

Ferris, Baker Watts, Incorporated

Equity Research – Specialty Finance

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Nicholas Financial, Inc. (NICK)

Company Issues Shares Tied to Green Shoe – Maintain Buy Rating and Current Estimates

<u>Price (06/09/04)</u>	<u>Target</u>	<u>52-Wk Range</u>	<u>Market Value</u>	<u>Dividend</u>	<u>Yield</u>
\$8.35 (intraday)	\$11.00	\$12.24–\$4.80	\$51.8 mil.	\$0.10	1.2%

Shares Out:	6.5 mil.	ROAA:	NA
Float:	5.8 mil.	ROAE:	16.20%
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		\$1.18
	P/E	10.3 x	8.7 x	8.5 x		7.1 x

See final page for important disclosures and analyst certification.

Highlights:

- Nicholas Financial, Inc. announced that it closed the sale of an additional 300,000 shares of its common stock at a public offering price of \$8.00 per share in connection with the exercise of the over-allotment option granted to the underwriter of the company's recent offering of 1,100,000 shares of common stock (which closed on May 19, 2004). The net proceeds to the company of the offering (including the exercise of the over-allotment option), total approximately \$9.8 million.
- Our estimates for fiscal 2005 and 2006 (March fiscal year) are driven by the assumption that the company will grow both originations and net receivable 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-\$275,000.
- Financial service stocks have increased modestly in value as of late, and Nicholas currently trades at a 30% discount to its other auto finance peers.

Details

Our estimates for fiscal 2005 and 2006 (March fiscal year) are driven by the assumption that the company will grow both originations and net receivables 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-\$275,000.

Historically, the company's objectives have been to grow revenue by 15% per year and net income by 20%. Our 2005 estimate reflects a similar outlook, adjusted for the interest savings tied to the issuance of new stock.

Target 15%R/20%N	1Q05E	2Q05E	3Q05E	4Q05E	FY05E
NICK	6/30/04	9/30/04	12/31/04	3/31/05	3/31/05
Net Income +20%	1,399	1,499	1,567	1,813	6,278
Int Savings	-	88	88	88	265
Net Income	1,399	1,587	1,656	1,901	6,543
Avg Shares	6,178	6,878	6,878	6,878	6,703
EPS	0.23	0.23	0.24	0.28	0.98
	New Equity	Avg COF	Int	After Tx	
	9,800	5.80%	568	354	

Source: FBW research

Valuation

Nicholas Financial continues to sell at a discount to the bulk of its auto finance peers and a number of branch-based lenders that service a similar customer group.

Company Name	Ticker	Focus	6/9/04	# Est.	Mrkt Cap.	EPS			Avg DV 000's	Value				Equity/ Mng Asts	
						LTM	Est. 1	Est. 2		PE-LTM	PE 1	PE 2	P/Bk		ROE-LTM
1 CompuCredit Corporation	CCRT	cc's	17.50	2	840	2.12	1.92	2.00	175.8	8.3	9.1	8.8	149	20.98	21.7
1 AmeriCredit Corp.	ACF	Auto	18.21	6	2,869	0.80	1.23	1.21	1,342.3	22.8	14.8	15.0	141	6.58	14.0
2 Capital One Financial Corporation	COF	CC/Auto	71.44	26	17,128	5.41	5.81	6.60	2,288.9	13.4	12.3	10.8	250	22.60	7.9
3 Consumer Portfolio Services, Inc.	CPSS	Auto	4.43	0	93	(0.37)	NA	NA	17.9	NM	NA	NA	114	-8.43	9.0
4 Credit Acceptance Corporation	CACC	Auto	15.17	1	595	0.48	0.79	1.17	106.7	31.6	19.2	13.0	192	6.25	31.5
5 First Investors Financial Services Group, Inc.	FIFS	Auto	5.40	0	27	0.07	NA	NA	2.9	NM	NA	NA	99	1.20	4.7
6 Nicholas Financial, Inc.	NICK	Auto	8.30	2	54	0.96	0.98	1.18	39.6	8.6	8.5	7.5	147	21.24	26.6
7 Onyx Acceptance Corporation	ONYX	Auto	15.20	0	81	1.21	NA	NA	13.4	12.6	NA	NA	96	9.89	2.8
8 WFS Financial Inc.	WFSI	Auto	47.02	3	1,929	4.99	4.25	4.49	69.6	9.4	11.1	10.5	217	26.73	7.6
Auto Median										13.0	12.3	10.8	144	8.24	8.4
9 ACE Cash Express Inc.	AACE	Ck Cash	25.99	4	345	1.86	1.66	1.92	180.3	14.0	15.7	13.5	283	24.06	39.3
10 Cash America International, Inc.	PWN	Pawn	21.27	5	603	1.23	1.40	1.65	193.4	17.3	15.2	12.9	208	14.11	61.2
11 First Cash Financial Services, Inc.	FCFS	Pawn	21.78	5	351	1.04	1.22	1.47	194.4	21.4	17.9	14.8	286	15.69	90.9
12 World Acceptance Corporation	WRLD	Sm Lns	18.40	3	347	1.49	1.70	1.97	199.4	12.4	10.8	9.2	245	21.57	59.8
13 EZCORP, Inc.	EZPW	Pawn	8.38	2	92	0.82	0.75	1.02	142.5	10.2	11.2	8.2	91	10.07	77.1
Branch Based Median										14.0	15.2	12.9	245	15.69	61.2
Combined Median										13.4	13.6	11.9	192	14.11	26.6

Source: FBW research and SNL Datasource

Important Disclosures and Analyst Certification

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

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