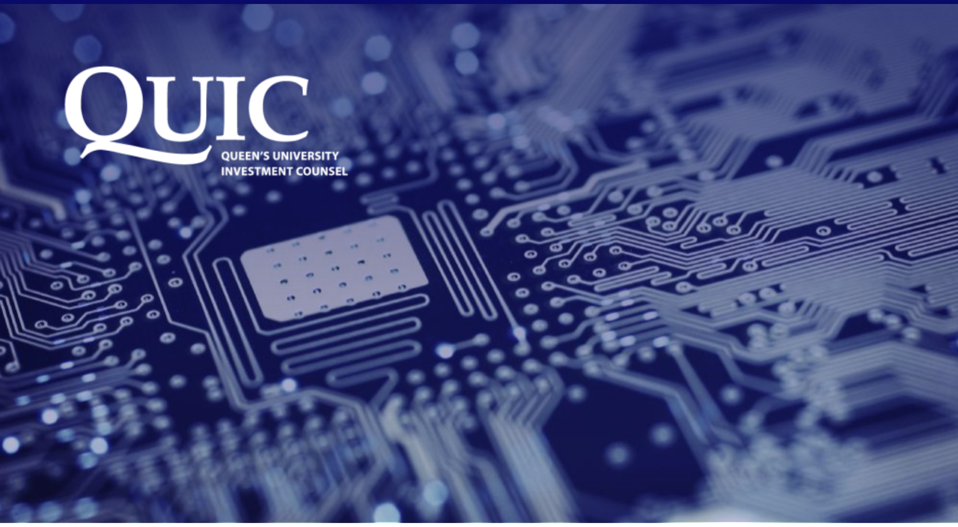


RESEARCH REPORT

October 25, 2021

goeasy (TSE: GSY)

Going Long on goeasy

goeasy is a Canadian alternative financial that provides unsecured and secured non-prime leasing and lending services, with the goal of bridging the gap between traditional lenders (e.g., banks) and payday lenders.

The TMT team was intrigued by the company's business model, position in Canada, and its technological aspirations to evolve into a more digital/omni-channel fintech company. Some summary takeaways from our analysis:

1. goeasy has performed exceptionally well in the past few years, especially throughout the COVID-19 pandemic, with top-line and margin expansion.
2. The business model is well-developed and insulated, with a clear competitive advantage over most other incumbents.
3. The team is satisfied with the short and medium regulatory and competitive dynamics within the industry but would like to further assess long-term changes and implications.
4. The team believes that the existing management incentives and capital allocation is acceptable but can be materially improve to further align shareholder and management interests.
5. The team calculates GSY's upside to be roughly 26%.

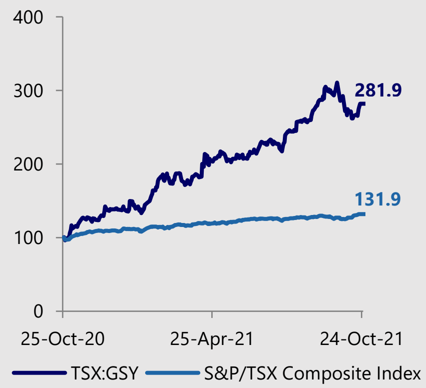
The team believes the current price poses a good entry point and may enter the name after further diligence on the points above.

Stock Rating	BUY
Price Target	CAD 249.35

Bear Case	Price Target	Bull Case
$238.00	$249.35	$257.00

Ticker	GSY
Market Cap. ($CAD MM)	$3,258
P/E	14.7x
P/BV	4.35x

52 Week Performance



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Company Overview: Introduction

Company Overview

goeasy Ltd. is a leading public Canadian provider of goods and alternative financial services, headquartered in Mississauga, Ontario. goeasy breaks down into two primary segments: easyfinancial and easyhome. The company provides non-prime leasing and lending services through unsecured and secured installment loans, helping Canadians with short-term borrowing needs while building positive long-term credit scores. The company generated C$462.4M in revenue in 2020 and has a market capitalization of C$3.3B.

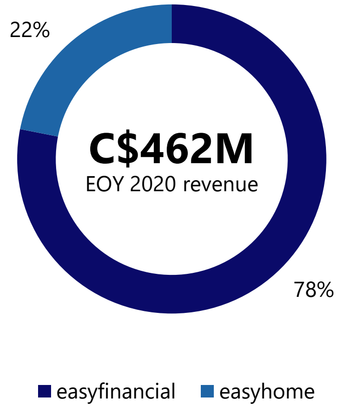
goeasy recently expanded into the C$40B point-of-sale market by acquiring LendCare Holdings, a Canadian point-of-sale consumer fintech company. LendCare holds approximately 3,000 merchants, OEM, and distributor relationships nationwide, with unique proprietary origination software specialization in financing power-sport, automotive, retail, healthcare, and home improvement consumer purchases. Through this acquisition, goeasy plans to further its role in consumer lending and the credit market through expanding its product range and position in everyday consumer needs.

Business Model Overview

goeasy estimates that the Canadian market demand for non-prime lending, excluding mortgages, is more than C$196B. Though historically this demand was met by major financial institutions, many have closed or significantly reduced operations since the 2008 financial crisis due to changes in banking regulations related to risk-adjusted capital requirements. Unlike smaller, niche, industry-specific lenders, goeasy utilizes an omnichannel business model. This allows the company to serve all the borrowing needs a consumer might encounter, integrating a wide variety of needs and interests. Furthermore, customers make fixed payments, including principal and interest, ensuring that the entire principal balance is being repaid over the loan term and breaking the cycle of debt.

EXHIBIT I

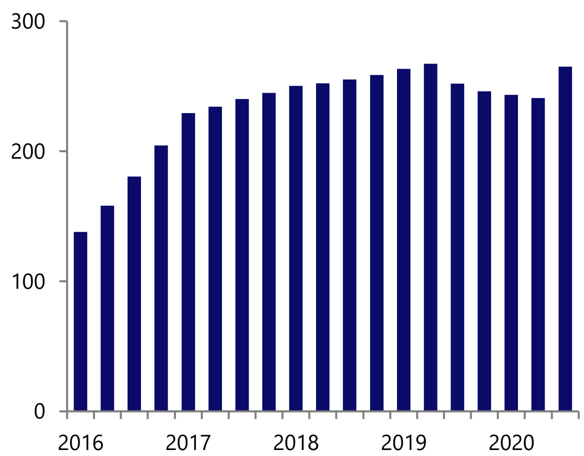
Revenue Segments



Source(s): Capital IQ

EXHIBIT II

Quarterly Revenue Growth ($M)



Source(s): Capital IQ

Company Overview: Revenue Segment Overview

goeasy's two primary revenue segments are both focused on internal and external growth. Besides providing financial services and installment loans to customers, goeasy also reports every consumer lease payment to credit reporting agencies. This additional step ensures that customers' short-term (current financial need) and long-term (positive credit score) goals are met, generating long-lasting, positive relationships.

I. easyfinancial

easyfinancial was launched in 2006 as goeasy's non-prime consumer lending division, serving 190,000 active customers in 2020. Bridging the gap between traditional financial institutions and costly payday lenders, easyfinancial's products and services can be split into three facets: personal loans, home equity loans, and auto loans.

There are also complementary ancillary add-ons such as the Loan Protection Plan, Home & Auto Benefits, and Credit Monitoring. Consumers may apply for unsecured or secured installment loans ranging from C$500 - C$50,000. Interest rates start at 19.99%, with repayment terms of 9 to 84 months for unsecured loans and up to 10 years for secured loans.

The primary catalyst driving new customers and retaining previous customers is easyfinancial's omnichannel model. Whether through the national branch network of 266 coast-to-coast locations or easyfinancial's mobile-first digital lending platform, the focus on consumer experience and enabling diverse access to credit generates new sources of customer acquisition for the company. Though 85% of loans are still originated or managed through local branches, these other mobile acquisition channels are highly attractive as they increase loan accessibility and reduce application wait times.

In 2020, easyfinancial reported a record revenue of C$137M with a secured loan portfolio of C$155M. Record operating income totaled C$67.2M, up 26%, with an operating margin of 49.2%, up 4.1%. Surprisingly, the delinquency rate was 5.1%, consistent with 2019. Though delinquency rates are rising in Canada as consumers debt increases, the most affected demographic are previously prime borrowers.

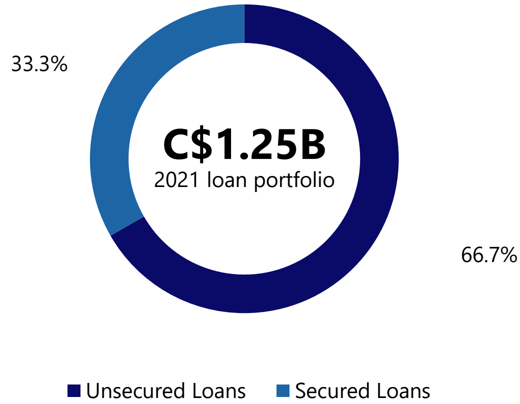
II. easyhome

Founded in 1990, easyhome is Canada's largest lease-to-own company. Serving 41,000 active customers in 2020, easyhome's focus on furniture and home goods gives consumers unique access to brand-name household furniture, appliances, and electronics through flexible lease agreements. easyhome has 160 locations, including 35 franchise stores and an ecommerce platform. No down payment nor credit checks are required, and customers can terminate their lease at any time without financial penalty.

In 2020, easyhome reported a record revenue of C$36.7M with a consumer loan portfolio of C$50.3M. Record operating income totaled to C$8.6M, up 3.2%, with an operating margin of 23.6%, up from 18.3%.

EXHIBIT III

easyfinancial Loan Portfolio (Q2 2021)



Source(s): Company Reports

Company Overview: Consumer and Strategy

Consumer Overview

goeasy serves over 1M Canadians, originating over C$5B in loans. One in three customers graduated to prime credit, and 60% of customers increased their credit score within 12 months. Of 29.2M Canadians with an active credit file, 8.4M are non-prime (credit scores less than 720), down from 9.4M in 2019. Since the pandemic, the number of non-prime consumers has decreased due to lower spending trends and higher wage subsidies. However, current non-prime consumers still carry a collective C$196B in credit balances—representing goeasy's target market.

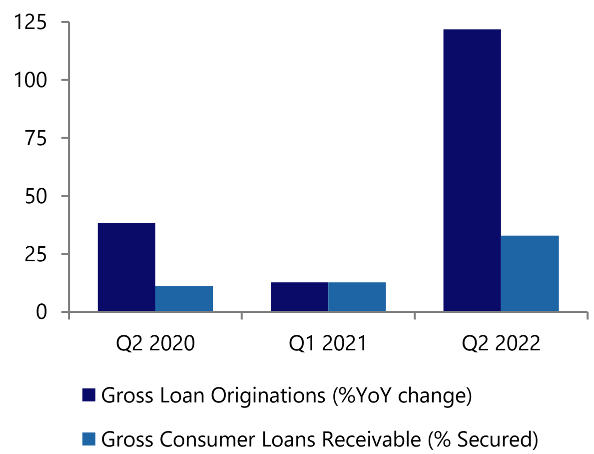
easyfinancial targets everyday Canadians that may have been faced with external life circumstances. This customer base cannot access credit from traditional financial institutions or pay payday lenders' high interest. Furthermore, these customers may be working long hours or several jobs to make ends meet, meaning that efficiency and accessible customer service must be a strong priority in this industry. The average age of consumers is 40, with individual incomes of $47,000 per year and a debt to disposable income ratio of approximately 115%. easyfinancial gives these customers a second chance, helping to improve their short-term and long-term financial situations until they are in a position to qualify for prime credit.

Consumer Analytical Tools

goeasy's lending decisions are based on proprietary custom scoring models, leveraging machine learning and analytics to optimize loan volume versus credit loss. Especially in an industry where consumer behaviour is highly unpredictable, goeasy's 30 years of experience proves invaluable when considering the company's accumulation of customer applications, demographics, borrowing, repayment, and consumer banking data. Compared to traditional credit scores, goeasy's models improve their risk prediction accuracy for non-prime customers.

EXHIBIT IV

Loan Originations versus Loans Receivable



Source(s): Company Reports

Strategic Initiatives

goeasy's long-term strategy relies on smart acquisitions and partnerships. The completion of the LendCare acquisition furthers goeasy's role as the go-to non-prime lender, possibly expanding further into near-prime consumers. Moreover, increasing point-of-sale transactions reduce pressure on maintaining in-person labour and capital costs while still improving customers' financial health from an expanded geographical reach. Paired with goeasy's wide breadth of consumer data, goeasy's development of a new cloud-based lending platform will become a strong selling point for consumers looking for fast borrowing.

Furthermore, goeasy has significantly increased its capital markets access from 2019 to Q2 2021. New facilities and warehouses are all based on revolving loan credits, the ideal form of credit for goeasy. It provides the borrower with flexible financing options with repayment and re-borrowing accommodations.

Industry Overview

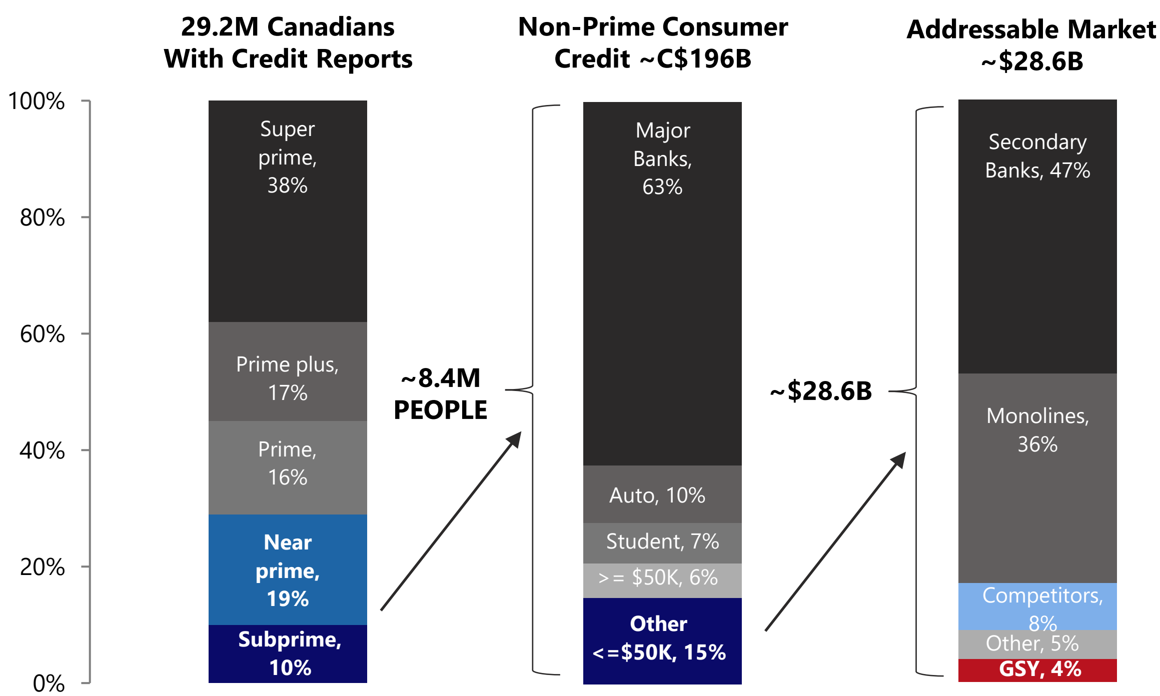
goeasy operates in the Canadian non-prime consumer financing market. Under their two segments, goeasy underwrites loans for the purposes of auto lending, credit cards, and installment loans etc. via easyfinancial and brand-name furniture, appliances, and electronics via easyhome. The analysis herein primarily investigates the easyfinancial segment as it accounts for ~78% of the firm's total revenue.

Consumer Lending Industry

Canada's lending landscape is complex, with several players serving over 29.2M Canadians with credit reports (Exhibit V). TransUnion, one of Canada's largest credit bureaus, segments FICO scores as follows: super prime (830+), prime plus (780-829), prime (700-779), near-prime (600-699), and sub-prime (<600). For reference, the average FICO credit score in Canada is ~650, with easyfinancial primarily targeting the near-prime and sub-prime categories. Data indicates that large Canadian banks target consumers in the prime segment and above, as observed through the Royal Bank of Canada's residential lending portfolio with an average FICO of 784. As the most established lenders, the major banks still hold a majority of non-prime consumer credit, but the addressable market for multipurpose sub-$50k loans stands at a healthy and growing $28.6B.

EXHIBIT V

Non-Prime Consumer Credit Market in Canada



Source(s): Company Filings

Industry Overview

easyfinancial serves a sizable underserved market of non-prime borrowers. 18% of Canadians are either unbanked or underbanked, meaning they have no relationship at all with a mainstream financial institution. Nearly 40% of Canadians' bank accounts cannot withstand a financial emergency. Thus, they are reliant on options such as easyfinancial to help fulfill payments that their income alone cannot support, especially in dire situations, given the lack of eligibility for traditional products.

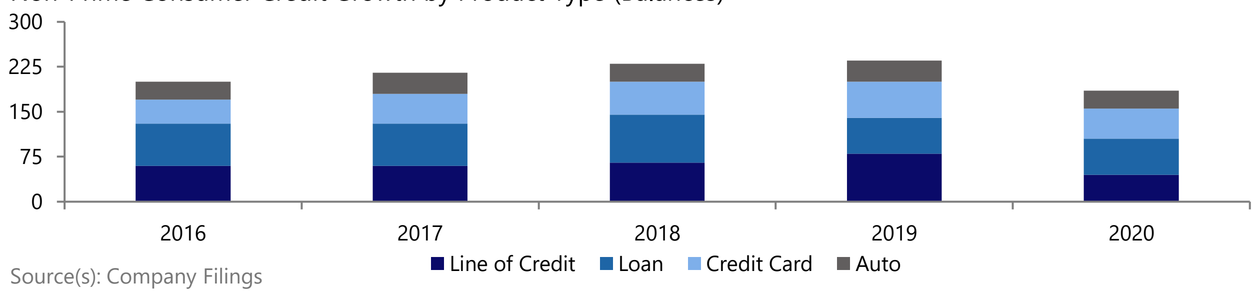
Non-prime balances declined by 15% in 2020 due to the impacts of COVID-19, largely as a factor of traditional lenders being squeezed by prime loans while subprime remained stable through the economic downturn. Further, online-only vendors have struggled to actively compete with omnichannel players due to the limited exposure. Thus, easyfinancial has carved out a decent share within the non-prime category, siphoning share from competitors.

Subprime Stands Out

Growth in the installment loan and subprime segment have remained robust. Within the credit card sector, subprime loans jumped 22.7% YoY in Q2 2021, a sign that the supply and demand for credit are normalizing post-pandemic. Low quality borrowers typically represent the largest volumes, as represented by the highest volume of inquiries. While credit inquiries do not necessarily translate into borrowing, it is indicative of positive business health for alternative lenders.

EXHIBIT VI

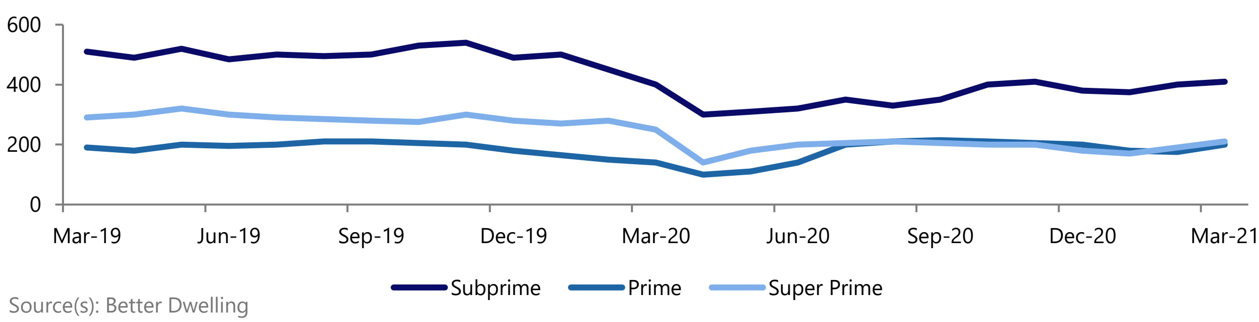
Non-Prime Consumer Credit Growth by Product Type (Balances)



Source(s): Company Filings

EXHIBIT VII

Inquiry Volume by Consumer Risk Tier (K)



Source(s): Better Dwelling

EXHIBIT VIII

Evolving Competitive Landscape

Source(s): Company Filings, National Bank Financial

Industry Overview

Competitive Environment

easyfinancial faces 3 main sources of competition within the non-prime consumer lending market: fintech lenders, payday loan companies, and established omnichannel lenders. Despite increasing competition and disruption from pure-play fintech firms, the market has proved to be large enough and growing at a pace that is able to support multiple competitors from all 3 buckets.

I. Online/Fintech Lenders

Minimal barriers to entry exist in the online lending realm, leading to a stark rise in the number of fintech firms entering the Canadian non-prime consumer lending markets in recent years. However, the difficulty in scaling and developing sufficient underwriting capabilities have forced many to subsequently exit or convert to flow-through models, while firms like easyfinancial steal share. easyfinancial's omnichannel platform uses the combined power of their digital scale and branch network, in addition to brand equity, to drive a distinct competitive advantage. easyfinancial has optimized its product offerings, ability-to-pay evaluation, income/employment verification, and servicing to generate stronger profitability while charging similarly high interest rates.

Industry Overview

II. Payday Lenders

Loan sharks have long dominated the non-prime lending space, with 2014 estimates indicating ~$2.2B outstanding in payday loans. While more recent data is difficult to pinpoint, it can be projected that tightening regulations have shrunk this estimate. From 2016-2018, the provincial government reformed its payday loan regulations, reducing max allowable fees a lender could charge and extending payback periods. The overall profitability of the industry dropped dramatically, with some provinces such as Ontario driving negative returns. For example, the max allowable fee now stands at 15% for a $100 two-week payday loan, with operating costs remaining at 18%, per Deloitte. easyfinancial's focus on employee-customer interaction to drive strong brand awareness and customer service ratings has helped oust loan sharks from the throne, as the "behind the glass" models suffers, and regulations become more stringent.

III. Omni-Channel Lenders

Historically, consumer lending arms of international financial institutions including HSBC, Citigroup, and Wells Fargo dominated the non-prime installment loan market in Canada. Changes to U.S. banking regulations and capital adequacy requirements have since driven out all players except Citi, who sold CitiFinancial Canada to private equity players in 2016. The firm has since rebranded to Fairstone Financial, the only scaled direct competitor to easyfinancial. Canadian credit unions and secondaries also compete but typically skews to near-prime. This is demonstrated by Motus Bank, a subsidiary of Meridian Credit Union, that offers installment loans with rates starting at 5.15% (vs. GSY's 29.99% base). A discrepancy this large indicates two separate markets are being served. Omni-channel lenders continue to pose the biggest threat to goeasy, due to business model similarities and direct overlap in consumers served.

Regulatory Environment

goeasy is differentiated from other alternative lenders in Canada because it is not a deposit-taking institution. Thus, the company is not subject to regulations set forth by the Office of the Superintendent of Financial Institutions (OSFI) or payday loan legislation. goeasy's operations are primarily governed by: (1) Section 347 of the federal Criminal Code, stipulating a maximum interest rate of 60%; (2) unique consumer protection laws enacted provincially regarding disclosure requirements and consumer-lender interactions; and (3) Quebecois legislation, where lenders must apply for a license and are constrained by a lower interest rate cap of 35.9%.

In technical terms, goeasy is governed by high-cost credit (HCC) regulations. Unlike competitor regulations, HCC law does not restrict consumers' access to credit, nor do they restrict GSY's ability to charge interest rates up to the federal cap of 60%. Further, no other province has HCC-specific regulations yet, though some consultations and conversations have occurred. However, rates have been reviewed periodically and have remained consistent since 1985. The inaction suggests that the regulatory risk may be muted, because the overall tone from regulators suggests there is a focus on oversight rather than outright restrictions. This could be a byproduct of the strict regulations placed on the payday loan industry, that led to the neglected subprime market. Squeezing margins for the mid-stream HCC player might hurt consumers that are heavily reliant on firm's like goeasy due to lack of access to traditional products. Further, goeasy's emphasis on flexibility of products and diligent credit risk assessment has helped make the firm distinct from loan sharks. While the long-term regulatory landscape is difficult to predict, the immediate future seems tame.

goeasy Deep Dive: Response to Downturns

Contrary to popular belief that lending companies perform poorly and even declare bankruptcy during recessions or downturns, goeasy has fared well through economic hardships. At the beginning of the pandemic, goeasy put a hold on its lending practices. As a result, principal repayment and interest payments continue to come in, and in return their liquidity increased.

goeasy has also responded to the pandemic by lowering the average life of its loans to 1-2 years compared to the historical average term of unsecured installment loans of 3 years. This was management's effort to quickly calibrate its portfolio to strengthen underwriting standards should the economic environment continue to deteriorate. This practice also allowed goeasy to minimize its exposure to economic sectors and geographies that was heavily impacted by economic shutdowns such as hospitality and travel sectors.

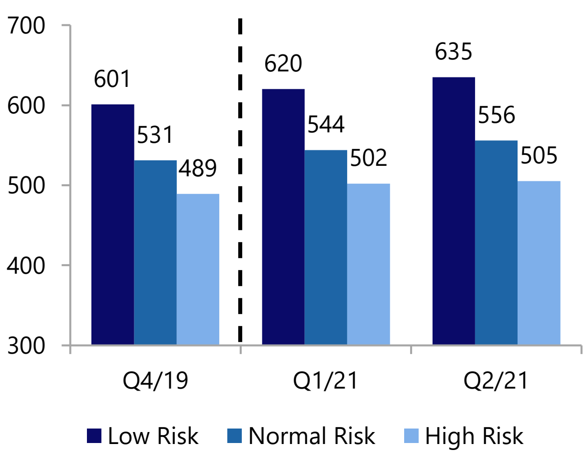
Following the LendCare Acquisition, secured loans now account for a third of total loan receivables, up from 12% in Q4 of 2020. LendCare's $445M portfolio comprised of around 90% of secured loans. In 2017, goeasy expanded its loan offerings outside unsecured installment lending by introducing real estate secured loans. Although secured loans typically yield a lower interest return, they significantly lower the net charge-off percentage. Historically, LendCare's net charge-off rates hovered around mid-single-digit percentage points, compared to goeasy to 13-14% for easyfinancial's unsecured loans.

Another driver to lowering net charge-off rates is the increasing credit quality of customers. Given underwriting and credit enhancements made since the beginning of the pandemic, such as additional income verifications, reduced lending to occupations highly affected by lockdown, lead to the median TransUnion risk score increasing across all goeasy's risk categories.

LendCare Acquisition

EXHIBIT IX

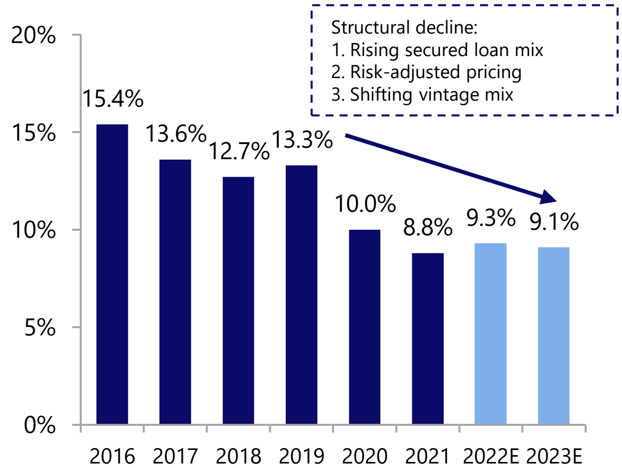
Median TransUnion Risk Score



Sources: Company Reports

EXHIBIT X

Declining Net Charge-Offs



Sources: BMO Capital Markets, Company Reports

goeasy Deep Dive: Subprime Customers

During Crisis, Subprime is better?

As goeasy is mainly focused on clients with poor credit scores, a subprime mortgage is met with negativity and distrust especially during times of stress. There is prejudice that "sub-prime" borrowers will face significant hardship which will disable its ability to pay back its loans. However, the case is quite the opposite for subprime customers in North America, and prime customers are more heavily affected during recessions.

There is relative stability of non-prime consumers loans compared to prime consumers loans, especially in times of stress. When looking at the notable financial crisis in 2008, from 2005 to 2019, the annualized charge-off rate remained stable at around 1%. However, during the stress period of the financial crisis in 2008, it spiked up to over 3%, which represents a 3x increase in charge-off rates compared to normal periods. When we look at non-prime consumers, where the average customer FICO score is around 575, their annual net charge-off rates averaged around 14.5% in normal periods. During stress periods, they increased to a peak of 16.7%, which indicates a 1.15x normal period in net-charge off rates.

Case Study: Alberta Oil Crisis

During the Alberta Oil crisis, unemployment doubled from 4.5% to a peak of 9%. During this time, easyfinancial's non-prime consumer loan portfolio outperformed the general lending market. Their charge-off rates increased by a factor of 1.1x compared to 1.3x for prime borrowers and 1.5x for near prime borrowers.

In conclusion, non-prime consumer loan charge-off rates are less volatile than prime consumer loans.

EXHIBIT XI

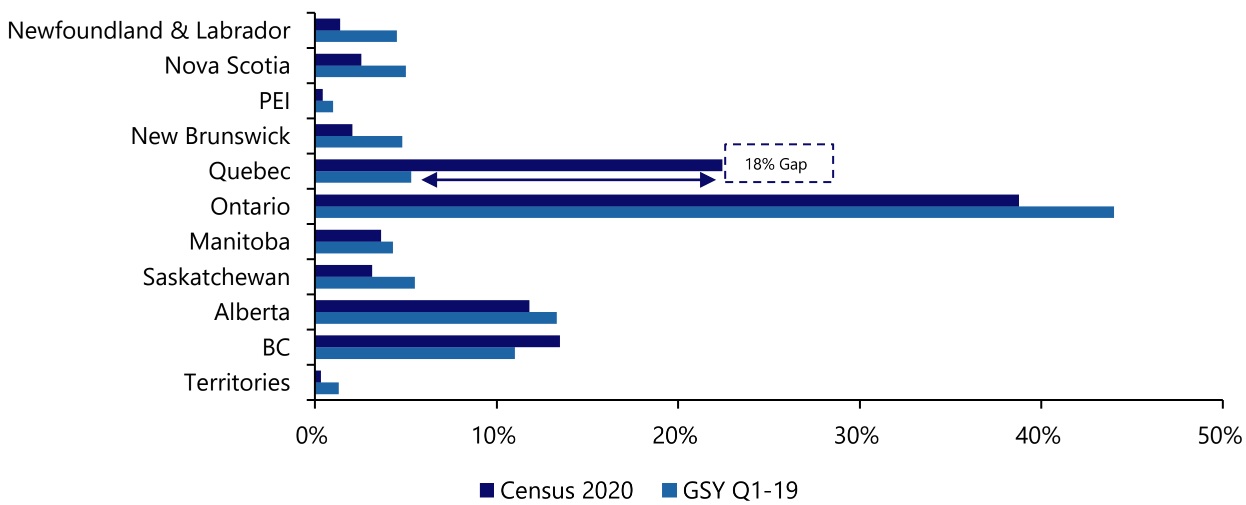
Alberta Oil Crisis

	Pre-recession originations (Jan 2013 - Dec 2014)	Post-recession originations (Jan 2015 - Dec 2016)	Factor Increase
Super Prime	0.30%	0.37%	1.2x
Prime Plus	0.64%	0.90%	1.4x
Prime	1.35%	1.80%	1.3x
Near Prime	3.68%	5.46%	1.5x
Subprime	19.29%	21.84%	1.1x
All personal installment loans	4.19%	6.03%	1.4x
easyfinancial Portfolio	**16.13%**	**17.55%**	**1.1x**

Sources: Company Reports, Census Canada

EXHIBIT XII

easyfinancial Portfolio Mix Relative to Population Distribution



Source: Company Reports

goeasy Deep Dive: Margin Expansion

Broadening distribution channels by increasing retail branches and expanding easyfinancial's ecosystem of loan products through secured lending is leading to structural decline to net-charge offs which allows goeasy to increase its margins.

For retail stores, goeasy is focusing its efforts on Quebec and urban centers. Management's goal is to enable easyfinancial division within 20km of 90% of the Canadian population. Their main expansion focuses are on Quebec, where they have 5% of goeasy's receivables relative to 23% demographic weight in Canada, and other major urban centers such as Vancouver and Toronto. goeasy is on track to reach over 310 locations by 2023.

Furthermore, goeasy has rolled out direct and indirect automobile financing options. Additionally, after their launch of real estate secured loans in 2017, real estate secured loans have scaled up to 13% of the portfolio lending mix.

Organic Growth per Store

The average gross consumer loans receivable per store increased at a 30% CAGR from 2011 to 2018. A driver of this growth includes higher average loan sizes due to secured and risk-adjusted loans and online customer acquisition, which directs customers to a store for origination or servicing.

Lastly, given the fixed cost nature of easyfinancial stores, the operating margin still has significant room to expand. As most of the expense of an easyfinancial store is fixed costs such as staff, lease, and other miscellaneous costs, as easyfinancial's receivables increase continuously and stores expand across Canada, there is significant room for improving operating margin. Operating margins have increased to around 36% compared to 24% in 2018 and is continuously looking to improve this margin through retail store rollouts and increasing the gross consumer loan receivable per store.

goeasy Deep Dive: Competitive Advantages

Proprietary Data

goeasy has significantly more underwriting data than its competitors through decades of experience. This is critical as although credit scores successfully predict payment behaviours for prime customers, it is essentially useless when attempting to predict the payment behaviours for non-prime customers. Correlation is very low, so it is a significant threat if there isn't enough information.

Secondly, Canadian laws are much stricter than the U.S., where companies can pay for customer payment data. They restrict companies from accessing these data, making proprietary data only accessible through decades of experience and millions of underwriting practices.

Having information is crucial as each year it becomes better and there becomes a higher probability that the owner doesn't default or refinance.

Lower Interest Rates

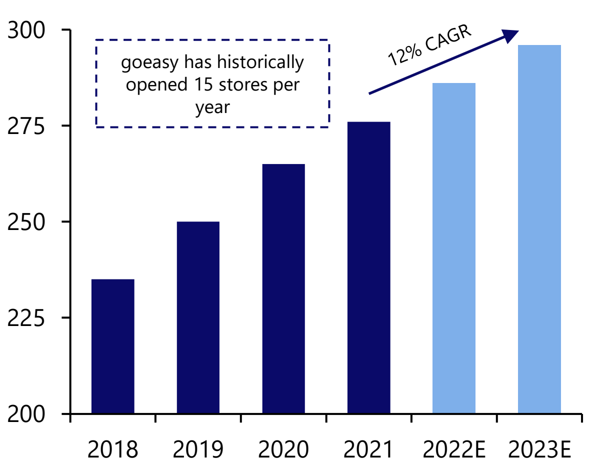
Access to cheaper debt is a substantial competitive advantage for goeasy, only accessible after decades of experience. Their average debt cost is under 5% vs. the industry average of 8-10%, which is only possible after ten years of underwriting history and demonstration of a resilient business model. If a new company is to enter this market, their margins would be significantly lower, possibly leading to unsustainable practices.

Brand Awareness

As lending to non-prime consumers requires a high level of trust from borrowers, brand awareness is critical and challenging to build overnight. With over 260 stores across Canada and decades of proven experience, the brand awareness for goeasy is excellent. They currently have over 400 billboards across Canada and have recently been transforming their online presence through a new website and social media promotional campaigns.

EXHIBIT XIII

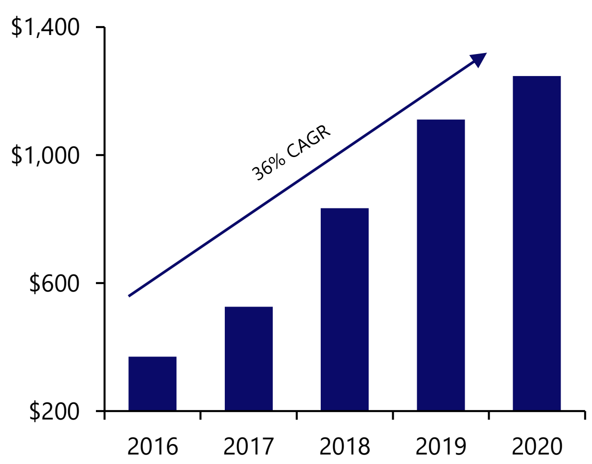
easyfinancial Retail Locations



Source: Company Reports

EXHIBIT XIV

Gross Consumer Loans Receivable ($MM)



Source: Company Reports

Management Analysis: Overview

Introduction

goeasy's management team is comprised of five C-suite executives and an Executive Chairman of the Board. David Ingram, the previous CEO of goeasy, has been with the company since 2001. Under his tenure, the team consolidated brands into what is now easyhome and launched easyfinancial. In January 2019, Jason Mullins was appointed the new President and CEO, and Ingram transitioned into the executive chairman position.

The current goeasy executive team is relatively new to their roles, with the CEO, CFO, CRO, and COO all less than 3 years into their tenure. However, all executives bring extensive industry experience from previous roles to the table. While the COO and CMO fall under that category, they do not have any direct experience working in financial services and fintech, which may hinder the company's growth if they do not ramp up quickly. Fiederer, the CMO, has lived up to her role as she led the company's top-line growth over the past several years, some of the fastest in company history.

The TMT team is adequately satisfied with the management team, but do not think there is anything particularly special about their experiences or composition.

EXHIBIT XV

Management Summary

	David Ingram	Jason Mullins	Hal Khouri	Andrea Fiederer	Jason Appel	Jackie Foo
Title	Executive Chairman of the Board	President and CEO	Executive VP and CFO	Executive VP and CMO	Executive VP and CRO	Executive Vice President and COO
In role since	January 2019	January 2019	August 2019	January 2015	January 2019	July 2021
Years in company	21	11	2	6	8	<1
Previous experience	• Previously 18 years as President & CEO of goeasy • Head of SBU at Rent a Center	• VP of Sales & Ops at Mogo Finance Tech • Ops management at CIBC and Allied International Credit	• CFO at Walmart Canada Bank / Duo Bank • CFO at Chase Canada	• Director of Marketing at Mobilicity • Director of Marketing at XM Canada • Marketing at Telus	• VP roles in Risk and Analytics at goeasy • Decision Management at Citigroup • Account management at CIBC	• VP of retail- or corporate-related business at Bell • Director / Manager at Telus

Source(s): Company Filings, Company Website

Management Analysis: Compensation and Incentives

Breakdown of Incentives

Executive compensation is comprised of three components: base salary, short term incentives (STIs), and long term incentives (LTIs).

Short term incentives

STIs are approved by the board and paid out in the form of cash. STIs are driven by an annual earnings before tax (EBT) target for the year. If the target is met, C-suite executives receive roughly 100% or more of their base salary as a cash bonus.

Long term incentives

LTIs are approved by the board and paid out in the form of restricted stock units (RSUs), deferred stock units (DSUs) and/or share options. Only the Executive Chairman receives DSUs, while all other named executives (NEOs) receive RSUs and potentially share options. LTIs are driven by the EPS CAGR: 10% CAGR results in a vesting rate of 80%, 20% CAGR results in a vesting rate of 100%, and 30% CAGR results in a vesting rate of 200%.

Commentary on Incentives

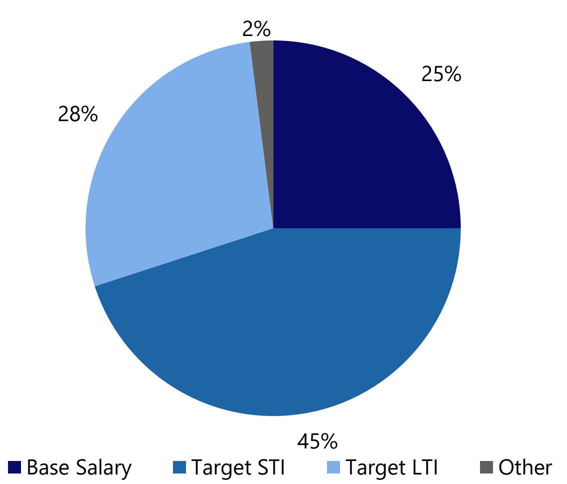
The executive compensation mix has shifted to be more short-term oriented, with 73% of executive compensation tied to base salary or STIs, up from 62% in 2019 (Exhibit XVII). Furthermore, both STI and LTI calculations appear to be accommodating of mistakes and downturns – simply hitting 85% of target EBT and 10% EPS CAGR would ensure executives receive most of their target pay. Finally, the metrics driving variable incentives (EBT and EPS CAGR) create room for misalignment between the shareholder and executives, as they can be more easily manipulated through accounting and short-term decisions.

Conclusion

The TMT team believes there is room for improvement in the executive compensation plan. The incentives currently provide executives with too much leeway and need to promote more long-term decision making and effective capital allocation.

EXHIBIT XVI

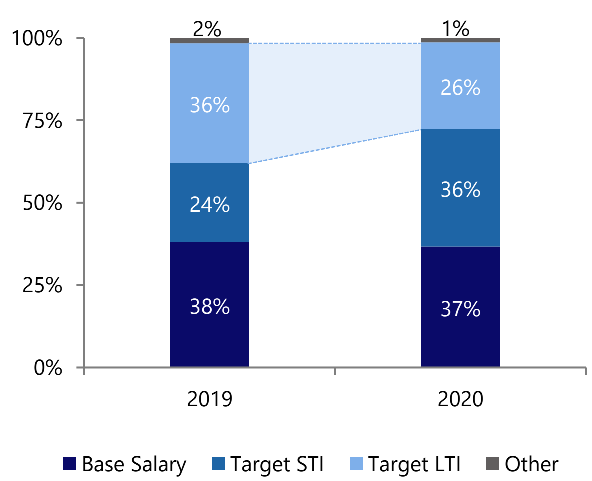
CEO Compensation Breakdown 2020



Source(s): Company Filings

EXHIBIT XVII

Other NEO Compensation Breakdown Change



Source(s): Company Filings

Management Analysis: Capital Allocation

Capital Allocation Strategy

Management has maintained a relatively disciplined capital strategy, balancing top-line and bottom-line growth alongside returning capital back to shareholders. Management's top priority is investments in the organic growth of the loan portfolio, followed by strategic capex investments in expanding retail presence and tech capabilities. Management also aims to pay 35% of training earnings as dividends ($23.9 million in 2020), and repurchases a similar amount in shares ($42.4 million in 2020 – management's most aggressive year due to the COVID-19 crash)

Acquisitions

goeasy has made two major acquisitions recently. In 2019, the company purchased a $34 million minority equity position in PayBright, a point-of-sale financing provider. The companies also pursued a commercial lending partnership together at the same time. In late 2020, PayBright was sold to Affirm, which IPO'd in early 2021. As of Q2 2021, goeasy's investment in PayBright / Affirm has quadrupled.

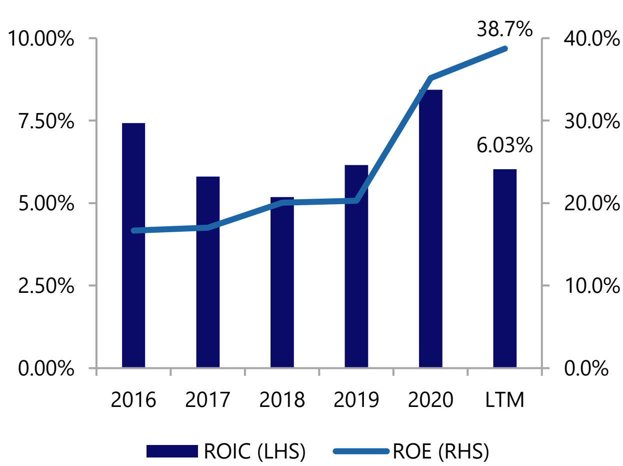
In April 2021, goeasy acquired LendCare, a Canadian point-of-sale consumer finance and technology company. While the management team is still in the process of integrating LendCare with the rest of the business, recent management calls have shown very positive progress and the beginnings of material revenue and cost synergies.

Commentary and Conclusion

Management's continuous reliance on debt has resulted in a relatively high ROE (20% - 30%) and relatively low ROIC. The TMT team believes that management has been moderately good stewards of capital, with impressive acquisitions that appear to be integrating well within the business while ROE improves and ROIC remains flat. However, management can aim to be more effective capital allocators - likely through a better-aligned, ROIC-focused incentives program with stricter targets and longer timelines.

EXHIBIT XVIII

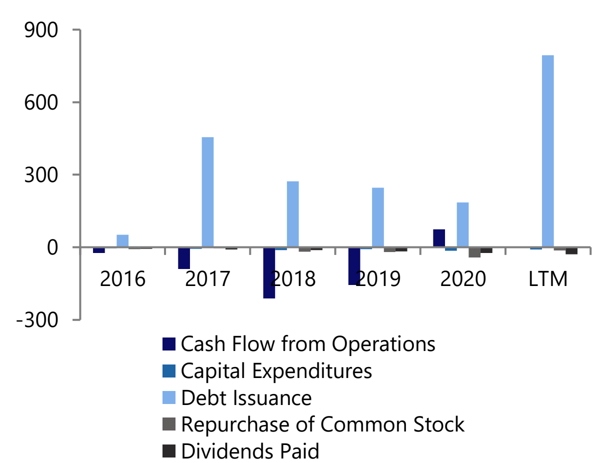
ROIC and ROE historical performance



Source(s): Capital IQ

EXHIBIT XIX

Key Cash Flow Metrics Over Time ($ millions)



Source(s): Capital IQ

Valuation

Valuation Commentary

Our valuation displays a base case implied share price of $249 which translates to upside of 26%. Given that there is a reasonable margin of safety, and the team likes the business model, we will be actively monitoring the name and potentially looking to enter the name.

Given that Goeasy takes upon credit risk, it effectively operates as a bank. Therefore, the valuation model was built on a levered basis to take interest into account, as it is a vital component of the business. The major revenue lines include interest income, lease revenue, commissions earned, and charges and fees. The majority of revenues come from interest income, given the business model.

Goeasy is witnessing significant double-digit growth within the interest income revenue category, given the rise of the industry and increasing market share. The major operating expenses include bad debt expense and salaries. However, operating expenses are a percentage of revenue are declining, as salaries is a predominately fixed cost and bad debt expense on debt is declining.

Key Assumptions

The major assumptions for the DCF include the hurdle rate of 8% and the exit P/E multiple of 15x. While the multiple is based on the low end of comparables (after factoring for the superior ROE and growth of Goeasy), our team also made sensitivity tables to imagine different cases. Even at a 10x exit multiple and a 10% hurdle rate, the return is only negative 10%, displaying little downside for a greater upside.

Comparables

In terms of the comparables, Goeasy does trade a few turns higher than the non-prime consumer financing companies and the lease to own companies. However, the 3-year sales CAGR and LTM ROE (displayed on the table) of Goeasy are far superior, thus justifying the slightly higher multiples. Furthermore, Goeasy has a long history of superior growth and ROE, as shown in Exhibit XX.

EXHIBIT XX

Historical Return on Equity

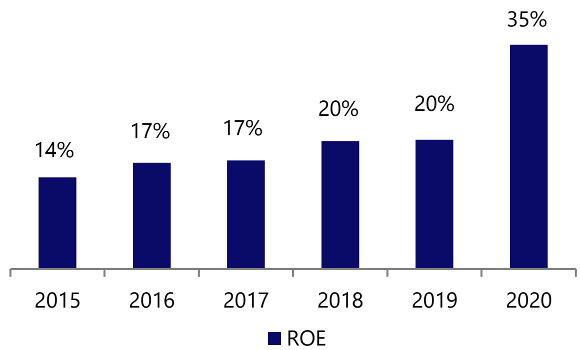


EXHIBIT XXI

DCF Assumptions and Output (CAD $000s)

Assumptions:	
Effective Tax Rate	15.0%
Hurdle Rate	8.0%
Exit P/E Multiple	15.0x
Value Per Share:	
FDSO	15,757
Cumulative PV of FCF	$1,171,977
Terminal Value	$4,050,889
PV of Terminal Value	$2,756,967
Equity Value	**$3,928,945**
Implied Share Price	$249.35
Current Share Price	$197.50
Implied Upside	**26%**

Source(s): Internal Valuation

EXHIBIT XXII

Levered Free Cash Flow Projection (CAD $000s)

Levered Free Cash Flow Projection	Historical				Projection Period				
	2017A	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Revenues:									
Interest Income	$172,315	$255,997	$345,997	$409,583	$552,937	$718,818	$833,829	$900,535	$945,562
% growth		*49%*	*35%*	*18%*	*35%*	*30%*	*16%*	*8%*	*5%*
Lease Revenue	$125,111	$119,745	$113,236	$112,796	$109,412	$107,224	$105,079	$102,978	$100,918
% growth		*(4%)*	*(5%)*	*(0%)*	*(3%)*	*(2%)*	*(2%)*	*(2%)*	*(2%)*
Commissions earned	$91,353	$117,000	$135,510	$117,913	$123,809	$136,190	$144,361	$147,248	$150,193
% growth		*28%*	*16%*	*(13%)*	*5%*	*10%*	*6%*	*2%*	*2%*
Charges and Fees	$12,949	$13,449	$14,640	$12,630	$13,262	$13,527	$13,797	$14,073	$14,355
% growth		*4%*	*9%*	*(14%)*	*5%*	*2%*	*2%*	*2%*	*2%*
Total Revenue	**$401,728**	**$506,191**	**$609,383**	**$652,922**	**$799,419**	**$975,758**	**$1,097,067**	**$1,164,835**	**$1,211,028**
% growth		*26%*	*20%*	*7%*	*22%*	*22%*	*12%*	*6%*	*4%*
Operating Expenses:									
Bad Debts	$67,826	$118,980	$156,742	$134,998	$159,661	$191,336	$211,140	$219,952	$228,675
Salaries	$102,666	$114,522	$120,414	$136,306	$161,208	$193,190	$213,186	$222,084	$230,891
Other	$91,635	$100,969	$99,070	$100,459	$118,812	$142,383	$157,120	$163,678	$170,169
Total Operating Expenses	$262,127	$334,471	$376,226	$371,763	$439,681	$526,909	$581,445	$605,714	$629,735
% margin	*65%*	*66%*	*62%*	*57%*	*55%*	*54%*	*53%*	*52%*	*52%*
EBITDA	**$139,601**	**$171,720**	**$233,157**	**$281,159**	**$359,739**	**$448,849**	**$515,621**	**$559,121**	**$581,294**
% margin	*35%*	*34%*	*38%*	*43%*	*45%*	*46%*	*47%*	*48%*	*48%*
Depreciation & Amortization	$52,208	$52,003	$64,364	$64,723	$79,942	$97,576	$109,707	$116,483	$121,103
% margin	*13%*	*10%*	*11%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
EBIT	**$87,393**	**$119,717**	**$168,793**	**$216,436**	**$279,797**	**$351,273**	**$405,915**	**$442,637**	**$460,191**
% margin	*22%*	*24%*	*28%*	*33%*	*35%*	*36%*	*37%*	*38%*	*38%*
Tax Expense	$14,421	$20,793	$27,763	$33,041	$41,970	$52,691	$60,887	$66,396	$69,029
EBIAT	$72,972	$98,924	$141,030	$183,395	$237,827	$298,582	$345,027	$376,242	$391,162
Interest Expense	($36,840)	($45,800)	($79,281)	($54,992)	($79,942)	($97,576)	($109,707)	($116,483)	($121,103)
Net Income	**$36,132**	**$53,124**	**$61,749**	**$128,403**	**$157,885**	**$201,006**	**$235,321**	**$259,758**	**$270,059**
Plus: Depreciation & Amortization	$52,208	$52,003	$64,364	$64,723	$79,942	$97,576	$109,707	$116,483	$121,103
Less: Capital Expenditures	($5,900)	($11,200)	($8,200)	($14,400)	($23,983)	($29,273)	($32,912)	($34,945)	($36,331)
Less: Increase in NWC	$16,755	$1,315	($5,020)	$16,546	($7,994)	($9,758)	($10,971)	($11,648)	($12,110)
Levered Free Cash Flow	**$99,195**	**$95,242**	**$112,893**	**$195,272**	**$205,850**	**$259,552**	**$301,145**	**$329,648**	**$342,721**
Discount Period					0.5	1.5	2.5	3.5	4.5
Discount Factor					0.96	0.89	0.82	0.76	0.71
Present Value of Cash Flow					**$198,080**	**$231,253**	**$248,437**	**$251,807**	**$242,401**

EXHIBIT XXIII

Sensitivity Analysis

		Exit P/E Multiple				
		10.0x	12.5x	15.0x	17.5x	20.0x
Hurdle Rate	6%	$206	$238	$270	$302	$334
	7%	$198	$229	$259	$290	$321
	8%	$191	$220	$249	$279	$308
	9%	$184	$212	$240	$268	$295
	10%	$177	$204	$231	$257	$284

		Exit P/E Multiple				
		10.0x	12.5x	15.0x	17.5x	20.0x
Hurdle Rate	6%	4%	21%	37%	53%	69%
	7%	0%	16%	31%	47%	62%
	8%	(3%)	11%	26%	41%	56%
	9%	(7%)	7%	21%	35%	50%
	10%	(10%)	3%	17%	30%	44%

EXHIBIT XXIV

Comparable Company Analysis

Non-Prime Consumer Financing								
	Market	Enterprise	Price / Earnings		Price / Book Value		3 Year	LTM
Company Name	Cap. (MM)	Value (MM)	2021E	2022E	2021E	2022E	Sales CAGR	ROE
World Acceptance Corporation	$1,246	$1,796	17.5x	20.2x	nmf	nmf	2%	22%
Regional Management Corp.	$558	$1,423	7.6x	10.6x	1.9x	1.7x	11%	27%
CURO Group Holdings Corp.	$770	$1,626	13.6x	7.9x	3.4x	2.6x	(9%)	nmf
Elevate Credit, Inc.	$122	$378	nmf	5.2x	0.9x	0.7x	(22%)	14%
Amigo Holdings PLC	$75	$154	22.9x	22.2x	0.8x	0.7x	(13%)	nmf
Mean			**15.4x**	**13.2x**	**1.7x**	**1.4x**	**(6%)**	**21%**
Median			**15.6x**	**10.6x**	**1.4x**	**1.2x**	**(9%)**	**22%**

Lease to Own Comparables								
	Market	Enterprise	Price / Earnings		Price / Book Value		3 Year	LTM
Company Name	Cap. (MM)	Value (MM)	2021E	2022E	2021E	2022E	Sales CAGR	ROE
Rent-A-Center, Inc.	$3,818	$5,250	9.2x	8.0x	3.8x	2.9x	12%	34%
PROG Holdings, Inc.	$3,122	$3,062	11.5x	10.8x	2.8x	2.5x	(10%)	21%
Conn's, Inc.	$711	$1,535	6.0x	9.3x	1.1x	1.0x	(1%)	20%
FlexShopper, Inc.	$56	$116	27.8x	5.6x	3.9x	2.4x	24%	7%
Mean			**13.6x**	**8.4x**	**2.9x**	**2.2x**	**6%**	**20%**
Median			**10.3x**	**8.7x**	**3.3x**	**2.5x**	**5%**	**20%**
Goeasy Ltd.	$3,258	$4,827	18.8x	15.8x	4.0x	3.3x	16%	39%

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