Cash Store FINANCIAL

Financial Convenience. Everyday People.

The Cash Store CASH ADVANCE CENTERS

instaloans

Fiscal 2008 and Q1 2009 Financial Highlights – CFO's Review and Financial Performance

Commentary by Nancy Bland, October 29, 2008

Net Income

Income from continuing operations for the year ended June 30, 2008 was $12.5 million, compared to $8.7 million in the prior year. The higher earnings resulted in diluted earnings per share from continuing operations increasing to $0.62 compared to $0.42 for the year ended June 30, 2007. Our EBITA for the year ended June 30, 2008 was $26.3 million, compared to $19.0 million for the year ended June 30, 2007.

The higher fiscal 2008 earnings reflect the following:

- Increased branch-level operating results due to improved revenues, growing same branch sales, and decreased retention payments;
- Targeted expenditures on infrastructure enhancements,
- including: a new cheque cashing department, a new centralized collections department, increased capacity in the internal audit and training departments; and, increased capacity for regional and divisional management; and,
- Decreased expenditures on stock-based compensation.

Revenue and same Branch Sales

Revenue for the year ended June 30, 2008 totaled $130.8 million, an increase of $7.2 million or 6% compared to $123.6 million in the prior year.

Same branch sales improved 7% for the 338 branches open since the beginning of fiscal 2007 averaging $375,700 in fiscal 2008 compared to the $352,300 in the prior year.

Product and revenue diversification initiatives continued to generate positive results. Fees from other services increased 9% to $21.7 million for the year ended June 30, 2008, compared to $19.8 million for fiscal 2007.

Branch Operating Income

Branch operating income for the year increased 14% to $39.8 million from $35 million, compared to the previous year, due to an overall strengthening of processes and controls at the branch level.

Retention Payments

Third-party lender retention payments for the year ended June 30, 2008 totalled $20.1 million or 3.9% of loans brokered, compared to $23.4 million or 4.7% of loans brokered last year. Retention payments decreased despite the fact that total loans brokered increased to $522 million this year from $499 million last year. As a percentage of revenue, retention payments have decreased to 15.4% in the year ended June 30, 2008, compared to 19.0% in the year ended June 30, 2007. Management believes that improved collection protocols have led to decreased retention payments.

Branch count

As at June 30, 2008, we had a total of 384 branches in operation, compared to 358 the previous year. Thirty seven new branches were opened during the year, while eleven branches were closed and their customer accounts transferred to nearby branches.

Working Capital and Cash Flow

At June 30, 2008 we had a cash position of $15.6 million and positive working capital of $16.7 million. For the year ended June 30, 2008, working capital increased $7.3 million or 78% to $16.7 million from $9.4 million at June 30, 2007.

Working Capital and Cash Flow (continued)
We will realize approximately $4.9 million in future tax assets over fiscal 2008 and 2009 due to the completion of the spin-out of the rental division.

Discontinued operations

On November 28, 2007, our shareholders approved a plan to spin-off the rental operations and certain of its assets and liabilities to Insta-Rent Inc.

The spin-off transaction was completed on March 31, 2008 and, accordingly, we ceased to consolidate those assets and liabilities of the rental division transferred to Insta-Rent Inc. and have presented the results of its operations and its cash flows for the year ended June 30, 2008 and 2007 as discontinued operations.

Income taxes

Our effective tax rate for fiscal 2008 was 38.6% for the year ended June 30, 2008, compared to 35.4% in the prior year. The year-over-year increase was caused by a reduction in the value of future income tax assets as a result of lower corporate tax rates.

Q1 2008 Compared to Q1 2009
Income from continuing operations for the first quarter was $6.1 million, compared to $3.4 million for the same quarter last year. The higher earnings resulted in diluted earnings per share from continuing operations increasing to $0.31 in the quarter, compared to $0.17 for the same period last year.Our EBITA for the first quarter was $10.9 million, compared to $6.6 million in the same quarter last year. This improvement is due to better execution of growth initiatives, collection protocols and risk management.

The higher first quarter earnings reflect the following:
- Increased revenue as a result of 30 new branches relative to September 30, 2007;
- a 10.8% increase in same branch sales, and,
- Improved collection protocols used to reduce retention payments

Branch Count

At the end of the first quarter, a total of 391 branches were in operation compared to 361 branches at the end of the same quarter last year. During the quarter, six new branches were opened and five branches were purchased. Four branches were closed and accounts transferred to nearby branches. We anticipate opening five to six branches per month over the next quarter.

Revenue

Revenue increased 16.1% to $37.4 million from $32.2 million in the same quarter last year. The higher revenue reflects an increase in both brokerage fees and other services. This growth is due to 30 additional branches, the maturing of existing branches and increased same branch sales. Broker fees for the first quarter increased 13.4% to $30.9 million from $27.2 million in the same quarter last year. Revenue from other services increased to $6.4 million in the first quarter up from $4.9 million in the same quarter last year. Loans brokered in the first quarter totalled $147.8 million and averaged $364 (excluding our broker fee), compared to $131.3 million and an average of $355 in the same quarter last year. Due to the seasonal nature of our business, we anticipate revenues will remain relatively constant over the next quarter.

Same Branch Sales

Same branch sales for the 344 locations open since the beginning of the first quarter of fiscal 2008 increased by 10.8% compared to the same quarter last year, with same branch sales averaging $99,600 in the first quarter of 2009 compared to $89,900 in the first quarter of the previous year. Same branch sales increased through improved staff retention, more effective bonus structures, communication of expectations at all levels of the organization and corporately managed action plans for our lowest-performing branches. We continue to maximize shareholder value from our extensive network of branches and products. As the cost structure for the existing branch base is relatively fixed, improving same branch sales is an important objective.

Expenses (excluding retention payments)

Expenses for the first quarter totalled $22.6 million, an increase from $20.0 million in the same quarter last year.

The increase is primarily due to the addition of 30 new branches and increased bonuses related to higher profitability.

Retention Payments

Third-party lender retention payments for the first quarter totalled $4.3 million (2.9% of loans brokered), compared to $5.8 million (4.4% of loans brokered) in the same quarter last year. As a percentage of revenue, retention payments have decreased to 11.4% in the first quarter of 2009, compared to 18.0% in the first quarter of 2008. Improved collection protocols have contributed to a continued reduction in retention payments in line with management's expectations.

Amortization

Amortization of capital and intangible assets for the quarter totalled $1.3 million, compared to $1.1 million in the first quarter last year. The increase reflects the addition of 30 new branches.

Income Taxes

Our effective tax rate was 34.8% in the first quarter, compared to 35.2% for the first quarter last year, as a result of a decrease in federal and provincial corporate tax rates.

Cash and Liquidity

Our cash increased to $20.3 million in the first quarter, compared to $15.6 million at June 30, 2008. Significant items impacting cash in the first quarter included:

- The repurchase of shares in the amount of $5.6 million;
- Cash generated from operating activities, before non-cash operating items, of $10.5 million; and
- Capital asset expenditures of $940,000.

At the end of the first quarter, our working capital position totalled $17.5 million. This $800,000 increase, compared to June 30, 2008, is primarily a result of the utilization of a portion of the $4.9 million in income tax offsets gained through the spin-out of the rental division. Our strong cash and working capital will enable us to take advantage of opportunities that may arise as regulatory or economic changes occur. In order to further increase shareholder value, we have, over the past quarter, repurchased and cancelled 945,846 common shares pursuant to a normal course issuer bid at an average share price of $5.88 per share and at a total cost of $5.6 million. This amounts to 5.1% of our outstanding shares. Further share repurchase initiatives are being considered for future periods.

We remain very well positioned to fund future growth initiatives.

For additional information or if you have any questions, please contact:

Michael Thompson
Senior Vice President and Corporate Secretary
Phone: (780) 408-5595
Fax: (780) 443-2653
Email: michael.thompson@csfinancial.ca

Gordon J. Reykdal
Chairman and Chief Executive Officer
Phone: (780) 408-5118
Fax: (780) 443-2653
Email: gord@csfinancial.ca