



Mossberg's Investor Digest

Best Idea Profile

World Acceptance Corp. (Nasdaq: WRLD)

DESCRIPTION:

Founded in 1962, World Acceptance Corp. provides small consumer loans and ancillary products to individuals with limited access to consumer credit. The company operates 923 branches located in 11 states and Mexico. The company is a "relationship lender", and operates mostly in small rural towns where branch managers are more likely to know and do repeat business with customers. Loans are generally less than \$3,000 and have a maturity of less than 24 months. The company is headquartered in Greenville, South Carolina.

KEY INVESTMENT CONSIDERATION:

Attractive branch level economics – The annualized rate of return on an average loan is approximately 50% (Interest & fees/ Average gross loans receivable). Combined with ancillary revenues, the average revenue per branch is approximately \$450,000/ year. With 3.5 employees and rent of approximately \$1,200 per month, each branch carries limited overhead...approximately \$150,000 per year. That leaves about \$300,000 per year to cover write offs and corporate overhead. Charge-off rates as a percentage of average net loans increased from the normalized rate of 14.5% to 19.6% in the most recent quarter ended in December. Even at the higher charge-off rate, the average branch is producing more than \$150,000 in annual contribution... that is close to a 15 - 20% return on assets at the branch level.

Leverageable business – In each of the past 8 years, the company has shown incremental improvement in operating expenses as the branches become more efficient and corporate overhead is spread over a larger store base. As a percentage of revenue, general and administrative costs have declined from 52.6% in FY07 to 51.8% in FY08. During the first nine months of the current fiscal year, this metric has improved by 60 basis points.

Share and debt repurchase – The company has used excess cash flows to repurchase shares of stock. Since 1996 the company has purchased over 8.4 million shares or approximately 1/3 of shares outstanding. In December, the company repurchased \$5 million in convertible notes at a significant discount to face value, recording a \$2 million net gain.

RISK:

A new bill has been introduced recently that would focus on payday lenders and may include a 36% cap on interest rates. While WRLD is not a payday lender, the cap on interest rates, if passed as part of the legislation, could affect interest income and the ability to extend credit to higher risk customers. A number of states are also considering tightening rules on making loans to the credit challenged, which could also affect the company's business.

VALUATION:

The current price reflects a valuation of just 5x EV/ EBITDA and 4x earnings. This is an attractive valuation for a company that has consistently delivered a return on equity in excess of 20% for each of the last several years. The stock also trades 8% below tangible book value.

(Nasdaq: WRLD)	
Investment Data (as of 3/13/09)	
Recent Price	\$14.08
52-Week Range	10.31 - 45.99
Fiscal Year End	March
Dividend	N/A
Yield	N/A
Shares Outstanding	16.2 MM
Average Trading Volume (3 mos)	209,000
Market Capitalization	228 MM
Cash	7 MM
Long Term Debt	290 MM
Enterprise Value (EV)	511 MM
LT Debt/ Equity	1.1
Tangible BV/ Share	15.35
TTM Revenue	381 MM
P/ Revenue	0.6x
TTM EPS (non-GAAP)	3.43
P/ EPS	4.1x
TTM EBITDA	108 MM
EV/ TTM EBITDA	4.7x

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