

Mossberg's Investor Digest

Best Idea Profile:

Regional Management Corp. (NYSE:RM)

DESCRIPTION:

Regional Management Corp. is a diversified and growing specialty consumer finance company specializing in offering flexible and attractive loan products to customers with limited access to traditional credit such as banks, thrifts, and credit card companies. Regional Management was founded in 1987 with four branches in Greenville, South Carolina. It now has 216 branches in seven states: Alabama, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, and Texas. It operates under the brand names of Regional Finance, RMC Financial Services, Anchor Finance, Superior Financial Services, First Community Credit, and Sun Finance. It also originates loans through over 2,100 independent auto dealerships, 800 franchise auto dealerships, 450 furniture and appliance retailers, and direct mail.

KEY INVESTMENT CONSIDERATIONS:

Strong Financial Results – Net income in the third-quarter 2012 increased 34.8% over the same period of 2011 and was ahead of expectations. Net income rose 29% in 2011 over 2010, capping a compound annual growth rate of 61.7% from 2007 to 2011. Revenues grew at a 16.8% compound annual growth rate for the same period.

Proven Branch Model Designed to Grow – New branches typically achieve positive operating income in fewer than 12 months, and the company has only closed one branch in 25 years. Opening a branch requires minimal investment, but pays off quickly. Same-store revenue growth averaged 14.7% from 2007 to 2011 and the most recently reported quarter's growth was 18.3%. 55% of the company's branches have been open less than five years and will provide a large part of the expected growth. The Company is also looking to expand into six new states in the Southeast and Midwest. Regional has also benefited from acquisitions, such as the Superior acquisition in January 2012, and will continue to look for small to mid-sized acquisitions.

Resistant to Economic Cycle – Regional's diverse product offering has helped it resist economic vagaries. Loan volumes grew as the Company was able to maintain low charge-off ratios especially during the last recession.

Attractive Lending Environment – Regional's focus on the non-traditional lending market is paying off as it takes advantage of the \$1.4 billion contraction of the consumer credit market since 2008. Its flexible and diverse products target a large and unbanked or underbanked population. Regional's broader product offerings and lower rates benefit the consumer, and its diverse product offerings provide a competitive advantage versus monoline lenders. Its "virtual" outlets, such as those for retail and auto loans, is growing rapidly and broadens Regional's reach while still receiving support from the regional branches. These retail loans provide opportunities to cross-sell other loans to this lower-risk customer category.

Quiet on the Regulatory Front – Regional believes that regulators remain focused on the payday, credit card and student loan markets. There have been no signs of increased concern about installment loans.

VALUATION:

Regional Management went public in March 2012. It seems to have escaped the curse of many of the high-profile IPOs' early performances. Based on its revenue growth, earnings and its asset valuations, it appears to be an underpriced grower.

Regional Management Corp. (NYSE:RM) Investment Data (as of 12/18/12)

Recent Price	\$16.43
52-Week Range	\$12.8 - \$18.27
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	12.5 M
Average Trading Volume (3 mos)	26k
Market Capitalization	\$209 M
Cash	\$4.4 M
Long-term Debt	\$260 M
Enterprise Value (EV)	\$464 M
Book Value	\$9.91
TTM Revenue	\$95.2 M
P/ Revenue	2.2x
TTM EPS	\$2.04
P/ EPS	8.21
TTM EBITDA	NA
EV/ EBITDA	NA

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