual property.

The Company’s competitors may develop products that are similar to its technology, such as the Company’s proprietary point of sale software. The Company enters into agreements with its employees, consultants and partners, and through these and other written agreements, the Company attempts to control access to and distribution of its software, documentation and other proprietary technology and information. Despite the Company’s efforts to protect its proprietary rights, third parties may, in an authorized or unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute its intellectual property rights or technology or otherwise develop a product with the same functionality as its solution. Policing all unauthorized use of the Company’s intellectual property rights is nearly impossible. The Company cannot be certain that the steps it has taken or will take in the future will prevent misappropriations of its technology or intellectual property rights.

“First Cash Pawn,” “Cash America” and “Cashland” are trademarks owned by the Company registered in the U.S. “FirstCash,” “First Cash,” “First Cash Empeño y Joyeria,” “Cash Ya,” “Cash & Go,” “CA,” “Cash America,” “Presta Max,” “Realice Empe “Empeños Mexicanos” and “Maxi Prenda” are trademarks owned by the Company registered in the respective Latin American countries. Prendamex is a registered trademark in Mexico for which the Company has a contractual right to use. Other significant trade names used by the Company in the U.S. and abroad include First Cash Advance, Famous Pawn, Fast Cash Pawn & Gold Center, King Pawn, Mister Money Pawn, Money Man Pawn, Valu + Pawn, Dan’s Discount Jewelry & Pawn, Quick Cash Pawn, Atomic Pawn, Loftis Jewelry & Pawnbrokers, Regent Pawn & Jewelry, Smart Pawn, Piazza Jewelry & Pawn, David’s Pawn Shop, Sharp Mart, Lakelands Pawn & Gun, SuperPawn, Mr. Payroll and Cash Plus Pawn.

Governmental Regulation

General

The Company is subject to significant regulation of its pawn, consumer loan and general business operations in all of the jurisdictions in which it operates. These regulations are implemented through various laws, ordinances and regulatory pronouncements from federal, state and municipal governmental entities in the U.S. and Latin America. These regulatory bodies often have broad discretionary authority over the establishment, interpretation and enforcement of such regulations. These regulations are subject to change, sometimes significantly, as a result of political, economic or social trends, events and media perception.

The Company is subject to specific laws, regulations and ordinances primarily concerning its pawn and consumer lending operations. Many statutes and regulations prescribe, among other things, the general terms of the Company’s pawn and consumer loan agreements, including maximum service fees and/or interest rates that may be charged and collected and mandatory consumer disclosures. In many municipal, state and federal jurisdictions, in both the U.S. and countries in Latin America, the Company must obtain and maintain regulatory store operating and employee licenses and comply with regular or frequent regulatory reporting and registration requirements, including reporting and recording of pawn loans, pawned collateral, used merchandise purchased from the general public, retail sales activities, firearm transactions, export, import and transfer of merchandise, and currency transactions, among other things.

In both the U.S. and Latin America, certain elected officials, regulators, consumer advocacy groups and the media have advocated for governmental action to further restrict or even prohibit pawn transactions or small consumer loans, such as payday advances and credit services products. Such advocates often characterize pawn and payday lending activities as unfair or potentially abusive to consumers and typically focus on the aggregate fees charged to a consumer for pawn and consumer loans, which are typically higher than the interest rate generally charged by banks, credit unions and credit card issuers to consumers with established or higher-rated credit. They also focus on affordability issues such as the borrower’s ability to repay such loans, real or perceived patterns of sustained or cyclical usage of such lending products and consumer loan collection practices perceived to be unfair or abusive. During the last few years, legislation, ordinances and edicts at federal, state and municipal levels have been introduced or enacted to prohibit, restrict or further regulate pawn and related transactions, including acceptance of pawn collateral and used merchandise in general or, from certain individuals, sales of such merchandise in general or specific categories such as firearms, payday loans, consumer loans, credit services and related service fees on these products. In addition, public officials and regulatory authorities, including law enforcement in various levels of government in the U.S. and countries in Latin America have and will likely continue to make edicts, proposals or public statements concerning new or expanded regulations that would prohibit or further restrict pawn and consumer lending activities or other related pawn transactions.

The Company is subject to numerous other types of regulations including, but not limited to, regulations related to securities and exchange activities, including financial reporting and internal controls processes, data protection and privacy, tax compliance, health and safety, labor and employment practices, import/export activities, real estate transactions, electronic banking, credit card transactions, marketing, advertising and other general business activities.

There can be no assurance that the current political domestic and international climate will not change and negatively affect the Company's business, or that additional local, state or federal statutes, regulations or edicts will not be enacted or that existing laws and regulations will not be amended, decreed or interpreted at some future date that could prohibit or limit the ability of the Company to profitably operate any or all of its services. For example, such regulations could restrict the ability of the Company to offer pawn loans, consumer loans and credit services, significantly decrease the interest rates or service fees for such lending activities, prohibit or more stringently regulate the acceptance of pawn collateral or buying used merchandise and the sale, exportation or importation of such pawn merchandise, or processing of consumer loan transactions through the banking system, any of which could have a material adverse effect on the Company's operations and financial condition. If legislative, regulatory or other arbitrary actions or interpretations are taken at a federal, state or local level in the U.S. or countries in Latin America which negatively affect the pawn, consumer loan or credit services industries where the Company has a concentrated or significant number of stores, those actions could have a material adverse effect on the Company's business operations. There can be no assurance that such regulatory action at any jurisdiction level will not be enacted, or that existing laws and regulations will not be amended, decreed or interpreted in such a way which could have a material adverse effect on the Company's operations and financial condition.

U.S. Federal Regulations

The U.S. government and its agencies have significant regulatory authority over consumer financial services activities. In recent years, additional legislation and regulations have been enacted or proposed which has increased or could continue to increase regulation of the consumer finance industry. These regulations and restrictions are or may be specific to pawn, credit services and consumer loan operations.

The Consumer Financial Protection Bureau (the "CFPB"), created by Title X of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), has broad regulatory, supervisory and enforcement powers over certain financial institutions. Specifically, it has enforcement authority over all organizations the CFPB deems may create the potential for consumer harm or risk. The CFPB's powers include explicit supervisory authority to examine and require registration of providers of consumer financial products and services, including providers of secured and unsecured consumer loans, such as the Company, the authority to adopt rules describing specified acts and practices as being "unfair," "deceptive," "abusive" and hence "unlawful," and the authority to impose recordkeeping obligations and promulgate additional compliance requirements.

Over the years, the CFPB has systematically gathered data related to all aspects of the consumer loan industry and its impact on consumers and continues to use its Short-Term, Small-Dollar Lending Procedures, the field guide its examiners use when examining small-dollar lenders like the Company. The CFPB's examination authority permits examiners to inspect the Company's books and records and ask questions about its business and its practices relating to unsecured, small dollar loans, like payday loans. The examination procedures include, among other things, specific modules for examining marketing activities, loan application and origination activities, payment processing activities and sustained use by consumers, collections and collection practices, defaults, consumer reporting and third-party or vendor relationships.

In addition to the Dodd-Frank Act's grant of regulatory, supervisory, and enforcement powers to the CFPB, the Dodd-Frank Act gives the CFPB authority to pursue administrative proceedings or litigation for actual or perceived violations of federal consumer laws (including the CFPB's own rules). In these proceedings, the CFPB can seek consent orders, confidential memorandums of understandings, obtain cease and desist orders (which can include orders for redisclosure, restitution or rescission of contracts, as well as affirmative or injunctive relief) and monetary penalties ranging from $5,000 per day for certain violations of federal consumer laws to $25,000 per day for reckless violations, and $1,000,000 per day for knowing or intentional violations. Also, where a company has been found to have violated consumer laws, the Dodd-Frank Act (in addition to similar state consumer laws) empowers state attorneys general and state regulators to bring administrative or civil actions seeking the same equitable relief available to the CFPB, in addition to state-led enforcement actions and consent orders. If the CFPB or one or more state officials believe that the Company has violated any of the applicable laws or regulations, they could exercise their enforcement powers in ways that could have a material adverse effect on the Company or its business.