

FERRIS, BAKER WATTS, INCORPORATED

Equity Research – Regional Banks & Thrifts

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Nicholas Financial, Inc. (NICK) New Estimates and Price Target– Maintain Buy Rating

<u>Price (05/26/04)</u>	<u>Target</u>	<u>52-Wk Range</u>	<u>Market Value</u>	<u>Dividend</u>	<u>Yield</u>
\$8.36	\$11.00	\$12.24–\$4.42	\$51.8 mil.	\$0.10	1.2%
Shares Out:	6.2 mil.	ROAA:	NA		
Float:	5.5 mil.	ROAE:	NA		
Avg. Trading Volume:	10,363	Book Value (03/31/04 pf)	\$5.74		
Est. EPS Growth:	12%	Price/Book:	1.46x		

Earnings Per Share:

		2003 A	2004 A	2005 E	Prior Est.	2006 E
June	1Q	\$0.19	\$0.22	\$0.23		NE
Sept.	2Q	\$0.20	\$0.23	\$0.23		NE
Dec.	3Q	\$0.19	\$0.24	\$0.24		NE
Mar.	4Q	<u>\$0.23</u>	<u>\$0.27</u>	<u>\$0.28</u>		<u>NE</u>
	FY	\$0.81	\$0.96	\$0.98	\$1.05	\$1.18
	P/E	10.3 x	8.7 x	8.5 x		7.1 x

See final page for important disclosures and analyst certification.

Highlights:

- We are publishing 2005 and 2006 EPS estimates adjusted to reflect the recent issuance of 1.1 million shares of stock by the company. We have also included in our new estimate an additional 300,000 shares tied to the green shoe.
- We are estimating earnings per diluted share of \$0.98 in fiscal 2005 and \$1.18 in fiscal 2006; the company's fiscal year ends in March. We are expecting origination and net receivable growth of 15% in both years. Loan quality should continue to improve, and as a result yields should increase as well. Expected improvements in operating efficiency should be offset by higher professional fees tied to Sarbanes-Oxley and other items of approximately \$250,000 to \$275,000.
- We are maintaining our current price target of \$11 per share. This price target currently values the company at discount to its peers of modestly over 10%.

Details

We are publishing 2005 and 2006 EPS estimates adjusted to reflect the issuance of 1.1 million shares of stock by the company on May 14. We have also included in our new estimates an additional 300,000 shares tied to the green shoe provision. The dilution tied to the offering reduces our 2005 EPS estimate from \$1.05 to \$0.98. We are initiating a 2005 EPS estimate of \$1.18. We are expecting a modest improvement in net charge offs and a related improvement in

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loan yields. The company has fixed the funding cost on \$50 million of its debt. The company ended 2004 with \$67.5 million in senior debt. The company should end 2005 with an estimated \$65–\$70 million in debt. Key assumptions driving our estimate can be seen in the exhibit below.

Exhibit—Earnings Summary

FY 2006E, Q =	1	2	3	4	FY
Financial Date					03/31/06
EPS					\$1.18
Loan Balances					157,494
Growth-%					15%
Total Originations -\$					157,514
Growth-%					15%
OH/Loans					10.0%
FY 2005E, Q =	1	2	3	4	FY
Financial Date	06/30/04	09/30/04	12/31/04	03/31/05	03/31/05
EPS	\$0.23	\$0.23	\$0.24	\$0.28	\$0.98
Loan Balances	124,598	128,207	128,766	136,969	136,969
Growth-%	14%	15%	14%	16%	16%
Total Originations -\$	22,744	21,794	19,120	26,079	89,737
Growth-%	15%	15%	15%	15%	15%
OH/Loans	10.4%	9.5%	9.5%	10.0%	9.8%
FY 2004, Q =	1	2	3	4E	FY
Financial Date	06/30/03	09/30/03	12/31/03	03/31/04	03/31/04
EPS	\$0.22	\$0.23	\$0.24	0.27	\$0.96
Loan Balances	108,995	111,792	112,714	118,586	118,586
Growth-%					29%
Total Originations -\$	19,777	18,951	16,626	22,677	78,032
Growth-%	19%	8%	15%	14%	14%
OH/Loans	9.8%	10.0%	9.6%	10.3%	9.9%
FY 2003, Q =	1	2	3	4	FY
Financial Date	06/30/02	09/30/02	12/31/02	03/31/03	03/31/03
EPS	\$0.19	\$0.20	\$0.19	\$0.23	\$0.81
Loan Balances					91,633
Total Originations -\$	16,687	17,474	14,496	19,813	68,470
OH/Loans					9.6%

(Dollars in thousands except per share amounts)

Source: company reports and FBW research

Price Target

Our price target of \$11 per share is based on the median valuation ratios currently accorded a group of branch-based and auto finance lenders. P/E 1 refers to the P/E ratio on the next fiscal year (March 2005 in the case of Nicholas). P/E 2 refers to the P/E ratio on the follow fiscal year (March 2006 for Nicholas). The stocks in this group are primarily small-cap issues, companies with market caps of between \$100 million and \$1 billion. We have applied a 10% discount to the group's median valuation ratio because the market cap for Nicholas is below \$100 million.

	Target Price			Avg
	P/E 1	P/E 2	P/Bk	
NICK Current price \$8.35				
Median--Branch Based Lenders/Auto Finance	12.9	11.3	2.17	
Micro Cap Discount	10%	10%	10%	
Target	11.6	10.1	1.96	
Projected EPS/PF Book	\$0.98	\$1.18	\$5.74	
Target Price	\$11.34	\$11.97	\$11.22	\$11.51
Upside From Current Price to Target	36%	43%	34%	

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At the time of this report, Ferris, Baker Watts, Inc. makes a market in the shares of this company.

In the past 12 months, Ferris, Baker Watts, Inc. has managed or co-managed a public offering of the shares of this company.

In the past 12 months, Ferris Baker Watts, Inc. has received compensation from this company for investment banking services.

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Analyst Certification: I, Henry J. Coffey, Jr., hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and its underlying securities. I further certify that I have not and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this research report.

Ratings Distribution & Investment Banking Disclosure

	Ratings Distribution [^]	Investment Banking [*]
Buy-rated	63%	19%
Hold-rated	33%	20%
Sell-rated	3%	0%

[^] Percentage of all FBW-covered stocks assigned a Buy, Hold, or Sell rating.

^{*} Percentage of companies within FBW-rated Buy, Hold, and Sell categories for which FBW or an associated firm provided investment banking services within the past 12 months.

Data as of 3/31/04

Additional Information Available Upon Request

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