



Nicholas Financial, Inc. ⁽¹⁾

NICKF/NASDAQ

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Date:	January 19, 1999	EPS	P/E
Price January 14:	\$3 3/8	LTM Sep. 1998:	\$0.41 8.2X
		FY98A:	\$0.39 8.7X
Industry:	Sub-Prime Automobile Finance	FY97A:	\$0.37 9.1x
Headquarters:	Clearwater, Fla.	Price-to-Book Ratio:	1.07
Fiscal Year End:	March	Book Value Per Share:	\$3.22
52-Week Range:	\$3 5/8 - \$2 1/8	Shares Outstanding:	2.4 mil.
Dividend/Yield:	\$0.00/0.0%	Market Capitalization:	\$8.1 mil.
Equity/Assets Ratio:	20.3%	Average Daily Volume:	2,211 shares
Total Reserve/Finance Rec. Out.:	17.9%	Debt to Equity:	365.1%
Total Delinquencies/Finance Rec. Out.:	5.1%	ROE (LTM):	14.0%

Second-Quarter Overview

Financial Results

Nicholas Financial, Inc., ("Nicholas") announced record earnings for the six months ended September 30, 1998. Interest income on finance receivables for the three-month period was \$2.4 million, up 29%, and for the six months, interest income was \$4.5 million, 26% higher than the same period in 1997. Nicholas recently opened additional branches in Marietta, Ga., and Longwood, Fla. The branch additions accounted for 50% of the growth in interest income. The other 50% resulted from internal growth in finance receivables at existing branches. The increase in interest income was partially offset by an increase in administrative expenses for the new branch, as well as a small increase in the provision for credit losses. Overall, Nicholas has controlled operating expenses and maintained steady loss ratios in contrast to many of its competitors.

Net income for the three months was \$359,000, or \$0.15 per share which is a 44% increase from the same period of the previous year. Six months net income of \$619,000, or \$0.26 per share, was up 30% from 1997. Nicholas ended the second quarter with gross finance receivables of \$56.1 million, an increase of 30.4% from the previous year.

Overview

Nicholas completed an offering of around \$2.0 million in October 1996. The net proceeds from the transaction were used to pay down debt and to support growth in receivables and facilitate branch expansion.

From 1992 to 1996, over 30 public companies entered the sub-prime automobile lending market. The interest was largely a result of the attraction to high rates and fee income and the easy access to capital from Wall Street. In 1997, the sub-prime automobile market came under extreme pressure due to undisciplined lending practices. Most notably, the industry leader, Mercury Finance, announced problems with its accounting practices, consisting primarily of improper assumptions about loss reserves and insurance commissions. Mercury subsequently filed for bankruptcy protection, reducing market value by \$2.00 billion.

Over the next two years, the public companies in the sub-prime automobile industry thinned out from 30 companies to 18 companies, of which six companies currently trade below \$1.00 per share. Factors reducing the number of public companies include poor reserve analysis, imprudent financial management and insufficient internal controls. As a result, access to equity capital

is scarce, and securitizations have become more difficult to complete.

The remaining finance companies have taken advantage of market conditions and have adopted aggressive measures to seize the potential profits. It has become increasingly common for competing finance companies to offer stock and interest rate participation to dealers as incentives. Nicholas' management believes that only a handful of public and private companies will survive—those with alternate access to capital; those with strong management teams with experience in sub-prime lending; and those that have conservative underwriting principles, sound collection procedures, and financial controls.

Company Description

Nicholas Financial, Inc., is a consumer financing company that specializes in acquiring and maintaining installment sales contracts in the new and used automobile and light truck market. Headquartered in Clearwater, Fla., Nicholas focuses on providing automobile financing to buyers who do not meet the credit requirements for traditional financing. As a smaller portion of its business, Nicholas makes direct consumer loans up to \$25,000. Nicholas also operates Nicholas Data Services which designs, develops, and markets industry-specific computer application software for small businesses located primarily in the southeastern United States.

Nicholas provides financing options to individuals with credit histories below the levels required by traditional lenders. Evaluation factors for the prospective borrowers include place and length of residence, employment status and history, automobile loan record, current income, and credit history. Issues examined prior to purchasing retail installment contracts include Nicholas' historical relationship with the particular car dealership, the value of the automobile relative to purchase price, and the term of the installment contract.

Recent Developments

In September 1998, Nicholas' line of credit with its primary lender, BankAmerica, was re-negotiated. The line was increased \$5.0 million to \$35.0 million, and the cost of funds was decreased by 50 to 100 basis points.

Nicholas currently operates 14 branch locations—two in Georgia and 12 in Florida. Nicholas continually researches decisions regarding current and new branch locations to determine optimal regional market conditions. Nicholas determines branch locations by the number and quality of area dealers and the area's general employment and affluence rates. In an effort to strengthen its branch network, Nicholas recently opened two branches. Nicholas added a branch in Marietta, Ga., in December of 1997. In June of 1998, Nicholas opened the Longwood, Fla., branch location, adding a second branch office to the greater Orlando market. Both of these new locations are proving to be successful in producing acceptable loan revenue. In July of 1998, Nicholas

sold its Albany, Ga., branch. The Albany market did not have the number of qualified borrowers or the high demand for automobile sales generally seen throughout the Southeast. Nicholas plans to open additional branch offices in 1999, possibly in the Charlotte or Atlanta areas.

In September 1997, Nicholas implemented a one-for-three reverse split of its common stock. The purpose of the reverse split was to qualify for the minimum share price required by the National Association of Security Dealers (NASD) for inclusion under the Small Cap system. Nicholas began trading on the NASDAQ on December 29, 1997.

In October of 1998, the board of directors authorized the repurchase of up to 165,000 shares, or about 7%, of Nicholas' outstanding common stock. Nicholas has not yet repurchased any of the authorized shares outstanding.

Corporate Structure

Operating Strategy

Many sub-prime automobile companies, including Nicholas, have decentralized their operations so that the branch can be more responsive to local needs and more effective in loan collections. Nicholas' branch managers are responsible for purchasing and servicing their branch's contract receivables to comply with general corporate guidelines. By decentralizing contract purchasing, Nicholas seeks to create dealer and customer relationships and to better control loan quality and collections.

While understanding that a branch location's physical presence is an integral part of successful loan collection and retention, Nicholas believes that its existing centralized data management system minimizes administrative costs and maximizes control of loan receivables. The data management system maintains complete and accurate records by accounting for all loan receivables and customer information from branch locations. Centralizing loan receivable information is an effective method for monitoring branch market conditions and evaluating managerial performance.

Systems Competency and Capacity

Nicholas operates with a customized loan management system that is designed, developed, and maintained by its data processing subsidiary, Nicholas Data Services, Inc. Currently, the average loan receivables at each branch total approximately \$3.5 million. Each Nicholas branch currently has excess capacity with a system capable of handling \$7.0 million to \$10.0 million in loan receivables.

Dedicated Employees

Nicholas' senior management team has been working together for over 12 years. The team's experience has helped Nicholas

generate steady growth during a variety of market conditions. Nicholas intends to expand its branch locations and promote internal growth by recruiting additional experienced branch managers. Nicholas offers all of its employees full health insurance, long-term disability insurance, a 401(K) plan, and stock options to reward both growth and profitability.

Expansion in Consumer Loans

Nicholas plans to expand the consumer loan sector of its business which, on average, are 24-month loans of approximately \$2,500 with interest rates in the 24% to 26% range. All of Nicholas' Florida-based branches are licensed to service this market. However, Nicholas currently has \$1.5 million, less than 2% of total receivables, in personal loans outstanding. Nicholas aims to grow its consumer loan portfolio to \$5.0 million in the next 12 to 24 months. Nicholas extends its consumer loans to those borrowers that exhibit responsible payment of Nicholas auto loans. Because of this selection process, consumer loans generally demonstrate lower default rates.

Increasing Demand for Services

Nicholas provides automobile financing for consumers who do not have access to traditional financing. The demand for such financing is continually growing, while the market for used automobiles is also expanding. The used car market is becoming increasingly attractive to lenders because of the improving quality of used cars, a greater number of cars coming off lease, and the affordability of these vehicles.

Credit Loss Management

Managing risk by maintaining reserves in excess of delinquencies has helped Nicholas to stabilize historic reported earnings.

Nicholas accounts for real default risk by chronologically grouping loan receivables into static pools that remain intact until all of the loans are fully liquidated. The pools are constructed at the branch level to help monitor individual branch production and regional market performance. The average pool is made up of 67 contracts and has an aggregate initial principal amount of approximately \$536,000. As of September 30, 1998, Nicholas had

181 active pools. The total delinquencies as a percentage of outstanding balance is 5.1%, comprised of both automobile and consumer loans outstanding.

Reserves for credit losses are retained in the entire amount of the potential loss for each pool. Factors considered in credit loss assessment include historical performance of branch pools, contract performance from specific dealerships included in the pool, credit ratings of the borrowers, and current market and economic conditions. As contracts are acquired, reserves are established loan by loan. Nicholas evaluates loan pools monthly, and, if reserves are deemed insufficient, a charge to income establishes the additional reserves required. If reserves remain after a pool is fully liquidated, the excess reserves are accounted for as income. For the quarter ended September 30, 1998, the aggregate reserve for losses on loan contracts was \$7.5 million, or 17.89% of net outstanding receivables. This compares with current delinquencies to finance receivable rate of 5.1%.

In the consumer loan portion of the business, Nicholas accounts for losses as the loans are made. As of September 30, 1998, Nicholas had established reserves for losses on direct loans of \$59,472, or 5% of net outstanding receivables. As the consumer loans sector of the business expands, Nicholas plans to implement a similar pooling system to account for receivables on this type of loan.

Risk Factors

- Nicholas is a thinly traded stock of a relatively small company in its industry and could experience above-average volatility.
- Nicholas' success is dependent upon its ability to access capital.
- The competitive environment remains intense although several sub-prime companies have been eliminated.
- Other competitors, such as banks, may enter the market.
- Credit losses are difficult to predict and could negatively impact earnings.

Table 1
Auto Finance industry Comparables

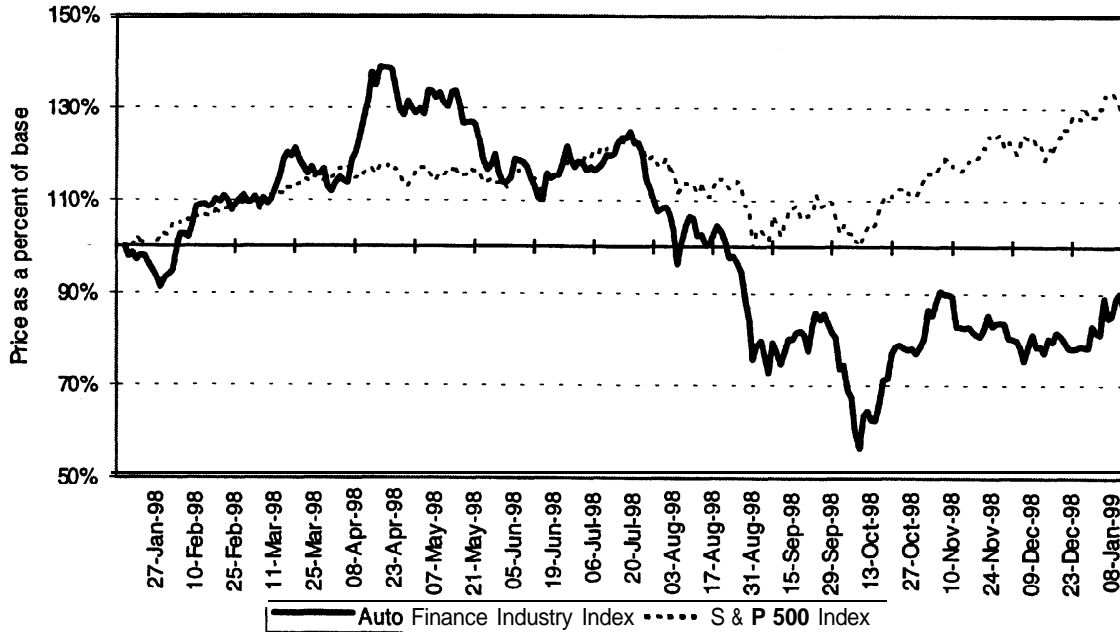
Company	Ticker	Share Price 1/14/99	52-Week		% Price Change From High	Price to Book	Share Price/EPS*		
			High	Low			LTM	1998E	1999E
Auto Finance Comparables									
AmeriCredit Corp.	ACF	\$13.13	\$18.66	\$6.63	(29.6%)	2.64	14.0	12.2	9.8
Arcadia Financial	AAC	4.00	10.50	3.00	(61.9%)	0.60	NM	7.7	4.9
AutoBond Accept	ABD	4.63	9.38	2.75	(50.7%)	1.42	NM	NA	NA
Consumer Portfolio	CPSS	4.75	15.38	1.81	(69.1%)	0.76	3.1	4.1	2.9
Credit Accept. Corp.	CACC	7.94	12.38	4.63	(35.9%)	1.38	14.7	15.9	13.2
First investors Financial	FIFS	5.34	0.13	3.75	(34.2%)	1.17	29.7	NA	NA
Onyx Accept Corp.	ONYX	5.69	12.00	2.38	(55.8%)	0.82	7.3	5.9	4.9
TFC Enterprises	TFCE	1.81	3.00	1.19	(39.6%)	0.63	8.2	NA	NA
ugty Cxlcking Corp.	UGLY	4.80	13.00	4.00	(62.5%)	0.49	7.4	9.6	5.7
Union Acceptance Corp.	UACA	4.38	9.13	3.88	(52.1%)	0.70	NM	NA	NA
WFS Financial, inc.	WFSI	5.72	14.08	4.25	(61.6%)	0.88	NM	NA	5.7
Nicholas Financial, inc. (1)	NICKF	\$3.44	\$4.50	\$2.13	(23.6%)	1.07	7.6	NA	NA
MEAN					(48.5%)	1.05	11.5	9.2	6.7
MEDIAN					(51.4%)	0.85	7.9	8.6	5.7
Below \$1 Finance Companies									
Aegis Consumer	ACAR	\$0.01	\$0.31	\$0.01	(95.8%)	NM			
Asta Funding, Inc.	ASFI	0.88	1.13	0.38	(22.2%)	0.47			
AutoInfo, Inc.	AUTO	0.04	0.63	0.02	(94.4%)	NM			
Mercury Finance Co.	MFNNQ	0.15	1.00	0.01	(85.0%)	0.44			
Monaco Finance, Inc.	MONFA	0.28	4.38	0.13	(93.6%)	0.19			
National Auto Finance Co.	NAFI	0.31	5.25	0.06	(94.0%)	0.18			
MEAN					(80.8%)	0.53			
MEDIAN					(93.8%)	0.45			

At \$3.44 per share, Nicholas trades at a 3.8% discount to the median LTMP/E ratios of its comparable companies. Nicholas trades at a 25.9% premium to the median price to book multiple, while the majority of the auto finance companies trade at a discount to book.

* Earnings estimates from First Call or IB/E/S,
EPS = Earnings Per Share; NM = Not Meaningful; NA = Not Available

Source: Data Systems

Figure 1
Auto Finance Industry Index Versus S&P 500 Index for the Trailing 12 Months



Auto Finance Industry Index includes securities listed as "Auto Finance Comparables" in the Auto Finance Industry Comparables and excludes securities categorized as "Below \$1 Finance Companies."

Source: FactSet Data Systems

Table 2
Income Statement, 1995 - 1998
 \$ Thousands, Except Per-Share Data

	For the		For the		For the Year Ended March 31,			
	Three Months Ended		Six Months Ended		1998	1997	1996	1995
	September 30,		September 30,					
	1998	1997	1998	1997				
Revenue								
Interest Income	\$2,383	\$1,847	\$4,461	\$3,539	\$7,494	\$5,749	\$5,268	\$3,517
Sales	108	112	217	222	443	460	566	602
	<u>\$2,490</u>	<u>\$1,959</u>	<u>\$4,678</u>	<u>\$3,761</u>	<u>\$7,937</u>	<u>\$6,209</u>	<u>\$5,833</u>	<u>\$4,119</u>
Expenses								
Cost of Sales	23	23	46	45	106	99	141	139
Marketing	90	92	164	159	320	248	216	245
Administrative	951	759	1,807	1,458	3,002	2,392	2,060	1,529
Provision for Losses	176	148	360	280	849	439	486	338
Depreciation and Amortization	29	29	54	54	83	85	87	125
Interest Expense	636	501	1,239	1,000	2,080	1,656	1,517	898
Total Expenses	<u>\$1,905</u>	<u>\$1,552</u>	<u>\$3,669</u>	<u>\$2,997</u>	<u>\$6,439</u>	<u>\$4,920</u>	<u>\$4,508</u>	<u>\$3,274</u>
Operating Income Before Income Taxes	\$585	\$408	\$1,009	\$764	\$1,498	\$1,290	\$1,326	\$845
Income Tax Expense (Benefit):								
Current	376	169	579	371	1,123	423	550	436
Deferred	(150)	(12)	(190)	(73)	(539)	74	(53)	(113)
	<u>\$226</u>	<u>\$157</u>	<u>\$389</u>	<u>\$298</u>	<u>\$584</u>	<u>\$497</u>	<u>\$497</u>	<u>\$323</u>
Net Income	\$359	\$251	\$620	\$466	\$913	\$792	\$828	\$522
Earnings Per Share - Basic	\$0.15	\$0.11	\$0.26	\$0.20	\$0.39	\$0.37	\$0.34	\$0.27
Earnings Per Share - Diluted	\$0.15	\$0.11	\$0.26	\$0.20	\$0.39	\$0.36	\$0.33	\$0.26

Source: Nicolas Financial, Inc., and Interstate/Johnson Lane

Table 3
Balance Sheet
 \$ Thousands

	Sep. 30, 1998	Mar. 31, 1998	Mar. 31, 1997	Mar. 31, 1996	Mar. 31, 1995
ASSETS					
Cash	\$164	\$304	\$108	\$491	\$283
Finance Receivables, Net	35,443	32,424	25,923	18,327	12,780
Accounts Receivables	17	23	32	25	28
Prepaid Expenses and Other Assets	401	247	364	271	203
Property and Plant Equipment	229	223	182	180	187
Deferred Income Taxes	1,141	951	411	320	267
Intangible Assets	-	-	-	3	16
Deferred Loan Costs	-	-	-	20	21
Total Assets	\$37,394	\$34,173	\$27,021	\$19,636	\$13,785
LIABILITIES					
Line of Credit	\$26,265	\$23,431	\$17,681	\$13,130	\$8,751
Notes Payable-Related Party	1,633	1,592	1,756	2,227	1,576
Accounts Payable	1,448	1,742	1,274	851	841
Income Taxes Payable	97	170	73	122	112
Deferred Revenue	334	241	174	189	141
Other Liabilities	22	21	28	29	176
Total Liabilities	\$29,798	\$27,197	\$20,985	\$16,548	\$11,597
Common Stock	\$3,740	\$3,740	\$3,713	\$1,296	\$1,225
Retained Earnings	3,855	3,236	2,322	1,792	963
Total Equity	\$7,595	\$6,976	\$6,035	\$3,088	\$2,188
Total Liabilities and Equity	\$37,394	\$34,173	\$27,021	\$19,636	\$13,785
	2Q 1999	1998	1997	1996	1995
Debt to Equity Ratio	365.1%	354.3%	320.3%	481.4%	459.1%
1995 - 1998 Compound Annual Growth Rate of:					
	Finance Receivables:		36.4%		
	Total Equity:		47.2%		

Source: Nicolas Financial, Inc., and Interstate/Johnson Lane

IMPORTANT DISCLOSURE

Additional information available upon request. The information and statistics in this report have been obtained from sources we believe to be reliable but are not guaranteed by us to be accurate or complete. Also, any and all earnings, projections, and estimates assume certain conditions and industry developments which are subject to change. **This firm, its officers, directors, research analysts, financial consultants, and other employees may hold or take significant long or short positions in the securities which are the subject of this report, and such positions may be inconsistent with the advice given herein.** Where footnoted: (1) this firm makes a market in the common stock and/or convertible securities or buys from customers or sells to customers on a principal basis (such customers may also include its officers, directors, or employees); (2) this firm has been a manager or co-manager of a public offering of the issuer within the last three years.