

December 4, 2002

#### Key Statistics:

Recent Price:.....\$4.04  
 52-Week Range: .....\$3.50 – 6.25

Shares Outstanding (mil): .....5.3  
 Avg. Daily Volume: .....2,448  
 Market Cap. (mil): .....\$21.5

Book Value/Share: .....\$3.80  
 Annual Revenue (mil): .....\$21.5

Price to Book:.....1.1x  
 Price to TTM Sales: .....1.0x  
 Price to TTM Cash Flow:.....2.9x

TTM ROE.....23%  
 TTM ROA.....5%

FY 2002 EPS Actual.: .....\$0.75  
 TTM EPS Actual: .....\$0.79

Price/2002 Act. EPS: .....5.4x  
 Price/TTM Act. EPS: .....5.1x

Est. LT EPS Growth: .....15%  
 PE to LT Growth (PEG): .....0.34x

FY End..... March 31

#### Management:

CEO: Peter L. Vosotas  
 CFO: Ralph T. Finkenbrink

#### Auditors:

Ernst & Young, LLP

#### Company Web Site:

[www.nicholasfinancial.com](http://www.nicholasfinancial.com)

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\*\*\*TTM = Trailing 12 Months

## Nicholas Financial, Inc.

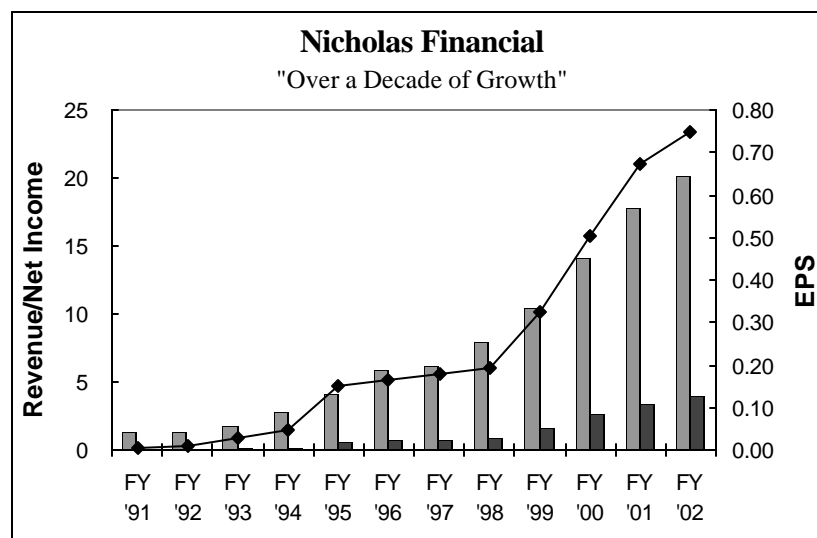
(NASDAQ: NICK)  
 Financial Services

### Consistency in a Turbulent Market

*Over a Decade of Growth and a Future of Opportunity*

#### KEY POINTS:

- ✓ Nicholas Financial has carved out and dominates a unique niche for itself as a consistent top performer in the enormous \$90+ billion used car sub-prime lending market.
- ✓ During one of the most difficult economic environments in recent history, the company has been able to produce an exceptional 3-year compound annual growth rate (CAGR) of 25% for revenue, 35% for net income, and 33% for earnings per share (EPS).
- ✓ The company has produced Wal-Mart like consistency as they embark on their 12<sup>th</sup> consecutive year of annual growth in revenue, net income, and EPS.
- ✓ Nicholas Financial may be an attractive takeover candidate with the stock trading for roughly book value (1.1x) and at only about 2.9x trailing twelve-month cash flow from operations and 5.1x trailing twelve-month earnings per share. These valuations are well below those of their peers.
- ✓ The company is a portfolio lender, meaning they do not securitize their loans. This is a more conservative method as investors don't have to worry about the potential pitfalls of "gain on sale" accounting.
- ✓ Nicholas Financial exercises extreme discipline in their loan purchasing practices by focusing on their core competencies. This coupled with excellent, experienced management has allowed them to achieve arguably one of the best track records in the sub-prime auto lending market.



**APPEAL FOR ALL DISCIPLINES:**

Whether you're a growth or value investor, this company has appeal for you.

Nicholas Financial is a company that has a 25% compound annual growth rate (CAGR) in sales over the past 3 years. Its 3-year CAGR on net income is 35%. Yet, at the current price of \$4.04, the stock does not reflect this superior track record of growth. The stock currently trades at just 5 times trailing 12-month earnings and at just about one (1) times its book value (both significant discounts to its peers). However, with its ability to deliver consistent growth and profitability, it shouldn't be long before this company gets the recognition it deserves. If the recently ended quarter is any indication (net income up 14% on a 13% increase in sales), Nicholas Financial is in good shape to achieve its quest for a 2nd decade of growth.

Let's look at what the company has to offer the growth investor. Over the past 3 years, they have achieved a revenue growth rate of 35%, 26%, and 14% respectively. During that same time period, earnings per share have grown at an average annual rate of 33%. Furthermore, earnings before interest, taxes, depreciation, and amortization (EBITDA) and pre-tax margins have averaged 61% and 31% respectively over the past 3 years. In fact, they operate an extremely lucrative business with net margins exceeding 19%. Any growth investor would be impressed by this tremendous performance.

For the value investor...the stock trades at just 5 times earnings and just under 3 times cash flow. They also trade at about book value (at about \$3.80 per share). Their market capitalization is 1.0 times sales. Their PEG ratio (price to earnings to growth) is a mere 0.34 (using a conservative 15% growth rate). Those are numbers that would make any value investor more than raise an eyebrow.

In comparison to its peers, Nicholas Financial is extremely undervalued. We compared NICK's relative valuation (price to sales, price to earnings, and price to book value) with 5 of its peers (source of data is FirstCall). The conclusion is that NICK trades at a significant discount to the average valuation of its peers. In fact, if NICK traded at just the average valuation of its peers, NICK would be valued at roughly \$5.00 per share (roughly 25% over the current price). However, we believe their superior track record and proven ability to deliver above average results warrants a premium to the group. Furthermore, the peer group valuations are trading at extremely depressed levels. Therefore, there is considerable room for multiple expansion as the economy begins to recover and the company continues to execute their plan.

Company	Ticker	Stock Price	Price to Sales	Price to Earnings	Price to Book
Asta Funding	ASFI	9.85	1.1	4.1	1.3
WFS Financial	WFSI	20.39	0.9	10.2	1.4
Household International	HI	27.55	0.8	7.3	1.5
Americredit Corp	ACF	9.05	1.1	2.4	0.9
Credit Acceptance Corp	CACC	8.10	2.1	10.9	1.1
<b>Peer group Average</b>			<b>1.2</b>	<b>7.0</b>	<b>1.2</b>

Some investors may ask, "why is the stock so cheap?" This is a good question, and one that is surprisingly simple to answer...because Wall Street does not have a good understanding of the dynamics of the business model in a slowing economy and has a terrible habit of stereotyping every company within an industry as having the same characteristics. The fact is, not all companies are created equal (NICK has proven this). Just as Wal-Mart has superior operations to its peers, Nicholas Financial also has superior operations to its peers. This misunderstanding on Wall Street creates opportunity for investors...an inefficiency waiting to be exploited.

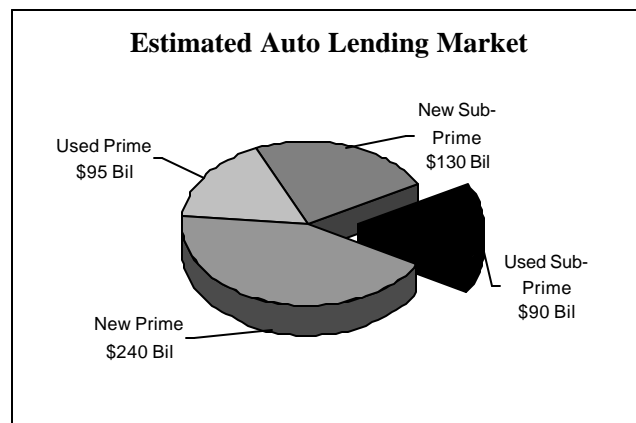
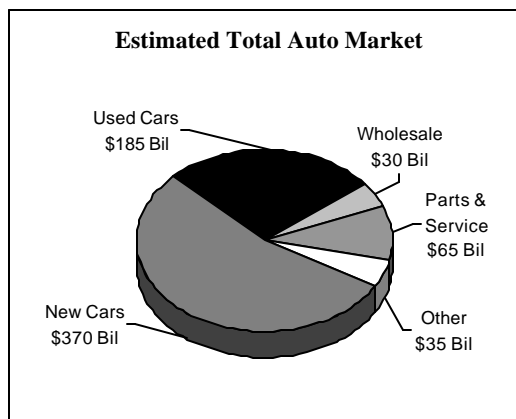
An investor once said, “when you figure that a stock is so cheap that somebody ought to be buying it, it may dawn on you that that somebody is you - nobody will tell you that a stock is a steal, you have to get there on your own.” – We couldn’t agree more.

## BACKGROUND:

Nicholas Financial (symbol NICK, recently traded at \$4.05 on the NASDAQ) is a small, fast growing company with a proven track record. With their headquarters located in Clearwater, Florida, they’re now in their 18th year of operations and employ over 130 people. They have excellent management, strong fundamentals, and tremendous opportunity for growth.

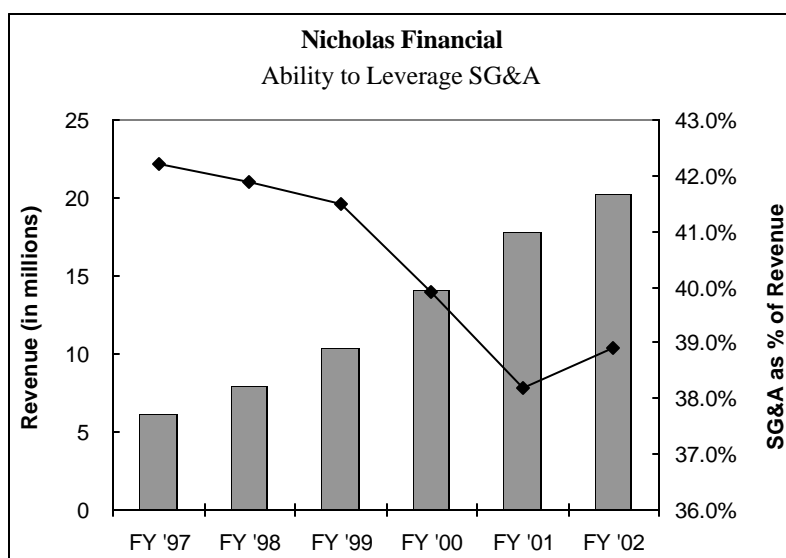
Nicholas Financial is basically a financial services company that focuses on providing used car loans to individuals that have had troubles in the past in getting credit from traditional finance sources, such as banks (this market is also known as the “sub-prime” market). Their primary focus is to purchase and service installment sales contracts (i.e. - loans) for used cars and light trucks from franchised and independent automobile dealers. They currently have operations in 5 states (Florida, Georgia, Ohio, North Carolina, and South Carolina) through a network of 25 branch offices. Nicholas Financial also operates a wholly-owned subsidiary, Nicholas Data Services, which is a leading developer of software for small businesses. Even though this subsidiary accounts for only a fraction of total revenue (less than 2%) its importance is immeasurable as they develop and support all of the systems used by the parent company.

The market opportunity for Nicholas Financial is huge. By most estimates, the auto industry’s sales exceed \$650 billion annually. Roughly \$550 billion of this is directly related to the sale of new and used vehicles. Nearly all consumers finance the purchase of their vehicle. It is estimated that roughly 40% of these loans are considered “sub-prime”. In fact, according to a report from A.G. Edwards, they estimate that the “sub-prime” market exceeds \$220 billion annually. Breaking this down further, the estimated \$220 billion sub-prime market is split between new cars (about \$130 billion) and used cars (about \$90 billion). If we just focus in on the used car market for sub-prime lenders (NICK’s primary focus), then we can estimate that the market opportunity is roughly \$90 billion (and growing by approximately an additional 5% each year). Given NICK’s current outstanding receivables, we estimate that they have captured only 1/10th of 1% of the total potential market opportunity – that leaves tremendous room for growth considering the extremely fragmented nature of the industry (not one single competitor has greater than a 5% share of the sub-prime, used car lending market).



As you can see, the market opportunity is so large that if NICK simply captured a 1% share of only the growth within the market, they would double their size. This illustrates not only the fragmented nature of the market, but also the tremendous size of the market and the opportunity that it presents.

To fund their growth, Nicholas Financial has secured a \$75 million line of credit with Bank of America as the lead bank. In fact, they recently successfully extended the term of this credit line to November 30, 2004. This relationship with Bank of America is an important one for NICK. They have worked with Bank of America since 1993 and currently have about \$57.5 million outstanding on their line of credit. NICK successfully increased this line of credit from the previous limit of \$60 million to its current limit of \$75 million by adding both Hibernia National Bank and First Tennessee Bank as participating lenders. With this line of credit expansion, NICK has more than enough capital available to fund their growth objectives for the next few years.



Additionally, as NICK continues to achieve scale in terms of their revenue base, they are able to rapidly leverage their operating expenses, thus improving profitability. This can be witnessed in the financial results produced over the past few years. In FY1997, sales, general, and administrative (SG&A) expenses accounted for 42.2% of sales. During FY1998, NICK achieved 28% revenue growth while SG&A expenses dropped to 41.9% of sales. Then, during fiscal years 1999 and 2000, SG&A expenses were further reduced to 41.5% and 39.9% of sales respectively (with the aid of 31% and 35% revenue growth respectively). For the fiscal year ended March 31, 2001, NICK again

demonstrated their ability to leverage their SG&A expenses as they fell to 38.2% of sales, which increased by 26% over the previous fiscal year. During this same time, NICK's net profit margin increased from about 12% to over 19%, which equates to a 7% increase (as a % of sales). This increase was largely aided by the 4% decrease (as a % of sales) in SG&A expenses during the same time period, thus demonstrating their ability to leverage these expenses as they continue to scale the business. Although this trend flattened out in FY 2002, that is largely due to their expansion plans as they added new branch locations in Ohio and South Carolina. As those locations begin to gain scale, we would expect this trend to resume.

Earlier we mentioned the fact that NICK's value has yet to be unlocked largely due to the fact that Wall Street does not have a good understanding of the dynamics of the business model in a slowing economy and has a terrible habit of stereotyping every company within an industry as having the same characteristics. What we mean, is that in the past, the sub-prime lending market has acquired a bad reputation as a result of several poorly managed companies that ultimately failed. According to industry sources, roughly 33 companies in the sub-prime lending market have gone bankrupt over the past 8 years. Calendar year 1997 seemed to bear the brunt of those failures as Wall Street poured money into sub-prime lenders, which in turn spurred certain companies to "chase" bad loans and poorly manage the credit risk in an effort to produce the results and meet the growth demands placed on them. The ultimate failure of these companies tainted the whole industry and before long, all sub-prime lenders were painted with a broad-brush stroke on Wall Street – as if they all manage their

business in the same fashion. This is simply not the case. Although these events should raise the eyebrows of investors, they should not scare them away from every company in the industry. Just think of what some might have missed if they didn't invest in Dell or Wal-Mart because of the near demise of Apple Computer and K-Mart. The fact is that the sub-prime lending market has been around for decades and a number of businesses have been extremely successful at operating in this market. Actually, one look at the results of NICK during 1997 reveals the conservative (and we believe superior) nature with which they manage their business.

During FY 1997, while other companies were clamoring over themselves to purchase loans and fuel growth, Nicholas Financial posted its slowest revenue growth over the past 6 years (at just over 6%) as they simply refused to purchase loans that did not meet their stringent criteria and were not willing to pay exorbitant prices for loans that did (which would've had the effect of significantly reducing profit margins). The net result was that revenues grew by a mere 6%. However, while competitors were struggling to turn a profit, NICK grew EPS by 9%.

Fiscal year 1998 (which encompassed part of the calendar year 1997) continued to show slower than average growth as NICK continued to exercise prudent discipline in the management of their loan purchases. The result was that revenue grew by just over 27%, while EPS grew by about 8%.

At the end of the day, many of NICK's competitors failed, while NICK continued to grow their business and enhance profitability. Although NICK has proven its ability to manage the business through difficult market environments, Wall Street continues to lump all sub-prime lenders together.

#### **COLLATERAL VS. NO COLLATERAL:**

Many of the sub-prime companies in the news today are credit card lenders. This is a huge difference because with credit cards, there is very little, if any, collateral involved. In other words, if a client of Nicholas Financial fails to make payments on their car loan, NICK can repossess the car and sell it through a number of distribution channels (wholesale, auctions, etc.). This "loss recovery" substantially insulates the risk of loss within their loan portfolio. However, with credit card lenders, this is not always the case. This difference between "secured" (collateral backing the loan) and "unsecured" (no collateral) loans is a major distinction between the business models of these companies.

#### **GAIN ON SALE VS. PORTFOLIO ACCOUNTING:**

If you do any research into companies within this industry, you're likely to see the terms Gain on Sale and Portfolio accounting discussed in great detail. Basically, these refer to whether or not a company "securitizes" its loans. When a company "securitizes" its loans, it basically packages loans and then sells them in the secondary market as a fixed income "security". These "securitized" loans are also called asset-backed securities (or ABS for short). A company generally will use "securitization" to get the loans off its balance sheet and to raise additional funds so as to purchase additional loans (and the cycle repeats itself). In fact, you may hear Gain on Sale and Portfolio referred to as "securitization" versus the "balance sheet" method.

When a company uses "securitization", under generally accepted accounting principles (GAAP), they have to use what is referred to as "gain on sale" accounting. Without going into too many details, essentially "gain on sale" accounting means that the company has to compute an estimate of future earnings from the servicing of the "securitized" loans. This estimate gets recorded as "profits" on the income statement for the accounting period in which the sale of securitized loans occurred. Although securitization can be a helpful tool, it also has a couple of major drawbacks.

First, to the extent that the actual future earnings on the loans are less than the estimated “gain on sale” accounted for, companies may have to “reverse” those gains (the opposite is also true, however, the aforementioned scenario is more common). This is exactly what got a lot of sub-prime lenders in trouble in previous years. They recorded gains on the sale of the securitized loans, and then the “gains” recorded did not materialize (largely due to overly aggressive assumptions) and the companies would have to “reverse” this accounting with “one-time” write downs.

The second drawback of using securitization is that it creates a never-ending circle whereby the company has to purchase more and more loans to securitize so that it can continue to fuel growth. This is created by the fact that all of the future earnings on the loans purchased are recorded in the period they are securitized. As a result, in order to produce future growth in income, the company must purchase and securitize more loans...and the cycle continues. As you can see, this can create the negative incentive for a company to begin purchasing lower quality loans in its efforts to produce growth.

Nicholas Financial does not securitize its loans. As a result, they are called a “portfolio” lender. This simply means that they purchase the loans and hold them on their balance sheet, whereby they earn the difference between the cost of funds used to purchase the loans, and the interest received on the loan (basically the same way a bank makes its money – by earning the difference between the interest it pays on the deposits of its customers, and the interest it earns on the loans it makes with those deposits – otherwise known as the net interest margin). Being a portfolio lender, investors don’t have to worry about the potential pitfalls of Gain on Sale (or Securitization) accounting. This is also a major distinction between NICK and its competitors as most use securitization to fuel growth.

## **OPERATIONS:**

One of the areas that Nicholas Financial generates a significant competitive advantage is through its “back office” operations. Nicholas Financial uses a network of 25 (and counting) branch offices in 5 states (Florida, Georgia, Ohio, South Carolina, and North Carolina) to operate its business. Each branch office is staffed and operated as its own profit center. The staff within each branch will generally consist of a branch manager, sales people, and loss recovery (collections) staff. Each office typically employs 3 to 7 people (all are employees, as they do not use agents). The staff is generally hired from the local market so that NICK can capitalize on the local relationships and knowledge of those people. This is a distinct advantage from many of its peers who have centralized these processes in a corporate office and therefore, do not often have the ability to effectively evaluate the decisions on their loan purchases.

The main responsibility of each of these branches is to go out and meet face to face with local auto dealers in an effort to establish a direct relationship and ultimately negotiate with those dealers to purchase receivables (loans) from them. Nicholas uses case-by-case point of sale purchase agreements (rather than having a pre-set agreement to purchase a certain number of loans from each dealer). This gives them the advantage of utilizing their funds in the most cost-effective manner and allows them to exercise discipline in their loan purchase processes. Each branch is expected to achieve about \$7.5 million in outstanding receivables within 3 to 4 years of operation.

Every employee participates in a bonus and profit sharing program. This compensation structure truly aligns the incentives of each employee with the objectives of the organization. Bonuses are based upon a number of criteria including net income, return on assets, delinquency ratios, etc.

Nicholas Financial takes a very conservative approach to its loan purchases, as it is not interested in purchasing loans simply for the sake of growth. In fact, on average, they only purchase about 7% of the contracts they see. They use a number of criteria in evaluating each potential loan purchase. It's important to note that NICK looks at each loan based on its own merit. In other words, they are not a tiered lender as are many banks.

First, they look at the pricing of the deal. Generally, they will not purchase the loan for more than the wholesale value of the car. Then, they look at the customer with whom the loan is made. They use what we've dubbed the SAW approach, which is to say that they look at the following 3 items:

1. Stability – is the customer moving around a lot
2. Ability – does the customer have a stable income source?
3. Willingness – does the customer demonstrate a willingness to pay?

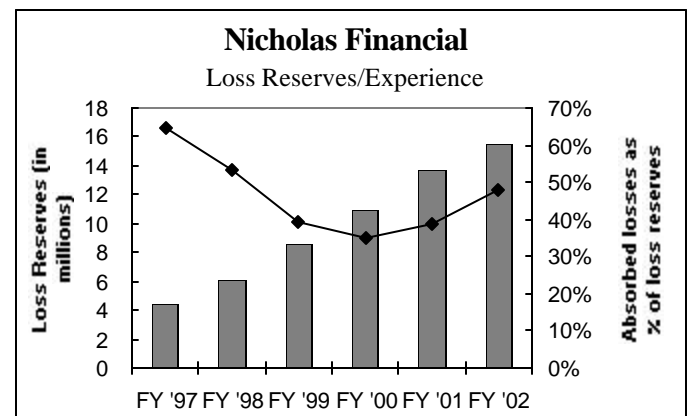
These 3 seemingly simple steps actually involve quite a bit of work and proprietary processes (gathered from information deployed by their software development subsidiary). For instance, they investigate the customer's credit history, history of residence, history of employment, utilities, etc. They also conduct interviews with the customer to determine their willingness to pay the loan. The whole process can take anywhere from a few hours to a few days depending on the circumstances.

Once the loan has been purchased, they begin to immediately track its progress. The first 6 months will generally give an indication of the likelihood of default. As a result, during this time period, the loss recovery staff within each branch office contacts the customer even if they are so much as 1 day late (although by law, the customer gets a 10-day grace period to make the payment). After this 6-month "seasoning" period, they contact the customer once their account becomes 11 days past due. This strong account management program has resulted in superior performance of their loan portfolio. Delinquencies (defined as those accounts that are 30 days or more past due) have remained in check (at less than 3%), as have write-offs due to bad loans (consistently in the range of 7% to 11%).

In the event that the customer does default on the loan, Nicholas Financial will use all means available including the garnishment of wages, small claims, etc. If those options don't work, they will repossess the vehicle. These vehicles are then transported to a refurbishment

center and subsequently sold (to wholesalers, at auctions, etc.). Nicholas Financial has extremely effective loss recovery operations that, according to the company, result in much better than average losses per repossessed vehicle (roughly \$4,500 compared to the industry average of about \$7,000). In fact, even though certain receivables get written-off, their loss recovery unit continues to be vigilant in the pursuit of that money. These efforts result in about 12% to 15% of write-offs being ultimately recovered.

The conservative approach to operations can be witnessed through the growth in loan loss reserves compared gross finance receivables compared to the write-off to liquidation ratio (see chart next page). Nicholas Financial sets aside money in an established reserve for loan losses. Any losses realized are then absorbed by



this reserve, effectively reducing the volatility in earnings that would otherwise occur. Over the past several years, NICK has been able to produce significant growth in sales and earnings, while increasing its loan loss reserves to a more than adequate level.

More specifically, the company establishes several “pools” to account for its loss reserves. Each pool consists of 3 months worth of finance receivables purchased by a single branch office (they currently have roughly 395 active pools). As a result, each branch will create 4 new pools per year. The creation of these pools allows NICK to more closely manage its business and the risk associated with finance receivables. Accounting for their reserves in this manner allows them to track smaller

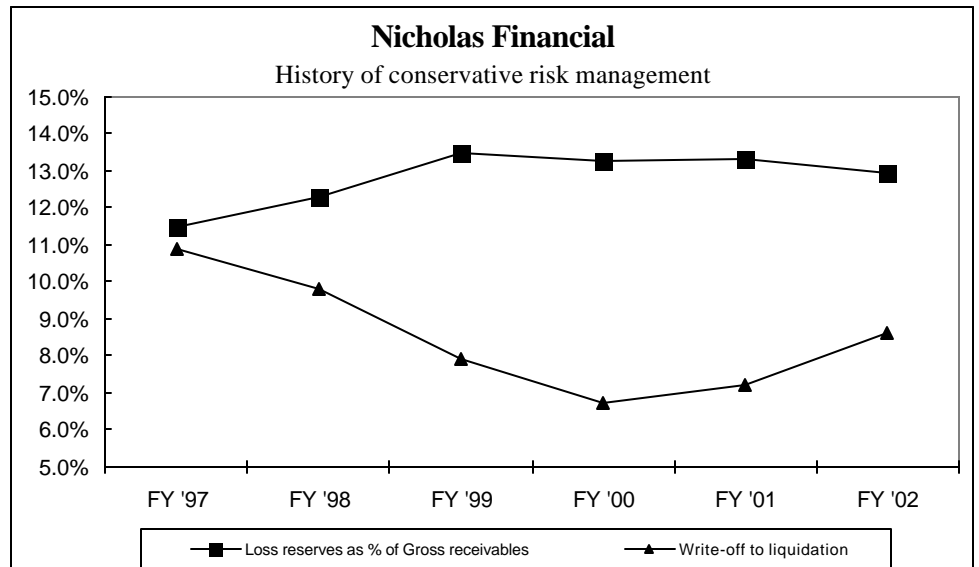
components of the gross receivables, which gives them a better “microscope” of what is happening, allowing them to adjust those pools (reserves) as variations occur in a more expeditious manner. It also allows them to track the performance of each branch office on the basis of its own profit and loss statement (because each pool is specific to a branch office). This not only allows them to compare and adjust the reserves in a more appropriate and effective manner, but it allows them to structure more appropriate incentives for branch office employees based on the performance of each individual branch office.

The bottom line is, Nicholas Financial exercises extreme discipline when it comes to their loan purchasing practices. Furthermore, they maintain their focus on their “core competencies”. In other words, they stick with what they do best. They don’t branch out into purchasing RV loans or manufactured housing loans, but rather stick with their area of expertise, which produces consistent and superior long-term results.

## MANAGEMENT:

The previous discussion regarding operations leads us nicely into some discussion regarding Nicholas Financial’s management team. Nicholas Financial has an excellent management team with a high degree of focus and discipline. Additionally, the officers and directors of the company as a group, own roughly 41% of the outstanding shares, which provides strong incentives that are aligned with those of the external shareholders of the company.

Peter L. Vosotas is the founder of the company and serves as Chairman of the Board and Chief Executive Officer. Prior to his 17 years with Nicholas Financial, he served in various capacities for companies such as Ford, AT&T, and GTE. His conservative approach and focused discipline have been the driving force behind the company’s impressive track record. In fact, under his direction, revenue, net income, and earnings per share have grown each and every year for the past decade.



Ralph T. Finkenbrink is the Chief Financial Officer of the company. He has been with the company since 1988 in various capacities. Prior to joining Nicholas Financial, Mr. Finkenbrink served as an accountant for MBI, Inc. and as an Inventory Control Manager for The Dress Barn.

Other key members of the management team include Matt Foget (Vice President of Marketing), Douglas Marohn (Vice President of Sales), Michael Marika (Chief Information Officer), Chad Steinorth (Corporate Controller), and Soti Kakalis (Director of Loss Recovery).

## **CHALLENGES & OPPORTUNITIES:**

Obviously, the slow down in the economy has had an effect on all business activity. Although this presents a challenge for Nicholas Financial, it also presents an opportunity. You see, as banks tighten lending practices, which has been the case over the past 12 to 24 months (and is often the case in a slowing economic environment), this broadens the market for companies like Nicholas Financial as consumers look for alternative sources for loans. Furthermore, the general credit conditions of the average consumer often deteriorate during an economic slowdown. Again, this presents a challenge, but also an opportunity as it also serves to broaden the market opportunity for sub-prime lenders (more consumers begin to fall into the “sub-prime” category). Furthermore, with interest rates at a 40-year low, mortgage re-finance activity has soared in recent months, which should help improve the consumer balance sheet and relative credit risk.

There’s no question that there are risks inherent in providing loans to consumers with a “less than perfect” credit history. However, the fact remains that the discipline with which Nicholas Financial has gone about its purchasing practices has been tested and proven as far as its capability to manage the risk associated with these loans. Nicholas Financial has also proven its capability to produce superior returns on these loans. Furthermore, as the economy begins to recover (evidence is beginning to mount in that direction), the risk begins to fall and the return on investment begins to rise...and the cycle starts over again.

Earlier, we discussed and displayed the possibilities for external growth (through market share gains and growth in the overall sub-prime lending market). However, we also believe there are tremendous opportunities for organic growth as well. Nicholas Financial is well positioned to capitalize both on the growth of the sub-prime lending market as well as the organic growth opportunities.

Specifically, Nicholas Financial intends to expand its branch office locations at a rate of 3 to 6 new branches per year for the foreseeable future. These expansion plans will obviously help fuel growth as they not only expand their operations in existing markets, but look to establish operations in new markets as well. In fact, they are specifically targeting geographic growth into new areas such as Virginia, Ohio, and South Carolina.

Currently, the average branch office for Nicholas Financial has about 550 accounts and approximately \$5 million in finance receivables. Therefore, we estimate that through branch office expansion alone, Nicholas Financial should be able to achieve a 10% to 20% rate of growth in finance receivables for the foreseeable future. This should translate into similar growth in revenue and exponential growth in net income and earnings per share as they continue to leverage operating expenses and scale the business.

Keep in mind the goal for each branch office is to accumulate roughly 1,000 accounts and \$7.5 million in finance receivables. Given the current statistics for the average branch office (550 accounts and \$5 million in receivables), there is conceivably significant room for organic growth within existing branch offices in addition to the growth opportunities for new branch offices.

With these opportunities as the foundation for future growth, it is highly conceivable that Nicholas Financial could achieve 10% to 20% top line growth for the next 3 to 5 years while achieving something in excess of that growth on the bottom line.

In conclusion, as you can see, this company has been experiencing significant growth while maintaining tremendous financial strength, and at 5 times earnings, the stock is about as cheap as they come. Furthermore, there continues to be significant opportunities facing the company. As a result, this is one company that we believe is attractive for investors looking to add a quality small cap stock to their portfolio.



Source: BigCharts

#### ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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## NICHOLAS FINANCIAL, INC.

## Portfolio Summary

	2003 FYTD	2002 FY	2001 FY	2000 FY	1999 FY	1998 FY
End of period net finance receivables <sup>8</sup>	98,552,253	91,633,071	78,812,582	62,983,821	48,472,021	38,561,551
Average Net Finance Receivables <sup>1</sup>	95,579,869	84,388,641	73,076,939	55,015,469	43,578,531	34,024,030
Average Indebtedness <sup>2</sup>	56,373,558	50,907,525	46,166,602	34,530,273	27,923,366	21,898,605
Total Interest Income	10,725,488	19,852,758	17,386,318	13,557,371	9,922,689	7,493,630
<b>Gross Portfolio Yield<sup>3</sup></b>	<b>22.44%</b>	<b>23.53%</b>	<b>23.79%</b>	<b>24.64%</b>	<b>22.77%</b>	<b>22.02%</b>
Interest Expense	(1,931,695)	(3,898,400)	(3,761,689)	(2,771,100)	(2,358,838)	(2,080,337)
<b>Net Interest Income</b>	<b>8,793,793</b>	<b>15,954,358</b>	<b>13,624,629</b>	<b>10,786,271</b>	<b>7,563,851</b>	<b>5,413,293</b>
<b>Net Portfolio Yield<sup>3</sup></b>	<b>18.40%</b>	<b>18.91%</b>	<b>18.64%</b>	<b>19.61%</b>	<b>17.36%</b>	<b>15.91%</b>
Average Cost of Borrowed Funds <sup>2</sup>	-6.85%	-7.66%	-8.15%	-8.03%	-8.45%	-9.50%
Net Interest Spread <sup>4</sup>	15.59%	15.87%	15.64%	16.61%	14.32%	12.52%
Write-Off to Liquidation <sup>5</sup>	8.60%	8.62%	7.21%	6.71%	7.93%	9.83%
Net Charge-Off Percentage <sup>6</sup>	7.47%	7.63%	6.16%	5.88%	6.84%	8.69%
Reserves for Losses <sup>7</sup>	17,033,804	15,565,684	13,771,714	10,968,714	8,548,550	6,137,140
Reserves for losses as % of end of period net finance receivables <sup>8</sup>	17.28%	16.99%	17.47%	17.42%	17.64%	15.92%

<sup>1</sup> - Average net finance receivables represents the average of net finance receivables throughout the period. Net finance receivables represents gross finance receivables less any unearned finance charges related to those receivables.

<sup>2</sup> - Average indebtedness represents the average outstanding borrowings under the Line of Credit and notes payable-related party. Average cost of borrowed funds represents interest expense as a percentage of average indebtedness.

<sup>3</sup> - Gross portfolio yield represents total total interest income as a percentage of average net finance receivables. Net portfolio yield represents net interest income as a percentage of average net finance receivables.

<sup>4</sup> - Net interest spread represents the gross portfolio yield less the average cost of borrowed funds.

<sup>5</sup> - Liquidation is defined as beginning receivable balance plus current period purchases minus voids and refinances minus ending receivable balance.

<sup>6</sup> - Net charge-off percentage represents net charge-offs divided by average net finance receivables outstanding during the period.

<sup>7</sup> - Reserves for losses represents nonrefundable dealer reserves plus allowance for doubtful accounts. It is calculated as beginning period balance plus current period provision less losses absorbed less accretion to income plus recoveries plus discounts acquired on new receivable volume.

<sup>8</sup> - Represents reserves for losses as percentage of end of period net finance receivables. End of period net finance receivables represents gross finance receivables outstanding at the end of the period minus unearned interest.

## NICHOLAS FINANCIAL, INC.

## Income Statement

	2003 FYTD	2003 Q2	2003 Q1	2002 FY	2001 FY	2000 FY	1999 FY	1998 FY
Interest income	10,725,488	5,492,139	5,233,349	19,852,758	17,386,318	13,557,371	9,922,689	7,493,630
Sales	175,315	92,939	82,376	365,367	410,708	517,445	495,849	443,392
<b>Total Revenue</b>	<b>10,900,803</b>	<b>5,585,078</b>	<b>5,315,725</b>	<b>20,218,125</b>	<b>17,797,026</b>	<b>14,074,816</b>	<b>10,418,538</b>	<b>7,937,022</b>
Cost of sales	(42,820)	(25,652)	(17,168)	(78,615)	(84,870)	(90,471)	(102,368)	(105,924)
Sales, General, & Administrative	(4,405,888)	(2,270,549)	(2,135,339)	(7,867,901)	(6,802,424)	(5,621,680)	(4,320,807)	(3,321,715)
Total Expenses	(4,448,708)	(2,296,201)	(2,152,507)	(7,946,516)	(6,887,294)	(5,712,151)	(4,423,175)	(3,427,639)
<b>Operating Income</b>	<b>6,452,095</b>	<b>3,288,877</b>	<b>3,163,218</b>	<b>12,271,609</b>	<b>10,909,732</b>	<b>8,362,665</b>	<b>5,995,363</b>	<b>4,509,383</b>
Provision for losses	(1,129,204)	(582,138)	(547,066)	(1,912,918)	(1,470,744)	(1,069,719)	(940,922)	(848,641)
Depreciation/Amortization	(79,000)	(42,000)	(37,000)	(189,733)	(145,567)	(91,049)	(90,005)	(82,758)
<b>Income before interest &amp; taxes</b>	<b>5,243,891</b>	<b>2,664,739</b>	<b>2,579,152</b>	<b>10,168,958</b>	<b>9,293,421</b>	<b>7,201,897</b>	<b>4,964,436</b>	<b>3,577,984</b>
Interest expense	(1,931,695)	(967,632)	(964,063)	(3,898,400)	(3,761,689)	(2,771,100)	(2,358,838)	(2,080,337)
<b>Pre-tax Income</b>	<b>3,312,196</b>	<b>1,697,107</b>	<b>1,615,089</b>	<b>6,270,558</b>	<b>5,531,732</b>	<b>4,430,797</b>	<b>2,605,598</b>	<b>1,497,647</b>
Income Tax	(1,242,875)	(640,951)	(601,924)	(2,338,419)	(2,120,855)	(1,853,229)	(1,003,242)	(583,957)
<b>Net Income</b>	<b>2,069,321</b>	<b>1,056,156</b>	<b>1,013,165</b>	<b>3,932,139</b>	<b>3,410,877</b>	<b>2,577,568</b>	<b>1,602,356</b>	<b>913,690</b>
Effect of dilutive securities	0	0	0	17,491	59,489	94,023	99,636	24,909
<b>Diluted Net Income</b>	<b>2,069,321</b>	<b>1,056,156</b>	<b>1,013,165</b>	<b>3,949,630</b>	<b>3,470,366</b>	<b>2,671,591</b>	<b>1,701,992</b>	<b>938,599</b>
Diluted Shares	5,329,307	5,316,010	5,342,183	5,263,966	5,137,732	5,312,630	5,245,564	4,835,736
<b>Diluted EPS</b>	<b>0.39</b>	<b>0.20</b>	<b>0.19</b>	<b>0.75</b>	<b>0.68</b>	<b>0.50</b>	<b>0.32</b>	<b>0.19</b>

## Income Statement (% of sales)

	2003 FYTD	2003 Q2	2003 Q1	2002 FY	2001 FY	2000 FY	1999 FY	1998 FY
Interest income	98.4%	98.3%	98.5%	98.2%	97.7%	96.3%	95.2%	94.4%
Sales	1.6%	1.7%	1.5%	1.8%	2.3%	3.7%	4.8%	5.6%
<b>Total Revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Cost of sales	-0.4%	-0.5%	-0.3%	-0.4%	-0.5%	-0.6%	-1.0%	-1.3%
Sales, General, & Administrative	-40.4%	-40.7%	-40.2%	-38.9%	-38.2%	-39.9%	-41.5%	-41.9%
Total Expenses	-40.8%	-41.1%	-40.5%	-39.3%	-38.7%	-40.6%	-42.5%	-43.2%
<b>Operating Income</b>	<b>59.2%</b>	<b>58.9%</b>	<b>59.5%</b>	<b>60.7%</b>	<b>61.3%</b>	<b>59.4%</b>	<b>57.5%</b>	<b>56.8%</b>
Provision for losses	-10.4%	-10.4%	-10.3%	-9.5%	-8.3%	-7.6%	-9.0%	-10.7%
Depreciation/Amortization	-0.7%	-0.8%	-0.7%	-0.9%	-0.8%	-0.6%	-0.9%	-1.0%
<b>Income before interest &amp; taxes</b>	<b>48.1%</b>	<b>47.7%</b>	<b>48.5%</b>	<b>50.3%</b>	<b>52.2%</b>	<b>51.2%</b>	<b>47.7%</b>	<b>45.1%</b>
Interest expense	-17.7%	-17.3%	-18.1%	-19.3%	-21.1%	-19.7%	-22.6%	-26.2%
<b>Pre-tax Income</b>	<b>30.4%</b>	<b>30.4%</b>	<b>30.4%</b>	<b>31.0%</b>	<b>31.1%</b>	<b>31.5%</b>	<b>25.0%</b>	<b>18.9%</b>
Tax Rate	-37.5%	-37.8%	-37.3%	-37.3%	-38.3%	-41.8%	-38.5%	-39.0%
Income Tax	-11.4%	-11.5%	-11.3%	-11.6%	-11.9%	-13.2%	-9.6%	-7.4%
<b>Net Income</b>	<b>19.0%</b>	<b>18.9%</b>	<b>19.1%</b>	<b>19.4%</b>	<b>19.2%</b>	<b>18.3%</b>	<b>15.4%</b>	<b>11.5%</b>

**NICHOLAS FINANCIAL, INC.****Balance Sheet**

	As of 9/30/2002	As of 6/30/2002	As of 3/31/2002	As of 3/31/2001	As of 3/31/2000	As of 3/31/1999	As of 3/31/1998
<b>Assets</b>							
Cash & equivalents	\$ 598,203	703,987	51,239	320,195	259,183	509,418	303,960
Finance receivables, net	81,518,449	78,401,483	76,067,387	65,040,868	52,015,107	39,923,471	32,424,411
Prepays & other assets	858,756	780,228	531,097	563,654	413,606	331,776	270,250
Property & equipment, net	410,000	383,479	370,849	333,759	331,594	217,293	223,486
Deferred income taxes	327,338	459,780	488,455	1,070,888	1,115,888	1,275,056	950,778
<b>Total Assets</b>	<b>\$ 83,712,746</b>	<b>80,728,957</b>	<b>77,509,027</b>	<b>67,329,364</b>	<b>54,135,378</b>	<b>42,257,014</b>	<b>34,172,885</b>
<b>Liabilities &amp; Shareholder's Equity</b>							
Line of credit	\$ 57,533,426	55,133,426	53,273,426	47,823,426	38,414,549	29,964,549	23,430,594
Notes payable - related party	649,376	548,739	542,282	968,008	1,318,008	1,606,765	1,591,595
Accounts payable	3,386,780	3,477,142	3,819,975	3,404,531	2,695,622	1,735,356	1,742,458
Income taxes payable	0	621,913	69,852	93,819	44,965	0	169,882
Deferred revenue	911,337	769,881	655,556	611,729	518,718	387,944	241,129
Other liabilities	2,175,431	1,522,365	1,151,458	0	16,232	21,699	21,400
<b>Total Liabilities</b>	<b>\$ 64,656,350</b>	<b>62,073,466</b>	<b>59,512,549</b>	<b>52,901,513</b>	<b>43,008,094</b>	<b>33,716,313</b>	<b>27,197,058</b>
<b>Shareholders' Equity</b>							
Common stock	2,228,376	2,883,626	3,237,780	3,601,292	3,711,602	3,702,587	3,740,069
Retained earnings	16,828,020	15,771,865	14,758,698	10,826,559	7,415,682	4,838,114	3,235,758
<b>Total Shareholders' Equity</b>	<b>\$ 19,056,396</b>	<b>18,655,491</b>	<b>17,996,478</b>	<b>14,427,851</b>	<b>11,127,284</b>	<b>8,540,701</b>	<b>6,975,827</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 83,712,746</b>	<b>80,728,957</b>	<b>77,509,027</b>	<b>67,329,364</b>	<b>54,135,378</b>	<b>42,257,014</b>	<b>34,172,885</b>

## NICHOLAS FINANCIAL, INC.

## Cash Flow Statement

	2003 6 mos ended	FY 2002	FY 2001	FY 2000	FY 1999	FY 1998
Net income	\$ 2,069,321	\$ 3,932,139	\$ 3,410,877	2,577,568	1,602,356	913,690
Depreciation & amortization	79,000	189,733	145,567	91,049	90,005	82,758
Provision for losses	1,129,204	1,912,918	1,470,744	1,069,719	940,922	848,641
Deferred income taxes	161,117	582,433	45,000	159,168	(324,278)	(539,411)
Change in accounts payable	(291,170)	589,843	321,881	960,266	(7,102)	468,434
Changes in other assets & liabilities	(303,314)	84,505	386,213	88,442	(84,294)	283,205
<b>Total Cash Flow from Operating Activities</b>	<b>\$ 2,844,158</b>	<b>\$ 7,291,571</b>	<b>\$ 5,780,282</b>	<b>4,946,212</b>	<b>2,217,609</b>	<b>2,057,317</b>
Acquisition of property & equipment	(118,151)	(226,823)	(147,732)	(205,350)	(83,812)	(123,903)
Increase in finance receivables, net of principal collected	(6,580,266)	(12,939,437)	(14,496,505)	(13,161,355)	(8,439,982)	(7,349,961)
<b>Total Cash Flow from Investment Activities</b>	<b>\$ (6,698,417)</b>	<b>\$ (13,166,260)</b>	<b>\$ (14,644,237)</b>	<b>(13,366,705)</b>	<b>(8,523,794)</b>	<b>(7,473,864)</b>
Proceeds from line of credit	4,260,000	5,450,000	9,408,877	8,450,000	6,533,955	5,750,000
Payment of debt	107,094	83,000	(350,000)	(288,757)	15,170	(164,500)
Sale/(Re-purchase) of common stock	34,130	72,733	(133,910)	9,015	(37,482)	26,859
<b>Total Cash Flow from Financing Activities</b>	<b>\$ 4,401,224</b>	<b>\$ 5,605,733</b>	<b>\$ 8,924,967</b>	<b>8,170,258</b>	<b>6,511,643</b>	<b>5,612,359</b>
Net increase/(decrease) in cash	546,965	(268,956)	61,012	(250,235)	205,458	195,812
Cash, beginning of period	<u>51,239</u>	<u>320,195</u>	<u>259,183</u>	<u>509,418</u>	<u>303,960</u>	<u>108,148</u>
Cash, end of period	<u>598,204</u>	<u>51,239</u>	<u>320,195</u>	<u>259,183</u>	<u>509,418</u>	<u>303,960</u>

## ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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