Rent-A-Center(Q3 2021 Earnings)

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Corporate Speakers:

- Brendan Metrano; Rent-A-Center; VP of Investor Relations
- Mitch Fadell; Rent-A-Center; CEO
- Jason Hogg; Rent-A-Center; Executive VP, Acima
- Anthony Blasquez; Rent-A-Center; Executive VP Rent-A-Center Business Segment
- Maureen Short; Rent-A-Center; CFO

Participants:

- Bobby Griffin; Raymond James; Analyst
- John Rowan; Janney; Analyst
- Unidentified Participant; Unknown Company; Analyst
- Anthony Chukumba; Loop Capital Markets; Investment Banking Analyst
- Brad Thomas; KeyBanc; Analyst
- Kyle Joseph; Jefferies; Analyst
- Tim Vierengel; Northcoast Research; Analyst
- Carla Casella; JPMorgan; Analyst

PRESENTATION

Operator^ Good morning and thank you for holding. Welcome to Rent-A-Center's Third Quarter Earnings Conference Call. As a reminder this conference is being recorded Thursday, November 4, 2021. I would now like to turn the conference over to Mr. Metrano. Please go ahead sir.

Brendan Metrano^ Thank you all for joining the Rent-A-Center team this morning to discuss our results for the Third Quarter of 2021.

We issued our earnings release after the market closed yesterday and hopefully you've had a chance to review it. The release and all related materials including a link to the live webcast are available on our website at investor.rentacenter.com.

On the call today from Rent-A-Center we have Mitch Fadell our CEO; Jason Hogg, Executive Vice President, Acima; Anthony Blasquez, Executive Vice President of the Rent-A-Center Business Segment and Maureen Short, CFO.

As a reminder, some of the statements provided on this call are forward-looking statements which are subject to many factors that could cause actual results to differ materially and adversely from our expectations. These factors are described in our earnings release as well as in the company's SEC filings.

Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statement except as required by law. This call also will include references to non-GAAP financial measures.

Please refer to our third quarter earnings release which can be found on our website for description of the non-GAAP financial measures and reconciliations to the most comparable GAAP financial measures. With that I'll turn the call over to Mitch.

Mitch Fadell^ Thank you Brendan and good morning to all of you who have joined us today to discuss our third quarter results. We certainly appreciate your interest. And are pleased to have the opportunity to update you on the developments in our company as we continue to be among the leaders in the advancement of leasing as an alternative solution for consumers in today's rapidly evolving commerce and payments landscape.

Over my career I can't think of another period of such innovation and disruption as we're seeing today with the range of developments, things like digital wallets and cryptocurrency and super aps and buy now, pay later.

And most importantly new lease-to-own options which we often refer to as LTO. And with our leadership position in consumer leasing solutions we are in a great position to benefit from this environment.

Take, for example, the current [proliferation] of buy now, pay later. We get asked a lot if it's a threat, but we believe it's actually the opposite. Lease-to-own is very complimentary to buy now, pay later because we see little customer segment overlap and LTO can drive incremental sales in the buy now, pay later waterfall.

In fact, we're seeing this benefit first-hand in our business today with growing interest in our virtual LTO offering from potential merchant partners who realize they're leaving money on the table with customers that don't qualify for buy now, pay later.

Similarly consumers are seeking payment services that work for them rather than for the benefit of an established system that is perceived to take advantage of and exclude consumers.

In contrast LTO is one of the most inclusive payment options serving even unbanked consumers and is highly flexible and getting approved doesn't require a hard credit inquiry that can affect credit scores.

Because LTO solutions include returnable consumer durable products like furniture, appliances and electronics, transactions typically have a higher average ticket size and longer average payment horizon than other payment solutions like buy now, pay later.

So you can understand why we're really optimistic about our future following the Acima transaction earlier this year, which made us a leading LTO player. And the only one with our span of omnichannel capabilities across our segments.

The integrations going well and we're on pace to achieve our synergy targets. On top of that you can factor in the Acima ecosystem which is targeted to be up and running in early next year and we believe can revolutionize LTO, potentially doubling our addressable market to around $100 billion.

As LTO continues to gain momentum we think our scale and omnichannel capabilities provide us with a competitive advantage because processing more applications and managing more customer relationships will enable us to hone those capabilities even further.

This should translate to even more consumers and merchant partners. This data and technology aspect of our business is underappreciated and we're investing meaningfully to capitalize on it.

And by mid next year we'll have migrated the enterprise date warehouse to a cloud-based environment and will be employing state-of-art tools like Snowflake and Databricks which will further enhance our predictive analysis in A.I. machine-learning capabilities.

These initiatives would drive savings from datacenter costs of productivity gains and processing activities and they can benefit our commercial activities by reducing time for solution launchers.

When you put those pieces together; strong category momentum, a favorable competitive position and dynamic growth agenda it should translate to compelling financial performance. We continue to believe that in 2023 the company will generate at least $6 billion of revenue and a mid-teens adjusted EBITDA margin.

Factoring in our strong free cash flow generation, already solid financial position and focus on deploying capital to drive shareholder value we believe that EPS should increase significantly over the next few years.

Now turning to the third quarter the team continued to execute very well. The store-based business advanced a number of initiatives focuses on e-commerce and the in-store experience which Anthony will update on.

And Acima we continue adding new merchant partners, including an exclusive strategic account, P.C. Richard & Son one of the largest appliance retailers in the U.S. That was a competitive win for us and we think it demonstrates a value proposition other strategic partners will find in our differentiated capabilities.

We also saw positive developments with the Acima ecosystem and Jason will elaborate more on that shortly.

Our third quarter revenue of $1.2 billion grew 66% year-over-year on a reported basis and 13% percent on pro forma basis, in other words as if we owned Acima in the prior year period. And we had good organic growth across all segments. Acima generated pro forma year-over-year GMB growth of 19% and the Rent-A-Center business portfolio was up 14% year-over-year at the end of September.

Typically the third quarter is a slow season for the lease-to-own industry because with the vacations and the back-to-school calendar people tend to be less focused on household durable goods. So we're pleased to see the top line trends remain favorable even with stimulus and even with other programs supporting consumers winding down.

With our strong lease portfolio and momentum heading into the last few months of the year we believe we are very well positioned for the fourth quarter and for early 2022. Adjusted EBITDA margins for the third quarter 0f 14.4% was down sequentially from the second quarter which was consistent with our remarks on the second quarter earnings call in August.

We expected seasonality and less favorable customer payment activity related to stimulus winding down would result in some margin contraction. Non-GAAP earnings per share was in $1.52 in the quarter compared to pro forma non-GAAP earnings per share of $1.04 in the prior year.

Now looking forward we have updated our full year 2021 guidance primarily reflecting changes in the timing of normalization and customer payment activity due to stimulus winding down as well as some impact on merchant partners from global supply chain disruption, primarily impacting the Acima business.

We expected customer payment activity to normalize in the back half of the year. Quite frankly they normalize faster than we expected. We got caught a little short on our collection labor and had to play catch-up. We have since stepped up and taken steps to stabilize payment activity trends for Acima and about we expected them to normalize.

The supply chain headwinds of our retail partners, as I mentioned, are also affecting Acima's growth and the combined impact of those two things is lower fourth quarter revenue and margin for Acima than we had previously forecasted.

Even with this timing related issue our 2021 outlook for consolidated revenue and non-GAAP EPS is still within the range we provided with our second quarter results in August when we increased our full-year 2021 guidance. So we increased in August and we're still within that range now. And Maureen will provide additional discussion on guidance here in a few minutes.

So in closing I want to thank all the members of the Rent-A-Center team for the continued effort and dedication. It's been quite a journey over the past few years and I'm really thrilled with the progress we've made in 2021 and the tremendous opportunity I see in the future. With that I'll turn the call over to Jason to update us on the Acima business.

Jason Hogg^ Thanks Mitch. Picking up on your comments about the market opportunity, it really is amazing to see how people are changing the way they think about paying for products and services, meeting other financial needs and even the lifestyles to which people aspire.

Consumers today increasingly value services that are flexible, personal and inclusive over traditional services that are rigid, uniform and exclusionary. This is disrupting the competitive landscape and benefiting innovative business models like buy now and pay later and other alternative payment solutions like Acima.

And as we're witnessing this play it validates the Acima acquisition, our strategy and the tremendous opportunity that we have for the company's future.

These same trends drove us to develop a product suite over a year ago that we eventually reframed as the Acima ecosystem, including the Acima app, Acima browser extension, Acima MarketPlace and the Acima LeasePay Card.

We discussed the ecosystem at some length on our second quarter call in conjunction with announced soft launch in early August. So before getting into a discussion of broader performance for the quarter I'll share some insights from our preliminary findings.

Keeping in mind that the primary focus for the launch at this stage has been testing and learning, we've seen encouraging early results that reinforce our belief in the transformative potential of the ecosystem.

The Acima app, which is essentially mission control for the ecosystem already has over 220,000 active users at the end of three months. The users are largely comprised of existing customers that were either unconverted or had unused approval amounts. Looking forward we believe we are on pace to reach the one million us threshold during the second quarter of 2022.

To put this in perspective it took Facebook and Twitter 12 and 24 months respectively to hit that milestone. Some of today's leading fintech companies like Klarna and Afterpay reached the one million download milestone in around 6 to 12 months, right in line with our projection for Acima.

Among these active users, we are seeing some compelling conversion rates. For instance mobile app users average 2.07 leases per customer, significantly higher than the portfolio average. While we believe this reflective of the exuberance of early adopters we expect this improved ease of access to increase the lifetime ratio of leases per customer.

As we are seeing greater customer engagement via the mobile app and ecosystem, average ticket size remains similar to the portfolio average. Since the launch of the ecosystem we have seen conversion rates grow 20% over the last two months as customers get more acquainted with the expanded choices.

To date the ecosystem has generated transactions with over 2,200 different merchant locations including more than 40 merchants who aren't even integrated with Acima, like Best Buy.

This demonstrates Acima's ability to use patent-pending technology to allow customers to utilize LTO payment options with brands or merchants that do not have a relationship with Acima without the heavy investment in complicated integrations.

Customer feedback suggests the value proposition is resonating across relevant decision factors like delivering, quote, "A wonderful experience." Providing, quote, "Easy access and helpful information." And, quote, "Working with customers."

Switching to the merchant side these transactions are illustrating the significant potential of value Acima can provide compared to other partners by driving (inaudible) sales from lease-to-own customers who otherwise may not have been able to transact with those retailers.

Rather than just offering another form of payment to existing customers, Acima can bring incremental customers and revenue to the retailer. The early ecosystem activity is also providing important data and insights that we are incorporating back into our offerings to improve them in preparation for the ramp-up to a full rollout planned for early 2022.

For example, the Acima app just had its fourth release and we are continuing to iterate and refund the product. To date enhancements include a streamlined customer application process, embedding the mobile app into our in-store text-to-apply process, expanding the mobile marketplace, adding store location functionality and adding the ability to create and execute a lease in the app.

Most importantly we can now use our presence on the customer's mobile device to drive reengagement and return to shop opportunities for our retailers. We've experienced consistent customer acquisition costs well under $100 per lease and see those [tax] continuing to decrease as the number of leases per customer grows.

Moreover, our lease volumes increase we'll apply learnings from transactions to further improve marketing efficiencies and conversions as we ramp our efforts through 2022. So the preliminary data is really encouraging, but it's premature to confidently project the timing of the material P&L impact. It's probably easier to conceptualize the scale of the opportunity over the next three to five years.

Consider that we have a target consumer database of approximately 50 million consumers who fit the profile of an Acima customer. The Acima LeasePay Card will effectively increase the Acima network from 30,000 merchants to over 2 million Mastercard merchants where durable goods are sold.

In terms of next steps, the virtual Acima LeasePay Card is already available and we are on track to pilot the physical card by the end of the year.

Shifting to broader performance, we made significant progress on the Acima integration getting the right organization structure in place and enhancing operational capabilities. At the same time we continue to execute well commercially, adding over 2,700 new retail partners during the quarter.

In addition, we took back more than 750 retailers from competitors, including P.C. Richard & Son and Sonic Electronics by leveraging our enhanced value proposition. The ability to acquire our own customers, the digital ecosystem and enhance retailer engagement through the mobile app.

We also signed an exclusive partnership with Whirlpool, which is an e-commerce relationship and demonstrates our ability to win any e-comm channel. All these factors equate to incremental sales for our retail partners, which as we're seeing is preferable to the rebates our competitors are offering.

The Acima integration continues to be a high priority for the third quarter. It's generally according to plan and we continue to expect to realize $25 million in synergies in 2021 and ultimately $40 to $70 million of run-rate synergies.

Another top initiative this quarter was converting staffed and former preferred lease locations to virtual Acima locations. This was a major undertaking and included converting Cons and Ashley corporate stores among others.

The conversions often are not only profit enhancing but also should ultimately translate to better experience for merchant partners and consumers because Acima offers a more flexible and seamless experience.

We essentially finalized the organization structure aligning key related activities under one leader to facilitate better coordination of support and market facing activities. So our sales and operations organization report to one leader, Ron Schoolcraft.

Digital product develop and product management report to Tom Abel. And technology and data services report to Chris Uriarte who recently joined the Company. I worked with Chris at Aon and at American Express.

He's a talented technology leader and will be a huge asset for Acima as we continue down a path of becoming a digital oriented Fintech business. I believe we have the right pieces in place to successfully execute on our strategy.

Moving on to third quarter financial results my comments will reflect pro forma performance as if Acima was included the prior year. The retail partner business revenues grew 17.1% led by 19% GMV growth in the face of retail supply chain headwinds and changing consumer behavior as government financial support winded down.

E-commerce continued to gain momentum and accounted for 14% of lease transaction volume including the Wayfair partnership. Adjusted EBITDA margin was 13.9% in the quarter versus 16.5%. Adjusted skipped stolen losses were 8.7% up approximately 30 basis points year-over-year on a pro forma basis.

At Mitch noted in his comments, we had anticipated that during the third quarter customer behavior would start to revert to more normal trends for customer payment activity and losses which would negatively impact margins on a sequential basis.

Our expectations were directionally right though we under anticipated the extent of sequential margin decline due to the factors Mitch discussed earlier. Looking forward over the rest of the year, our top objective is to ensure the business is well positioned for a strong start to 2022. With that, I'll turn it over to Anthony.

Anthony Blasquez^ Thanks, Jay. Staying with the topic of the changing environment, the consumers in our business are experiencing today it may be surprising to some people just how well the Rent-A-Center business segment has been performing. But for those of us close to the business we know just how solid the underlying fundamentals are and how much opportunity there is to generate consistent growth over the long term.

This was illustrated again in the third quarter with revenue growth of 5.6% including 12.3% same store sales growth. And that was comping against 8.6% revenue growth and 13% same store sales growth in the prior year period.

That makes it 15 consecutive quarters that we have generated positive same store growth and five consecutive quarters of double digit same store growth which is a testament to the unique value proposition we offer customers; high quality products, flexible lease-to-own solutions to fit everyone and a great experience.

Importantly, we continue to evolve with the consumer and are meeting their preferences with a growing Omnichannel platform that has played a key role in our performance over the past year and a half.

In the third quarter our e-commerce revenue grew 9% as it [lacked] 71% growth in the prior year. E-commerce accounted for 21% of revenue, a substantial increase relative to just 13% in the third quarter of 2019.

Importantly, we believe we remain in the early innings of capturing the long term opportunity in the e-commerce channel. The team's strong execution including sourcing products, marketing, merchandising and collections translated to 14% year-over-year growth in the portfolio for the third quarter. So we feel we're in great position heading into the home stretch of this year and for a solid start to 2022.

Profitability also remained solid in the third quarter with adjusted EBITDA margins of 22.9% up 60 basis points year-over-year despite loss rate expansion of 140 basis points due to the normalization of trends following the wind down of government stimulus. We still believe that over the long term our loss rate should be around 3% given the improvements we're making in collections and decisioning.

Longer term I think the business is well positioned to capitalize on expanding consumer interest in flexible and affordable payment options. We have a relatively large core consumer base to whom we provide a specialized service that makes a difference in people's lives every day.

We still have considerable opportunities to expand our retail business in our existing footprint through surgical openings, new store concepts and expanding into new product categories.

In addition, we have tremendous e-commerce opportunity that leverages our differentiated Omnichannel capabilities. While e-commerce will play a critical role in our future we feel the brick and mortar business is just as important because many of our consumers today, especially lease-to-own customers still prefer an in-store experience.

Moreover, brick and mortar allows us to participate in transactions holistically including sourcing product, purchasing at wholesale cost, having the ability to establish competitive pricing for customers and to provide the last mile logistics for our e-commerce channel.

Looking out over the next few months and into 2022 we feel good about the business environment and believe the set of initiatives we're focused on such as e-com enhancements, customer engagement and support and employing continuous improvement tactics should set us up very well for next year. I'll now turn the call over to Maureen.

Maureen Short^ Thanks, Anthony. As Mitch noted earlier we delivered solid results in the third quarter despite some anticipated headwinds that we called out on the second quarter call including some typical third quarter seasonality and a reversion to more normal ranges for customer payment activity, loss rates and early payouts.

Reported revenues of $1.2 billion increased 66% year-over-year and consolidate adjusted EBITDA of $170 million almost doubled. Much of that growth is attributable to the Acima acquisition that closed in mid-February.

On a pro forma basis consolidated revenues grew 13.3% and adjusted EBIDTA grew 4.2%. This translated to a margin of 14.4% in the third quarter compared to 15.7% for the prior year period.

The year-over-year contraction in margins was primarily attributable to normalization and customer payment activity or delinquencies and loss rates from the wind down of government stimulus as well as a mix shift to the high growth Acima business.

Margins for the Rent-A-Center business segment, Mexico segment and corporate costs were all favorable year-over-year while the franchise segment margins were down 135 basis points.

Below the line net interest expense was $19.7 million reflecting the debt financing from the Acima acquisition. The affected tax rate on a non-GAAP basis was 24% compared to 23.3% in the prior year period. And dilute share count was 68.2 million.

GAAP EPS was 31cents in the third quarter compared to $1.15 in the prior year period. And included one-time costs related to the Acima transaction and integration. After adjusting for special items that we believe do not reflect the underlying performance of our business, non-GAAP EPS was $1.52 in the third quarter of 2021 compared to $1.04 in the prior year period.

We generated $55 million of free cash flow in the third quarter and returned $38 million to shareholders through a 31 cents quarterly dividend and share repurchases. Year-to-date through October the Company has repurchased 80 million of common stock at an average price of $56 per share.

At the end of October the Company had approximately $170 million of remaining on its current share repurchase authorization. At quarter end we had a cash balance of $159 million, gross debt of $1.3 billion, net leverage of 1.7 times and available liquidity of over $600 million.

Regarding our financial outlook for the full-year of 2021, we are lowering the high end our previous guidance ranges for consolidated revenue and non-GAAP EPS. We now expect consolidated revenues of 4.55 to 4.64 billion and non-GAAP EPS of $5.90 to $6.15.

Guidance for adjusted EBITDA is now expected to be between $645 to $675 million. And free cash flow within the range of $280 and $320 million. For the Acima segment we expect revenues of $2.32 to $2.38 billion and adjusted EBITDA of $300 to $320 million.

This outlook reflects the continuing supply chain headwinds our retail partners are facing and a more rapid shift back to pre-pandemic trends than we had anticipated our customer payment activity and loss reserves due to the wind down of government programs that had supported consumer spending during the pandemic.

We have previously incorporated a more gradual reversion to those – of those factors which impact both top line and margin over the couple of quarters in our forecast. Even with supply chain headwinds and more normalized lease performance metrics. We still expect Acima to generate 20% to 25% annual GMV growth in 2021 and approximately 14% EBITDA margins in Q4.

Looking beyond the fourth quarter, the business should largely be passed this set of internal and external adjustments. And as Mitch mentioned, we remain confident in our longer term targets for the Company.

For the Rent-A-Center business segment we are not adjusting prior guidance. Revenues are still expected to be between $2.02 and $2.06 billion. And same store sales growth in Q4 is expected to again be low double digits.

Adjusted EBITDA is still expected to be between $480 and $500 million and the midpoint of guidance implies an EBITDA margin of approximately 23% in Q4. Higher than last year and flat sequentially despite recent wage increases and adding headcount.

Turning to capital allocations, our priorities are unchanged. The top priority is appropriately funding our business and investing in value enhancing growth. Next we will opportunistically look at M&A that can generate favorable returns.

After satisfying investment needs we return capital to shareholders through a combination of dividends and share repurchases. With share repurchases employed opportunistically. We remain committed to a sound financial structure that supports our growth strategy and total shareholder return objectives.

To conclude my comments, our third quarter efforts were a successful piece of the huge undertaking that Company has been engaged in over the past 10 months. We have completed the largest acquisition in the Company's history.

Integrated two organizations without letting up on execution and we developed and are launching a new Fintech payments ecosystem.

Looking forward, I think we are well positioned for this next stage in our evolution and the highly compelling opportunities to create shareholder value should become more evident. I'm also very excited to announce we are planning an Investor Day for late Q1 next year and of course more details to come.

We will post detailed income statements by segment to our website and file our 10-Q later today. Thank you for your time this morning. I'll now turn the call over for your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions.) Your first question comes from Bobby Griffin with Raymond James.

Bobby Griffin^ Good morning, everybody, thanks for taking my questions. I hope everybody is doing well.

Jason Hogg^ Good morning, Bobby.

Bobby Griffin^ First I just wanted to talk about maybe just the month-by-month basis. I know that typically you don't get into that type of color. But just now that things are starting to normalize it'd be helpful.

How did kind of payment activity and [sticks and stones] trend during the quarter? And then did it kind of level out in October and that's what you're assuming carries forward in the fourth quarter? Or are you assuming it continues to build back up a little bit in November and December?

Jason Hogg^ Yes, good question, Bobby. The – it deteriorated as the quarter went on, as we got farther away from stimulus. But the good news is that as we got into October especially as we ramped up from a staffing standpoint – got caught up from a staffing standpoint in the collection center, we've seen – we've seen really good trends in October so that gives us the confidence going forward that we've – certainly normalized faster than we thought.

But October give us – gives us a good feeling going forward and confidence going forward that it was a short term [blow].

Bobby Griffin^ Okay, that's helpful. And secondly, is more just longer term inside the Acima business. Obviously we got an outlook for really good revenue growth. Maybe just help us unpack where you see some margin opportunities after that business within the P&L? I know grow margin can move around a lot based on what the customers are and stuff. So just maybe as we think two, three years out where there could be upside on the margins and what some of those moving parts are.

Jason Hogg^ You know when you – thanks, Bobby. You know when you look at some of things that I was talking about earlier, we've got some key differentiators that are out there and particularly when you look at the ecosystem.

So having declining customer acquisition costs while simultaneously having increases with regard to the number of leases per customer when the average ticket is holding enables us to get margin expansion in that regard. And so having this ongoing relationship is critical.

Also as we continue to bring on more partners like how I mentioned P.C. Richard and we have Whirlpool and Sonic Electronix you're getting sort of a coattail affect that's taking place there as well. Because we not only have the ability to originate through the traditional locations but now originate on our customers and drive them towards optimized retail origination experiences.

(Multiple Speakers)

Bobby Griffin^ (Inaudible).

Mitch Fadell^ I'm sorry, Bobby. The other thing I'd add to that, when we think down the road, is in our legacy business, the staff legacy business we've got about half those stores converted and we'd do the other half early next year. And with the Acima decisioning and so forth and which you've seen in the numbers we'd expect in the long term the losses to be lower in our legacy business as we convert over to Acima.

And as well as it's a faster platform and can it reduce labor a little bit in those – in those stores that we haven't converted yet. So I think as we go forward the staff business has some opportunity that's part of – that's part of the long term synergies we expect anyhow. So I think we overall in the business you'd see lower loses as well.

Jason Hogg^ Yes and then we're going to continue to optimize Invite channel using, as Mitch just talked about, our machine learning and A.I. so that every partnership, every channel, every product continues to get crisper from an underwriting perspective.

Bobby Griffin^ Okay, that's very helpful. Mitch, that was actually my follow up was just the labor opportunity so I'll go ahead and jump back in the queue because you answered it. But I appreciate the time and best of luck here in the fourth quarter.

Mitchell Fadel^ Thanks, Bobby.

Operator^ Your next question comes from John Rowan with Janney.

John Rowan^ Good morning. Can you guys remind me what is included and not included our of your current objectives in the guidance for 2023? Just run through because I believe there was a lot that was basically excluded from that number that you're currently undertaking. Thank you.

Maureen Short^ Well, the guidance excludes any share repurchases and so, but really that's the only stipulation when it comes to our guidance. It...

Mitchell Fadel^ We're really talking EBITDA margins when we say 6 billion -- we expect to be at least 6 billion to mid-teens EBITDA margin. From an EPS standpoint, it certainly would not include that if you try to back into -- back into EPS numbers. But it's got 20% to 25% GMV growth over those -- over those couple of years to get there.

It's got the -- it's got us achieving the synergies that we're on track to achieve. It's got the Rent-A-Center business, John, running mid-single-digit growth next year because there's quite a tale coming into the year with that portfolio as Anthony mentioned. It's still up 14% year-over-year.

And then in 2023, you'd look at low to mid-single-digit growth in that business. So, those are -- those are the base assumptions that we've talked about.

John Rowan^ But what about big retail partner wins and/or additional growth spurred by the omnichannel fintech platform?

Mitchell Fadel^ Yes, I think -- I think that's a really good follow-up question. What we don't know is -- we know, as Jay was pointing out, we know how big the total addressable market is with the Acima system, and lease they carried in marketplace, and so forth.

And we're already seeing some great results as he mentioned doing transactions in stores that we're not even integrated in. It's really exciting, it's transformational. But we don't have that figured in. That -- that's -- you could -- it's hard to make those assumptions and will it be worth 200 million in revenue next year or 500 million or -- in 2023. At this point, we're trying not to build that in.

I think it certainly -- that number, the 20%/25% is going to take continuing to add on good strategic accounts for sure. But as far as the Acima ecosystem, it's, yes, there's certainly upside when you think about it that way.

John Rowan^ Okay, thank you.

Mitchell Fadel^ Thanks.

Operator^ Your next question comes from [Vincent Cantick] with [Steven].

Unidentified Participant^ Good morning, thanks for taking my questions. So, first just trying to think about the run rate maybe going into 2022. And I understand you're not giving (inaudible) to the guidance yet but when I think about the fourth quarter guidance is there any one-timers or anything that might change as we run rate into next year?

Because it seems like when I look at fourth quarter guidance you are having EBITDA margin expanding quarter-to-quarter. And then maybe the credit normalization the third quarter may be the, I guess the reserving maybe is taken upfront.

So, I'm just wondering if there's anything when we think about the fourth quarter that we should be thinking about if we're modeling onto next year. Thank you.

Mitchell Fadel^ Well -- go ahead, Maureen.

Maureen Short^ I was just going to mention, there are some reserve adjustments that were made. Those in the Rent-A-Center business as well as the Acima business that is meant to predict based on customer payment activity. And [lost] trends what we think should be reserved for into the future.

So, there were some one-time adjustments made for that normalization as we mentioned in our prepared comments we expected that normalization to happen over a couple of quarters. Maybe even slightly into '22. So, there were some adjustments made this year that should set us up better for '22 since we've taken some of those reserves that we likely would have taken a couple quarters from now.

Unidentified Participant^ Okay, that's helpful. And I guess was there -- is there anything else on the fourth quarter just when we're thinking about it going into '22 or is the fourth quarter a good proxy for how we should be thinking about the -- going forward?

Mitchell Fadel^ Well, I think you're talking about a growing business, and as you go in -- go into the future still 19% GMV growth last quarter. And as we think about the year, we're starting to -- starting to comp over a big account like Wayfair added last year at this time of year.

So, that can decelerate the GMV a little bit like the 19% but [way out] -- converting the staff stores to (inaudible) to the Acima system you've got some short term drop when you think about -- when you think about any time you're doing a conversion and it takes -- you take one step back, take two steps forward.

But then you got the new accounts coming in like Jay was mentioning, and that's what -- that's what continues to drive it. And what would you say, Jay, 2,700 new accounts in...

Jason Hogg^ Right.

Mitchell Fadel^ ...in the last quarter. So, it -- there's a lot -- there's a lot of ins and outs tapping over a large addition. Obviously, you're not going to count over it unless you have other large additions. And we would feel real good about the large retailer in the northeast, P.C. Richard that we -- that we just signed an exclusive with and we're kicking off here in November.

There -- for those who don't know it they're one of the top 10 appliance retailers in the country. And so, that's -- it -- yes, when you're growing the way we're growing even though the third quarter the margins went down because of all the stuff we talked about, stimulus and winding down normalization faster, caught a little bit light on staffing as that happened.

Supply chain, obviously, and it's -- you can guess on when that gets better. But when you have a growing business even -- it might be lumpy a quarter here, a quarter there like we just went through, [Vincent], but overall you got those -- you got those 20% to 25% growth rates.

Give or take a quarter of some kind of lumpiness like the -- like the stimulus ending but overall. Think about the storage we added, not even talking about the Acima ecosystem, the 2,700 in storage, Jay, and so forth.

Jason Hogg^ Yes, and to your point, it's a step function but what we're seeing is the lead indicators are the competitive wins, the new products that we market with like Mitch is saying, and then there's a ramp that gets associated with them. So, you start to see an acceleration once they get to their exit velocity right when they normalize out.

Maureen Short^ There's also additional synergies that we're assuming will take place in '22 that we haven't seen yet. We haven't finished the full integration yet. Some of those synergies were masked in the back half of this year because of some of the changes that we've seen with the normalization but the good news is we're seeing strong growth and we're seeing those synergies play out.

It's just some of that normalization that occurred that made it a little choppy. But '22 we should be at a normalized rate.

Mitchell Fadel^ Yes, nothing that has changed our long-term outlook.

Maureen Short^ Exactly.

Mitchell Fadel^ Good point.

Unidentified Participant^ Okay, perfect. That's really helpful, thank you for that. And then a follow-up question on Acima. So, a lot of really exciting data. I saw the ecosystem video on your website, that was really interesting as well as the marketplace. And it's really interesting to see that marketplace with -- you've got [miss by] Home Depot, Overstock.com, you've got a bunch of merchants in there.

And I was -- I was wondering if you can maybe talk about your pipeline, how you're seeing that? You answered it a little bit but if you could talk about the pipeline there? And even partnerships such as -- you touched on these by now, pay later partnerships and they're of interest in [Vstone] and Acima.

So, maybe if you could talk about the pipeline both in terms of the merchant side as well as -- as well as partnership side and what's the, I guess the timeframe look like for that? Thank you.

Jason Hogg^ Yes, thank you. I'll take that in reverse order. The -- when you look at the partnerships the interesting thing, what we've been saying for a couple quarters now is we see this as a compliment to reset.

As people become more used to buy now, pay later as a solution, it addresses a different segment than we address and so for us, it's actually having the effect of getting people more accustomed to these alternative solutions. And so, that's been feeding very nicely into our ecosystem like you talked about.

With regard to the ecosystem itself, we -- we are a test and learn type of environment, we [iterate]. And so, we rolled out the mobile app like I talked about with over 220,000 active users.

Now that we've started to get all of our metrics there in line and we've tested it out, we're continuing to add to the marketplace, we're seeing a fantastic volume going through the -- some of the merchants that you just mentioned despite not having the integration. And what you'll start to see is that we're accelerating then our efforts from a consumer standpoint.

One very important thing, and as Mitch mentioned, that with the 2,700 wins in other areas where we're succeeding, it gives our merchants the opportunity to take other bites of the apple because we are embedding our native mobile app where as before customers walk in, have a very friction-free experience in the store but then they leave.

And now we have the ability to execute -- more what we're going to be launching is executing on the mobile app and now having a stacking effect of customers so that when they do leave we can continue to allow our merchants to continue to market to them.

And more importantly, transact on their phones now versus having to come back into the store. And so, the effect of that is that that'll have a forced multiplier effect. So, and then the last thing I would say, which Mitch was talking about, and I mentioned briefly also the LeasePay Mastercard as we build a larger and larger base of consumers on our platform we have more opportunities to allow them.

So, in -- on our direct to consumer plays we not only have the ability for them to make purchases at the merchants that you just described but once we move the physical piece of plastic into that consumer base their ability to start going to 2.2 million locations makes a ubiquitous solution that is very similar.

And why that's important is when we're having discussions with large national retailers it helps us with integration, it helps us with not having to have a heavy integration. It also has completely changed the dynamic on how those retail partners view our solution as just another means like a debit card or credit card or any other means for their customers to spend in the retail location.

Operator^ Your next question comes from Anthony Chukumba with Loop Capital Markets.

Anthony Chukumba^ Good morning, thanks for taking my question. Just one quick point of clarification first. You said -- you keep using the word accounts and then you also said stores. I'm assuming you -- that 2,700, that's 2,700 doors right? That's just 2,700 stores, not 2,700 completely disparate retailers, right?

Mitchell Fadel^ That's correct. It's 2,700 doors.

Anthony Chukumba^ Okay. So, since -- given the fact that you've mentioned that 2,700 number I guess my questions is so what's the total number of doors for Acima at this point? Can you disclose that?

Mitchell Fadel^ No. We don't -- we don't talk about that other than we've made previous statements as to the size and like I said in my comments we say over 30,000 right now. So, that's growing at a pretty significant rate still.

Anthony Chukumba^ Okay, no, fair enough. And then, okay, just one last follow-up. So, just wanted to get back to the normalization, the collection activity. So, I just want to make sure I understand.

So, basically, it sounds like that effect on the stimi checks started to wear off and maybe you guys hadn't been as aggressive or didn't feel the need to be as aggressive with collections because everyone had stimi checks, and was -- and was making their payments and doing early buyouts.

And so, it sounds like you hired more people to -- now the collection -- customer payment activity is normalizing to go after that? Or do you allocate more hours or a combination of those? I'm just trying to -- I'm just trying to understand exactly what that means.

Jason Hogg^ I'll start out on the Acima side and then pass it to Anthony for the Rent-A-Center side. So, when Mitch was talking about being caught a little short, what we're talking about is we were converting over our operations, and in doing so that's when we started to see the normalization accelerate.

So, what we've seen now is our staffing ratios come back in line with regard to our account loads from a delinquent account load. And so the key is that our exit velocity for '22 will be back in line with the guidance that we've provided.

Anthony Chukumba^ And you're talking call -- centralized call centers?

Jason Hogg^ That's correct. And then the other thing is we've brought other -- one of the nice benefits is the Acima platform has a number of other streams that are automated that enable us to enhance not just having to have collectors. And we were able to then bring those online with a general portfolio. So, Anthony.

Anthony Blasquez^ Yes. Hey, Anthony, for the Rent-A-Center business historically the third quarter is softer from a payment perspective. So, we know that yearly going in the third quarter's going to wind down a bit as people go ahead and get prepared for school and vacations right before the school year begins.

So, you're right, the people had stimulus checks in their pocket but we knew that those were winding down. We knew that enhanced unemployment was ultimately going to end as well. So, we took a proactive measure throughout the quarter to go ahead and get staff back up. Actually headcount year-over-year is up 7%.

So, that not only benefitted the opportunity when the normalization occurred to go ahead and react, it also sets us up for the fourth quarter from a demand perspective. But that one unique situation that occurs is, you're right, the customers were more flush with cash in their pocket and it's almost like a wait and see.

When is the period that this normalization occurred, it occurs quickly. We in turn go ahead and respond but there's also that balancing act to make sure that we don't overcorrect. Because we don't want to go ahead and harm the portfolio as well.

So, we went ahead, we normalized, and what we're seeing now in our leading indicators we feel very confident that the historical trends for the fourth quarter will continue. And the loss rates, like I said, around 3% going forward. We feel confident about that.

Anthony Chukumba^ Got it, very helpful. Keep up the good works guys. Thanks.

Anthony Blasquez^ Thank you.

Jason Hogg^ Thank you.

Operator^ Your next question comes from Brad Thomas with KeyBanc.

Brad Thomas^ Yes, thanks, good morning. Just to follow-up on that last line of questioning. So, on the Rent-A-Center side as we look at the 2022 you think that annual losses can still be in the 3% range and just any level of insight into -- on your confidence in that would be great.

Anthony Blasquez^ Yes, thanks a lot, Brad. Yes, I do expect that that's going to occur. First off, the normalization happening and what we're seeing right now from a customer payment perspective we do feel confident.

And when you think about normalization, the way that I look at it in the Rent-A-Center business is I'm not expecting that we're going to go back to pre pandemic numbers. And the reason that I can feel confident about that is because now we have centralized decisioning that's available inside all of our stores.

In addition to that, as a byproduct of the pandemic, customer communication tactics and the initiatives that we employed there, and then the ramping up of digital payments. So when you put those things together, that's what makes me confident in the go-forward of 3% – you know, around 3% being the range for RAC.

Mitch Fadell^ Yes, almost 60% of payments are now …

Anthony Blasquez^ Yes, yes.

Mitch Fadell^ Are happening outside the store now.

Anthony Blasquez^ Approaching 60%, so we feel good about that.

Brad Thomas^ That's really helpful. And maybe a similar question for Jay on the Acima side. I mean, is it – the theme of this call, and I think others in the sector for this quarter has been normalization happening faster than expected, Yet the Acima side we're still seeing the losses down partially from having Acima within the next – can you just talk a little more, Jay, about your line of sight to 2022? And how you make sure you don't get overly confident in the algorithms and miss what perhaps would be a more violent move back to normal trends to [consumer space]?

Mitch Fadell^ Yes, when you look at our 2022 loss projection we – you know, we're looking at somewhere around a normalization rate of 6% to 8% within the virtual book.

The key thing is how we don't end up getting – you know, kind of over confident to your point, with regard to the underwriting is this ability to break it down by channel, by product, by partner so there's not just one monolithic decision engine, but our machine learning and our AI is constantly running optimization and looking for – exploiting the good portion of the population, while minimizing the riskier portion of the population – along that line. And we're able to track that in real time and we meet on it on a regular basis.

Brad Thomas^ Really helpful. And Maureen, I apologize if I missed it, but can you just give us an update on where we stand year-to-date on synergies? How much you think you'll get in the fourth quarter, and your current plan for 2022?

Maureen Short^ We believe by the end of the year we'll achieve the $25 million that we talked about. There's – there were a number of different initiatives, part of which we've deployed, other still exscind within '22, which is why we talked about a longer term run rate of $40 million to $70 million.

Most of what we had anticipated rolling out in 2021 has already occurred, but we are expecting some of those benefits to show through within the fourth quarter.

So like I mentioned earlier, we're on track with the (inaudible) synergies, there's been some offset with the timing of the normalization, but we still feel very confident that integrating the preferred lease business with Acima – bringing those two companies together will make us a better company, will get us to mid teens EBITDA margins over the next year or two.

Jason Hogg^ Yes, I think the other thing, Brad, when you think about the future – you know, a lot of questions obviously this morning about the future as compared to the lumpiness of where we are today. Remember the normalization of payments, what comes with that is a tighter credit environment.

You know, you're talking – Jay's talking about the – you know, our own decisioning, and certainly by vertical and even by retailer. And same in Anthony's business, by vertical how do we decision? And there's a tightening going on out there without stimulus.

We just – everybody needs to remember the tighter credit environments are beneficial to us in the long-run, even if in the short-term they're not. But in the long run, lease owned business benefits from tighter credit out there above us.

So – and we're already seeing some of that in the – in our vintages in the – in our what we call vantage scores as people come into our portfolio we're seeing a slight uptick in that customer credit worthiness, I guess you'd call it, or vantage score – you know, you can call it a lot of different things.

But we're seeing a better customer already, and we would expect that to accelerate. And everybody just needs to remember, a tighter credit environment, even though in the short-term we get – you know, it impacted us in the third quarter and as we go into our fourth quarter and the guidance we gave. But in the long-run this is something that benefits LTO.

Brad Thomas^ Absolutely. Thank you all so much.

Mitch Fadell^ Thank you – thank you, Brad.

Operator^ Your next question comes from Kyle Joseph with Jefferies.

Kyle Joseph^ Hi, good morning. Thanks for taking my questions. Not to beat a dead horse, but on the credit side obviously it's normalizing. Can you just give us a sense for – are there any potential offsets in a credit normalizing environment?

And then kind of remind us how the Rent-A-Center business did in a negative economic scenario like the [GFC] and then how you envision the Acima business performing in an environment like that?

Mitch Fadell^ Yes, I think they both outperform in an environment like that as we go and think about 2022 and 2023. As credit tightens we [certainly see net] over the years with Rent-A-Center.

Yes, you go back to one of [the worst] sessions in the history of the country in 2008 – and we had good growth rates, certainly outperformed just about everybody when it comes to not only revenue but the – our losses didn't go up and so forth. And Acima should be very, very similar, Kyle. I mean, it's the same business – it's through retail partners.

Of course, the Acima ecosystem stands – can stand on its own. But it's still the same business, it's still leasing where they can return the product, and we can rerent those products through Rent-A-Center.

So – you know, they're such a resiliency store, I'm sure in 2022 and 2023 – not that we'll necessarily be in a recession as a country, but the impact will be there from a credit tightening standpoint. And credit tightening is good in the long-run.

You know, Rent-A-Center when you look at not having to – where we reduce the guidance on Acima and not Rent-A-Center, keep in mind, I mean Rent-A-Center is – you know, there's a couple thousand Rent-A-Centers out there have collectors in each stores on the street if people aren't paying. They can react much faster to a technological selection of a centralized call center through virtual payments and so forth.

So the impact is going to be much less on Rent-A-Center than Acima when this happens in the third quarter, when the normalization was faster. But overall, in the long-term both should benefit from the tighter credit environment.

Kyle Joseph^ Yes, that makes sense. And then a quick follow-up on – obviously you talked about the supply chain impacting Acima, but just walk us through the Rent-A-Center side of the business. Any impacts from the supply chain, how your inventory is positioned heading into the holiday season there?

Anthony Blasquez^ Yes, Kyle, we're in a strong position from all the major categories. Good inventory levels actually ended the quarter with [held for rent] up 24% versus the prior year.

So the merchants and the vendor partners have done a good job of souring inventory. And we've said it before, just remember in the Rent-A-Center business we're able to go ahead and source for fewer SKUs, but buy deeper in them so that we have the staple items for the customers that are available.

We're still seeing good expansion in categories like tools, and tires, and handbags, and e-bikes, et cetera. And we're looking for opportunities to expand the assortment that's available on the website as well – strategically though, because we want to make sure that whatever we're showcasing to our customers online – that from a customer experience perspective they're things that we can get.

So we'll ramp those up as time goes on, as the supply chain loosens up. But overall, to meet the demand of the fourth quarter, we feel confident – especially with that held for rent being up 24% year-over-year.

Kyle Joseph^ Got it. Thanks very much for answering my questions.

Mitch Fadell^ Thanks, Kyle.

Jason Hogg^ Thanks (inaudible).

Maureen Short^ Thanks.

Operator^ Your next question comes from Tim Vierengel with Northcoast Research.

Tim Vierengel^ Good morning, and thank you for taking my question. It seems like most of my – actually, questions were already answered. But I do have one bigger picture question for Anthony and Mitch.

It seems like consolidation is happening in most fragmented industries in the U.S. with all these supply chain issues, and kind of really limited capital of these smaller operators. I was wondering if we should expect something similar in the legacy brick and mortar business? And if you guys have seen any kind of easing competitive environment recently? Thanks.

Mitch Fadell^ Yes, Tim, this is Mitch. You know, there's – besides us and the obvious one other public competitor Aaron's, there's – you know, not near as much competition in the Rent-A-Center either e-com or brick and mortar business as there is in the virtual environment.

So it's not like competition has grown, we're growing – we're opening some stores this year and we'll open stores next year. We're about the only ones growing stores, our competitor is shutting down stores.

On the regional side we're not seeing any real growth there, so we're the only ones growing. You know, I think honest, I think there'll be some opportunities for us to do some acquisitions here and there. They'll be small ones that – there's only one large competitor anyhow, so there will be small ones probably not all that material.

You know, you can add a few million dollars of EBITDA here or there, but I think there – certainly there will probably be some of them, but they'll be pretty small on that side of the business.

So I think when you think about M&A, the – and using our great balance sheet for M&A or share repurchases and the capital allocation stuff that Maureen was talking about, I think the opportunities are probably more on the Acima side and other business verticals like that – you know, in the payments world than it is on the Rent-A-Center side. We'll do them on the Rent-A-Center, but they're going to be pretty small.

Tim Vierengel^ Yes, thanks. It's not so much the M&A – I understood. And you guys have been outperforming by – I'm going to say high single digits for almost 24 months now. So I was just trying to gage how sustainable that is. Can you maybe remind us – I have a number in my head, that you know, 45% of the [store doors] in the industry are run by independents, is that number much smaller now? Am I thinking of a number that's maybe five year old?

Mitch Fadell^ You know, I'd say it's – you're not that far off. It's between 30 and 45.

Tim Vierengel^ Okay. All right, all right. Thank you so much for answering my questions.

Mitch Fadell^ Thanks, Tim.

Operator^ Your next question comes from Carla Casella with JPMorgan.

Carla Casella^ Hi, just two quick ones here. One on the labor cost front. It sounds like you pre-hired labor in third quarter, but I'm wondering, are you expecting – are you still hiring in through fourth? Are you fully staffed? And how comfortable are you with the labor cost levels?

Mitch Fadell^ Yes, good morning, Carla. I'd say we caught up in the third quarter, and into October. There's still hiring going on – there always is because unfortunately, you know, we have turnover as well. So I'd say we – by the end of October we were in pretty darn good shape, and it's kind of normal going forward the number of people we need to hire. But the third – you know, late third quarter and into October was more of a catch up.

Carla Casella^ Okay. Great. And then just as you mentioned a few times – you know, we returned to more normal patterns sooner than you expected. As you see that are you seeing any kind of uptick or change in the way you have to compete for either – on the Acima side retail partners or customers there?

Or on the Rent-A-Center side for your traditional customer? Like, are you changing any of the terms? Or do you see any change in the average length of the contracts? Or anything unusual as you return to normal?

Mitch Fadell^ No, the good news in our business is that as credit tightens – as people get tighter on money it certainly impacts our payments, as we've been talking about this morning. But then – but from a demand standpoint it actually pushes more demand as credit tightens above us, if you will, in the funnel.

So think overall from a – and Jay mentioned this on the Acima side, the proliferation of the buy now pay later space where we don't really compete for that same customer, but there's a lot of turndowns in that space with our retail partners. And we're hearing from retail partners, we need to talk to you about those – the turndowns we're seeing.

So it's more – people add more prime and near prime payment options for their customers, they start to see more and more customers they can't do business with as they add those options. And that just benefits us, and actually – I hate to – I don't want to call it easy, but it makes it easier to get their attention that they need the LTO option in the store.

Jason Hogg^ Yes, absolutely.

Carla Casella^ Great, thank you.

Mitch Fadell^ Thanks, Carla.

Operator^ I will now turn the call over to Mitch Fadell for closing remarks.

Mitch Fadell^ Thank you, Operator. And thank you everyone for your interest this morning, appreciate your time. You know, it's an interesting time, it's been a heck of a year so far, we've finished strong – and a heck of a year when you start off the year with an acquisition like Acima, you know – and I just – we had some lumpiness in the third quarter, things normalized a little faster. We talked about the supply chain.

Overall, when you go back to our guidance at the beginning of the year after we closed Acima we'd be delighted to be where we are today at the – from an EPS standpoint and midpoint range in the (inaudible). So that's a lot higher than where we were we – where we thought we'd be (inaudible) [Acima thing].

So some lumpiness in quarters, but big picture, keep that in mind and just keep in mind our outlook for the long-term has not changed, and in fact, a tighter credit environment is a benefit to lease to own over the next couple of years. So we're really excited. And with that we'll let you get back to your – probably have another call coming anyhow, and we'll get back to work. Thank you, everyone.

Operator^ Thank you for participating. You may disconnect at this time.