

Upbound Group, Inc.(Q3 2025 Earnings)

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Corporate Speakers:

- Jeff Chesnut; Upbound Group, Inc.; Head of Investor Relations
- Fahmi Karam; Upbound Group, Inc.; Chief Executive Officer

Participants:

- Kyle Joseph; Stephens; Analyst
- John Hecht; Jefferies; Analyst
- Vincent Caintic; BTIG; Analyst
- Hoang Nguyen; TD Cowen; Analyst
- Robert Griffin; Raymond James; Analyst
- William Reuter; BofA; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Q3 2025 Upbound Group, Inc. Earnings Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Jeff Chesnut, Head of IR.

Jeff Chesnut^ Good morning, and thank you all for joining us to discuss Upbound Group's performance for the third quarter of 2025. We issued our earnings release this morning before the market open, and the release and all related materials, including a link to the live webcast, are available on our website at investor.upbound.com.

On the call today, we have Fahmi Karam, our CEO. As a reminder, some of the statements provided on this call are forward-looking and are subject to 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. Upbound Group undertakes no obligation to publicly update or revise any forward-looking statements, except as required by law.

This call will also include references to non-GAAP financial measures. Please refer to today's earnings release, which can be found on our website, for a description of the non-GAAP financial measures and the reconciliations to the most comparable GAAP financial measures.

Finally, Upbound Group is not responsible for, and does not edit or guarantee the accuracy of our earnings teleconference transcripts provided by third parties. Please refer to our website for the only authorized webcasts.

With that, I'll turn the call over to Fahmi.

Fahmi Karam^ Thank you, Jeff. And good morning, everyone.

Our business is organized around a simple but powerful statement, which is to elevate financial opportunity for all. As the consumer environment changes, our customers' needs evolve as well, and our business is constantly adapting in response. As we accelerate the pace of innovation and capitalize on our differentiated strengths, it's critical that we have the right people to help us deliver on our mission. That's why I am excited to share that we've strengthened our executive team by adding two proven leaders with a deep knowledge of our consumers and a track record of building new capabilities, transforming businesses and ultimately creating value.

I am pleased to welcome our new Chief Financial Officer, Hal Khouri who we announced today and our new Chief Growth Officer, Rebecca Wooters who we announced a few weeks ago. Hal was most recently the CFO at goeasy, a leading non-prime focused lender in Canada with relevant experience in point of sale financing as well as a lease-to-own retail platform. Prior to joining goeasy, Hal was the CFO for Walmart Canada Bank and JPMorgan Chase Canada Bank. And Rebecca, our new Chief Growth Officer, was previously the Chief Digital Officer for Signet Jewelers where she transformed the business into a digital, omni-channel retailer across several brands.

Before her role at Signet, Rebecca held growth leadership positions at Citibank, including Chief Customer Experience Officer for the North America Consumer Group.

Together with our experienced existing team, these new business leaders will help us elevate the customer experience, bringing data-driven, targeted offerings to market for our customers and retailers while accelerating our growth. I'm thrilled to welcome them both to Upbound and our whole team looks forward to working with them to drive our business forward.

Moving on to the quarter, Upbound delivered another quarter of strong results, with revenue up 9% year over year to \$1.16 billion, and adjusted EBITDA up 5.7% year over year to \$123.6 million. At Rent-A-Center, we're seeing encouraging sequential improvement in same-store sales while maintaining robust 16.2% adjusted EBITDA margins through operational efficiencies and digital enhancements. We're now expecting same store sales to approach flat-to-positive comps in the fourth quarter based on these promising trends. At Brigit, we maintained impressive momentum with revenue growth of 40% and subscriber growth of 27% year-over-year, while successfully expanding the product suite. And at Acima, despite recent further tightening of our underwriting in targeted areas, we delivered the eighth consecutive quarter of GMV growth, which was 11% in the third quarter, while surpassing a milestone achievement of working with more than 100,000 merchant locations across its history.

Let's move to slide 4 to discuss our market and our consumers. As we noted in the past, our customers are accustomed to economic uncertainty, and they are attuned to key signals in the macro backdrop that will eventually translate into their spending priorities. Those signals are generally tied to demand in the labor market, where recent reports suggest job growth is slowing, and price levels, where the cumulative effect of inflation – and the potential for tariff-related price adjustments – is pressuring our consumers' collective confidence. These dynamics impact demand from our core customers, putting top line pressure on our lease businesses as well as affecting payment behavior – both of which influenced the quarterly results. Although there are near-term effects, these conditions should add more and more consumers looking for low weekly payments for

quality durable goods at Rent A Center and Acima, as well as Brigit's liquidity solutions and financial wellness tools.

Before getting into the details of the quarter, I want to address the lower margin and higher loss performance at Acima. While we have maintained a conservative risk posture company-wide in response to a choppy macro back drop, recent monthly vintage yields at Acima have been under pressure resulting in slightly higher losses and lower overall margins. As a result, Acima moved to an incrementally more conservative risk stance across the third quarter. While these vintages will impact losses in the fourth quarter and the underwriting changes will impact the fourth quarter's GMV growth, it is important to note that we believe our tailored responses are already proving to be effective and positively impacting outcomes in the August and September vintages based on early performance indicators. Unless the macro environment sees meaningful changes, we do not expect further mitigation will be warranted to achieve Acima's targeted growth and margin profile in 2026.

Moving to slide 5 – let's review the key themes from each segment for the third quarter. As mentioned, Acima delivered its eighth consecutive quarter of GMV growth, up 11% year-over-year, and is on track to deliver high single digits to low-double digit GMV growth for the year. Revenue growth was 10.4% and the EBITDA margin was 12%, a decline from the year-ago period related to the 50 basis point uptick in this quarter's lease charge-off rate and lower gross margins.

Gross margins and losses were impacted by softness in recent vintages as I already mentioned. Despite continuously lowering approval rates throughout the year, Acima booked a cohort of leases in the second quarter with elevated early defaults, mainly to new customers in our e-commerce channels at select retailers. In response, Acima implemented a targeted tightening strategy through the second and third quarters and added additional identity validation tools starting in July to drive performance improvements. Those efforts have been effective, with the August vintage now performing within our acceptable yield and loss-ratio ranges. We are confident Acima

has successfully optimized its decisioning for the evolving macro backdrop, and observed trends through October have reinforced that view.

In addition, gross margins were affected by the jewelry category's growth as a portion of total GMV, especially at the expense of the furniture category which hasn't fully rebounded from the pandemic-related pullforward. Acima's focus on the jewelry vertical has been intentional, as it has enabled both GMV growth and diversification from the furniture category. But relative to furniture, jewelry sees a higher proportion of customers electing the first early purchase option, which is a lower margin outcome for Acima. Even so, the category is profitable and Acima values the acquisition of new customers through this channel, as Acima can subsequently introduce those customers to the direct to consumer Marketplace for future leases in jewelry or other product categories.

Importantly, neither the shift in Acima's portfolio performance in the second quarter vintages nor the gross margin impact from jewelry's expansion was related to loosening underwriting standards. In fact, Acima has received 14% more lease applications year-to-date relative to the prior year period, while reducing the corresponding approval rate by approximately 200 basis points. As Acima recognized the early performance behavior, we repositioned our underwriting strategy and lowered approval rates each month to maintain the long-term lease charge-off rate inside the upper boundary of our target range.

Acima's loss rate for this quarter and the fourth quarter will be impacted by these vintages, as the tightening will limit GMV and revenue growth, creating a denominator effect that will result in higher lease charge-off rates, as the final leases from these vintages run through the portfolio.

Our underwriting and risk management teams are laser-focused on monitoring the health of our customers and the health of our portfolio, and we're confident that the actions already taken will help preserve a balanced and sustainable growth algorithm in the years to come.

Moving on to Brigit. Brigit continues to move fast while building for scale. This quarter's results featured year-over-year revenue growth of 40% and active subscriber growth of nearly 27%. Brigit also tested new products to further meet the needs of our customers such as Line of Credit. In parallel, Brigit has experimented with new marketing strategies to drive even more efficiency in marketing spend, all while maintaining a net advance loss rate in the 3 percent range. Just as important, Brigit contributed to Upbound's bottom-line results by generating \$9.3 million of adjusted EBITDA at a margin of more than 16% while achieving impressive topline growth. At Rent-A-Center, the takeaway is the steady progress the team has made towards recapturing the volume that was impacted in the fourth quarter last year when we strategically exited a product category and leveraged a broad tightening strategy to maintain our optimal risk profile. Same store sales for the quarter improved 40 basis points sequentially from a negative 4.0% to 3.6% below last year, while delivering an EBITDA margin over 16% and a lease charge-off rate that was 20 basis points improved from the third quarter of 2024. Between the current trendline and the upcoming holiday season, we believe same store sales growth should approach flat to positive in the fourth quarter. As we've said before, Rent-A-Center will continue to focus on improving efficiencies and generating strong free cash flow until broader macro conditions either improve for our core customers or create more trade-down opportunities to spur topline growth.

Let's cover the consolidated financial results for Q3 on slide 6. Third quarter revenue of \$1.16 billion was a 9% increase from the year-ago period, mainly powered by growth at Acima plus the addition of Brigit. The business generated \$123.6 million of adjusted EBITDA, which was up 5.7% against Q3 2024, and adjusted EBITDA margin of 10.6%, which was down 30 basis points year over year, driven by lower margins at the Acima segment. Non-GAAP diluted EPS was 1 dollar, which is 5.3% higher than the year-ago quarter. The topline, adjusted EBITDA and non-GAAP diluted EPS results were each within or above the target ranges provided on last quarter's earnings call. Upbound

generated more than \$50 million of free cash flow in the third quarter, resulting in a year-to-date free cash flow total of \$167 million.

Upbound's non-GAAP tax rate this quarter was 24.5%. That was lower than our recent run-rate in the 26% area, due to a discrete, one-time item related to provision-to-return adjustments. Essentially, an estimate from January was refined in September and flowed through to the tax rate in the third quarter.

On slide 7, let's discuss our progress on the strategic priorities for 2025 that we outlined earlier this year.

Acima's initiatives this quarter focused on its merchant portfolio and the customer experience. One of Acima's growth drivers has been its consistent ability to add new merchants, whether on the SMB side or even a top 25 furniture retailer like Living Spaces, which went live earlier this month. In Q3, we recognized a major milestone on that front as Acima activated its one-hundred-thousandth merchant location. While continuing to enroll new retailers through both integrated and light-touch options, Acima is also working to energize existing accounts that we believe have the potential to generate a higher volume of profitable leases. By reinforcing our relationships and optimizing our value proposition, Acima has re-engaged hundreds of merchants so far, with more to come. For our customers, Acima rolled out upgrades to the account management tool to enable more self-service options, while also adding a Refer-A-Friend program. On prior calls this year, I've described how our AI-powered lease-ability engine unlocks the ability for consumers to shop for durable goods in-store and online, and now Acima has added the in-store tap-to-lease capability for our virtual lease cards. This means a customer can use the Acima app to shop in any store, for any approved durable good within their approved limit, and checkout by tapping with the virtual lease card. There's no retailer setup or involvement, and the consumer can shop with confidence. While traditional retailer integrations will remain an important acquisition channel for Acima, we're excited about serving our returning customers in a way that maximizes their privacy, convenience and confidence.

Across the third quarter, Brigit's momentum grew as the team accelerated testing of innovative new financial solutions and trialed new customer acquisition channels. For example, Brigit's new Line of Credit product, which is in beta testing, offers consumers access to credit of up to \$500 to provide liquidity for recent or upcoming purchases. The amount bridges the gap between smaller-ticket BNPL offerings and the larger-ticket lease-to-own solutions like those offered by Acima and Rent-A-Center. In light of these new products, Brigit is evolving its marketing strategy toward a more holistic mix, diversifying both the channels we invest in and the creative content we produce. Our always-on creative pipeline has become a key differentiator that enables faster iteration, richer insights, and more scalable growth.

Brigit is expanding marketing channels beyond digital and social media platforms, including highlighting its capabilities in real world locations where the use-case is immediate and relevant. This is incremental to the in-store marketing collaboration between Brigit and Rent-A-Center, which when scaled can reach its nearly 1,700 stores, plus Acima's hundreds of staffed locations, and turn thousands of Upbound's customer-facing coworkers into Brigit brand ambassadors.

At Rent A Center, the third quarter yielded a number of operational improvements, as the business focuses on streamlining the customer experience, improving account management and reducing the expense base by implementing efficiencies. During the quarter we upgraded the supporting infrastructure of the rentacenter.com website to elevate its scalability and reliability for high-volume events like Black Friday and Cyber Monday, while enhancing the mobile-friendly interface. We put it to an early test with a major promotion in September, which had more volume than last year's Black Friday, and it performed flawlessly. And for customers where an online transaction isn't approved, the site now invites them into their nearest store to complete the application process – which boosted Rent-A-Center's topline in the period. We also launched a Refer-a-Friend campaign and revamped our loyalty reward program which should drive deliveries entering the holiday season.

The Rent A Center team has executed extremely well in a tough environment. Same store sales have improved sequentially and our guide is to work towards being flat to positive in the fourth quarter. Coworkers are fully engaged and excited for the holiday push as the stores are primed with great products. Relative to historical levels, our stores have a higher percentage of new inventory, which has been proven to increase conversion rates and deliveries. In addition to our great value proposition, having the right inventory at the right store offered to the right customer positions us well for the fourth quarter and heading into 2026.

All of these are separate initiatives across each of our largest segments, but they share a common set of guiding principles – which is to introduce our brands to new consumers, optimize our product suite, elevate the shopping experience, and deliver value to our customers and retailers in each interaction they have with us.

Let's now turn to the segment results and then discuss our outlook for the balance of 2025, after which I will take questions.

Acima's GMV grew by \$48 million in the third quarter compared to the year-ago period, which is 11% GMV growth from the third quarter of 2024. To deliver that growth, Acima continued to add new merchants of all sizes and across product categories, and this quarter received nearly 13% more lease applications than the year-ago period. Acima's approval rate on those applications declined 280 basis points from last year's third quarter, evidence of Acima's focus on delivering topline growth balanced with prudent underwriting that evolves with the macro backdrop.

From an operational standpoint, furniture continues to represent our largest product category at approximately 40% of GMV in the quarter. That category is still working through the demand pull-forward from the pandemic era, and more recently the new tariffs, so industry expectations for a more normalized level of demand are looking into the back half of 2026 at the earliest. Even so, we can grow GMV in that category by

adding new merchants, and by becoming a bigger share of our existing merchants' business.

As Acima grows its network of retailer relationships, it continues to maintain a broad and diverse lineup of merchants, with the top ten representing less than one-third of the quarter's GMV. Several of those top retailers appear only on the Acima Marketplace, where our returning customers can start their next leasing journey. GMV from the Marketplace was up over 150% year-over-year in the third quarter, and over 10% sequentially.

Acima revenues grew more than 10% year over year, which was the seventh consecutive quarter of double-digit growth. Adjusted EBITDA was down 40 basis points against the third quarter of 2024 and adjusted EBITDA margins were 12%, a decline from 13.3% in the year-ago period, driven by the gross margin impact from the expansion of the jewelry segment combined with an increase in the lease charge-off rate. The LCO rate was 9.7% compared to 9.2% in the third quarter of 2024 and finished 20 basis points above our high end of our target range of 9.5%. As I noted earlier, we believe our swift and tactical actions across the quarter will maintain the loss rate within our targeted range in the medium term.

Let's move to slide 9 and review Brigit's results for the third quarter. Brigit finished Q3 with more than 1.4 million paid subscribers, which was a 27% increase from the year-ago period and a 9.4% increase sequentially. ARPU, or average revenue per user, was \$13 dollars and 74 cents on a monthly basis, an 11.4% increase from the third quarter of 2024 and a 2.2% lift sequentially. ARPU's continued expansion represents the strength of marketplace performance, higher expedited transfer revenue and a mix shift to the Premium subscription tier.

Brigit originated approximately \$390 million in cash advances this quarter – that's up 19% year over year and nearly 10% sequentially, reflecting the value that consumers are discovering with not only the product offerings, but also the transparent subscription-

based pricing model. For the third quarter, Brigit's cash advance loss rate was 3.3%, which was up 30 basis points from the year-ago period, due primarily to Brigit testing into new marketing channels and new custom segments who are overall profitable. The sequential increase was in line with seasonal trends and reflected a similar increase in 2024 from the second quarter to the third quarter. As we test out new products and gain traction with more consumers, the loss rate will fluctuate seasonally and should remain in the low single digit range.

Brigit recorded \$57.7 million of revenue for the third quarter, which represents an increase of 40% from the year-ago quarter. Subscriptions were nearly 70% of Brigit's third quarter revenue, with expedited transfer fees and marketplace income representing the balance. Brigit realized Adjusted EBITDA of \$9.3 million for the third quarter, representing an Adjusted EBITDA margin of 16.1%, which was an expected decrease from last quarter's results as Brigit's marketing and customer acquisition spend ramped up across the quarter.

When we announced the Brigit acquisition last December, we guided to full-year 2025 results of \$215 million to \$230 million of revenue, and \$25 million to \$30 million of adjusted EBITDA, before re-classification of administrative costs to Upbound's Corporate segment. I'm pleased to share that after adjusting for the January 31st closing date, Brigit is tracking to achieve or exceed the midpoint of the ranges we provided.

On slide 10, we'll review Rent-A-Center's performance.

In the third quarter, the Rent-A-Center segment recorded \$461 million of revenue, down 4.7% from the year-ago quarter due in part to a higher store count in the third quarter of 2024, as we sold 55 stores to a franchisee last September. This outcome was consistent with the expectations we highlighted on our last call. Same store sales were down 3.6% year-over-year, mostly stemming from certain underwriting adjustments we implemented in the fourth quarter of last year. Rent-A-Center's third quarter same store sales improved sequentially from the second quarter, as the team's revenue enablement initiatives are showing promising early returns. For example, on deliveries – which are a

leading indicator of near-term future revenues – were up 3.8% in the third quarter compared to the year-ago period.

Rent-A-Center's adjusted EBITDA was \$74.7 million, down 5.5% from the third quarter of 2024, due primarily to less rental income off of a smaller lease portfolio value. The loss rate for the third quarter finished at 4.7%, which improved 20 basis points from the year-ago period while holding flat sequentially, in line with the guidance given on our prior call.

Rent-A-Center's adjusted EBITDA margin was 16.2%, which was down 10 basis points from the year-ago period but up 160 basis points sequentially thanks to the team's efforts to realize operational efficiencies, focus on account management while also beginning to comp over last year's changes.

Let's review our liquidity and capital allocation priorities on slide 11. We finished the third quarter with over \$350 million in liquidity, between cash on hand and our revolver availability. Our net leverage ratio was approximately 2.9x times on September 30th, generally consistent with Q1 and Q2.

During August, we capitalized on favorable market conditions to refinance our Term Loan B, which now matures in 2032. In the same transaction, we also upsized the facility to \$875 million and used the incremental \$75 million to reduce our revolver balance and enhance liquidity.

Our business has generated approximately \$167 million of free cash flow year-to-date, up notably from approximately \$122 million in the prior year. Due to recent changes in tax policy, Upbound's near-term liquidity should be supplemented by about \$150 million in savings from cash tax payments. The bonus depreciation provisions in the new tax legislation will help drive a tax benefit of \$50 million in 2025 and \$100 million in 2026 compared to the Company's previous forecasts.

That cash flow supports our capital allocation priorities, which are designed to position the company for sustainable growth by investing in our business, strengthening our balance sheet through deleveraging, and supporting our shareholder return program, which currently focuses on our regular dividend of \$1.56 per share, as well as opportunistic buybacks. We are confident that our disciplined capital allocation strategy will fund responsible and profitable growth while creating long-term shareholder value.

Let's move to slide 12 and review our financial outlook, starting with a quick update on the economic backdrop and consumer behavior. As we signaled on our last call, we expected certain suppliers to our Rent-A-Center segment would respond to broader macroeconomic factors with price changes, which we recently received. Although Rent-A-Center's inventory costs will be modestly increasing, we are modeling corresponding refinements to the weekly payment rate and the lease term to deliver affordability to our customers and stability to our margins. Acima will use similar levers as appropriate, based on observed price changes at its merchants.

Across the year, our customers have shown both resilience and prudence in their decision-making. As we look ahead to the holiday season with optimism, we remain aware that market dynamics and consumer sentiment can shift rapidly. Accordingly, we will remain nimble and flexible as we navigate the balance of the year.

With that background, and in light of the Acima's underwriting tightening mentioned earlier, we are adjusting the updated full year guidance we provided last quarter. Revenue should be in the range of \$4.6 billion to \$4.75 billion, adjusted EBITDA in the \$500 million to \$510 million range and non-GAAP EPS in the range of \$4.05 to \$4.15 cents.

At the segment level for the fourth quarter, we expect our recent tightening actions at Acima to yield GMV growth in the mid-single-digit area, while still delivering full year GMV growth in the high single digits to the low double-digit area that we guided to earlier this year. Acima's topline should be up low double-digits, with EBITDA margins

slightly lower than the year-ago period as the underperforming vintages flow through the P&L. Loss rates should be slightly worse sequentially and peak in the fourth quarter in the 10% area before improving in the first quarter of 2026 as the softer second quarter and early third quarter 2025 vintages work their way through the portfolio. Rent-A-Center should see a low-to-mid single digit decline year over year on the topline, while the lease charge-off rate will be better than last year and relatively flat sequentially. At Brigit, we expect revenue to be up high single digits sequentially, with low double-digit adjusted EBITDA margins driven by the ramp up in marketing and customer acquisition spend that I mentioned earlier.

For corporate costs, we expect the impact to adjusted EBITDA in Q4 to be consistent with the year-ago period. Also at the corporate level, our net interest expense in Q4 should be in line with Q3. We expect the tax rate to be approximately 26%, with an average diluted share count for the year of approximately 58.8 million shares.

We'll provide a more in depth update on our 2026 outlook on our next call, but I'd like to share our early look for Acima. Absolute dollar growth will depend on how strong the holiday shopping season is in the fourth quarter and the macro back drop entering the year. So assuming a stable macro environment, we're projecting to achieve the growth and margin profile for Acima that we've targeted in the past, including annual GMV and revenue up in the high-single-digit to low-double-digit territory, losses in the 9 to 9.5% area with adjusted EBITDA margins in the low to mid-teens range.

Let's wrap up with a few key takeaways. Upbound's progress this quarter underscores that our digital transformation is moving at pace, with new technologies and AI-powered solutions already enhancing customer experiences and operational efficiency. Innovation remains at the heart of our strategy, as we continue to launch new products, refine our platforms, and explore fresh approaches to serve our customers better. Importantly, our rich consumer data set—built from millions of interactions—provides unique insights that drive smarter decision-making and unlock new opportunities for growth. The management team is coming together with the addition of Hal and Rebecca – two

seasoned leaders who will help us capitalize on new opportunities for growth. These strengths, combined with our talented team's commitment and dedication, position Upbound to deliver value to our customers, merchants, and shareholders across all market cycles.

Thank you for your time this morning. Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Kyle Joseph from Stephens.

Kyle Joseph^ Fahmi, I just want to get a sense for the underwriting changes at Acima.

Obviously you guys talked about GMV in, I think, the mid-single digits in the fourth quarter.

But how do we think about growth in that segment given the underwriting changes? Should we think about that being a little bit suppressed, call it, for the next 12 months until we lap those underwriting changes?

Fahmi Karam^ Kyle, thanks for the question. Yes, look, I think for Acima's GMV, very pleased with the quarter, up 11%, especially when you think about it comping over last year's percentage. The underwriting changes will impact GMV in the fourth quarter.

Our guide for the fourth quarter is up mid-single digits. Keep in mind also that we also had a 15% growth in the fourth quarter last year, so you are comping off a decent number.

Long term, I think we will get back into the high single digits, low double digits range throughout 2026, as we stated in our prepared remarks. We are very aware of the environment -- It's very uncertain out there with a lot of different moving parts in the macro backdrop, especially when you think about our core consumer.

So we are very mindful of the environment we're in. Despite that, our ability to continue to add new merchants into the mix and continue to add both small and medium-sized businesses as well as the regional win that we announced today and onboarded earlier this month - that's what gives us confidence that we can continue to grow in that high single-digit, low double-digit area really throughout 2026.

Kyle Joseph^ That's helpful. On the macro uncertainty, kind of seeing different loss trends across your segments.

So I I would love to hear kind of how you're thinking about the consumer? And is it so specific that the Acima consumer is seeing different trends than the RAC consumer? I want to get your sense for how the consumer is doing given all the uncertainty.

Fahmi Karam^ Sure. Yes. The consumer -- we've characterized it in the past, Kyle, as still stressed, and I think that continues to be the case. You have the impact of inflation now for a few years, and that takes a toll on a consumer that is generally cash strapped. And if you think about our core consumer, especially on the Rent-A-Center side, making somewhere between \$25,000 and \$30,000 of annual income, Acima may be a little bit higher than that in the \$50,000 to \$60,000 range and Brigit is somewhere in between.

That cumulative effect of inflation definitely hurts disposable income, and it has an impact on both demand and payment behavior.

Of course, it also helps us from a standpoint of trade down, which we saw ending last year and into the beginning of this year.

But generally speaking, consumer confidence is pretty low. You got wage growth slowing. You got the job market seeming to slow down a bit, round of layoffs being announced this week and last week. You have the tariff inflation potential and now you have the government shutdown.

So you got a lot of things that point to a lot of uncertainty in the market, which is really why we decided to go ahead and take an even more conservative stance from an underwriting standpoint.

And you mentioned the difference between Rent-A-Center and Acima.

I think there is a difference between the consumers, as I just mentioned. There's obviously some overlap, but there is a difference between the consumers. And from an underwriting standpoint, with Rent-A-Center, you're thinking about consumer, whether it's new or returning, whether it comes through our store or online, where Acima, you also have the retailer component in there, and you have a more diversified product category mix. And you throw in kind of what we're seeing this year, Rent-A-Center, we had a broad-based cuts last year. And so it's benefiting from that this year, and our loss rates have been relatively stable sequentially and down year-over-year.

And with Acima, we started seeing it in the second quarter, and we had to adjust slightly after Rent-A-Center.

So there is some overlap, but there are some differences. And obviously depending on what -- when we actually tightened, you'll start seeing that through the P&L in some of the ratios.

Kyle Joseph^ One last one for me.

On the RAC segment, it seems like some positive developments there guiding towards comps trending towards flat or positive.

What's driving that? Is it a function of lapping underwriting? Is it e-comm growth? What's the reason for the outlook improvement there?

Fahmi Karam^ Yes, Rent-A-Center had a really nice quarter in a pretty tough environment, especially when you think about kind of being our seasonally low quarter in the summer months and you see the improvement in same-store sales, still negative, but an improvement of 40 basis points from the last quarter. And as you said, our guide is now to be approaching flat to hopefully slightly positive in the fourth quarter. And I think what we can point to is a lot of great execution by the team.

We've also done some strategic initiatives around Refer-a-Friend.

We've also revamped our loyalty program, and we're trying to push folks from online into the store, and that's had a positive impact on our results.

It's had a positive impact on conversion rates as well as our loss performance. And I mentioned in our prepared remarks that we feel good about our inventory position going into the holiday season.

So all that plus comping some of the changes that we made last year, really, we'll start comping those in the fourth quarter. That's what gives us the confidence that we're going to continue to improve. Rent-A-Center has definitely stabilized and hopefully inflecting towards positive in the fourth quarter.

Operator^ Our next question comes from John Hecht of Jefferies.

John Hecht^ Really focusing on Brigit, good ARPU growth year-over-year and quarter-to-quarter.

I guess, what are you learning about that customer, the customer acquisition opportunities, the cross-sell opportunities? Maybe you did provide some detail on this in the prepared remarks, but I'm wondering if you can give us a little bit more about what you're learning and the opportunity that presents.

Fahmi Karam^ John, thanks for the question. Yes, Brigit continues to outperform our expectations really across the board.

We mentioned it on the last couple of calls around their ability to really adapt and listen to their customer base and develop products that really address people's concerns and address people's worries. And that's what we're seeing. You asked what are we seeing that's working?

And I think the answer to that is the cash flow underwriting piece.

I think that level of transparency, that insight into the customer and getting to know them, that's something that we think we can leverage across our platform, whether it's through their new product offerings or eventually into the Acima and Rent-A-Center business.

And as far as other things that we're picking up on, as we said, we are testing out new marketing channels, just trying to broaden our base and really drive subscriber growth.

We've had two consecutive quarters now of over 25% subscriber growth.

We look to continue to push more and more subscribers. And then once they come in, have them stick around and the retention rates have definitely improved as we've gotten more and more content into the bundle as well as developing that line of credit product that we've talked about now that goes up to \$500 of advance at a time.

So very happy with where Brigit is, both from a top line growth and the subscriber growth.

We've leaned into some of the marketing channels and marketing expense, but pleased that they're still able to generate mid-teens EBITDA margins and really ready for a big holiday push where we hope to have even more subscribers join the platform.

John Hecht^ Okay. And then the appointment of the Chief Revenue Officer with a focus on AI endeavors, maybe can you give us an update of what you're learning in terms of the application of AI and how that can benefit the business in the intermediate term?

Fahmi Karam^ Sure. As it's Chief Growth Officer, we're not going to give her a new title, John, with the Chief Revenue Officer.

But having Rebecca join has been fantastic.

She's been in the building now for a month. And what she brings is a whole new perspective on data analytics, driving a lot of the decisions we're going to make and hopefully pushing the ball forward on the AI front and pushing our roadmap on the AI front even further and faster.

So we've developed a set of hopefully high-impact use cases that we want to roll out from an AI standpoint, while also being very mindful of cost, but know that's going to really push our growth forward and really enhance our capabilities.

So we're focused on enhancing the customer experience across all of our major brands and then also giving our coworkers the tools to better serve our customers and our partners and hopefully, along the way, getting some efficiencies across the organization.

So, she's done it before - She has very relevant experience in this area, a proven track record of transformation and especially digital transformation.

So we're excited to have her as part of the team.

Operator^ Our next question comes from Vincent Caintic from BTIG.

Vincent Caintic^ Thanks for all the detail this morning, particularly in that bonus depreciation, that's very interesting.

If I could switch back to Acima and then another credit question.

So first off, maybe a bit of a broader one.

Looking back through that June and July impact or when there was perhaps a negative inflection, if you could talk in more detail about maybe what you were seeing at that time? Was it particular customers or particular categories that you had to tighten during that time?

And then, in terms of the GMV growth, so it's nice to see that you still had 11% GMV growth and still having mid-single digits for fourth quarter. Maybe if you could break out how much of that growth is coming from new merchants versus maybe some pressure in some of the existing customers and existing merchants, if you could break out where the continued growth is coming from?

Fahmi Karam^ Sure. Vincent, thanks for the question.

I'll start with your first one around Acima and credit really throughout the second quarter and into the third quarter. And as we said in our prepared remarks, we've been lowering our approval rates pretty consistently this year.

We've been down 200 or 300 basis points year-over-year pretty much all year long.

But what we saw is a combination of things.

I think the biggest driver is overall softness in performance and overall softness in yields. And so as I said, when we saw that through our early performance indicators, we reacted relatively quickly and tried to tackle those in certain pockets including the e-comm business that we called out during the prepared remarks.

But picking off those pieces wasn't enough.

We started seeing worse and worse performance into June and into July. And so we had to take, I would say, more drastic underwriting tightening in in the summer months. And we really saw the impact of that in August, which, again, this is a pretty short-lived asset.

You can start seeing the results pretty quickly when you make some of these changes, and we saw that.

So again, it's a combination of just overall macro tightening as well as certain pockets in our portfolio. And the good news is we reacted very quickly.

We've already had a conservative kind of posture in underwriting. So again, we're only about 20 basis points above our high end of our target range.

We think we'll peak in the fourth quarter in the 10% area, and then it will start coming down into the first part of 2026 and then improve from there.

As far as the GMV goes, yes, I think, as you said, very nice to see despite all the tightening that we've done this year to still grow 11% in the quarter coming off of, again, a strong comp last year as well.

As far as where the growth is coming from, to bucket it, I think about 90% is coming from new merchants and about 10% is coming from productivity of existing merchants. And really, that 10% of productivity is coming from our staffed locations as we continue there that transition from the legacy A Now to the Acima platform and ramping up the larger accounts from a staff perspective.

And then direct-to-consumer, you've heard us talk a little bit about direct-to-consumer over the last few quarters. That grew over 150%. This quarter is getting close to about 7% of our overall GMV.

So that's becoming a bigger and bigger part of our story and the GMV story and going forward as we continue to innovate on new tools to give more power to the consumer using our app.

So, we definitely had to take a little bit of a step back, and it's going to hurt a little bit of growth, but we think that's the right thing to do given all the uncertainty that I mentioned and focus on making sure that our losses stick within our target range and that we're able to generate the right profitability for the leases that we book.

Vincent Caintic^ That's super helpful detail.

Switching to Brigit by kind of a similar question, since it's a new business for us, so trying to -- if you could help us on how to think about this environment and how the business operates in this environment of maybe some macro uncertainty. Would Acima headwinds be similar for Brigit? Or conversely, is this actually a time for Brigit to be leaning in and be growing when perhaps the consumer is stressed?

Fahmi Karam^ I think more of the latter, Vincent.

I think it's a time for us to lean in and help our consumers.

Obviously we have a lot of tools and financial literacy tools, budgeting tools, but also the liquidity tools become more and more in demand. And we've talked a little bit about that new product that we're very proud of, and it's still early days and still in testing mode, but the adoption of that product has surpassed our expectations.

So, I think this environment lends itself really across all of our brands.

I mentioned during our prepared remarks that some of these things will have some short-term and near-term impacts to our P&L, but the environment is very conducive for consumers looking for low weekly payments, looking for deals, looking for access to either durable goods on the Rent-A-Center and Acima side or just general liquidity for everyday needs on the Brigit side.

So no, I think this is a time for us to make sure we're there for our consumers, especially as things potentially could get worse from here.

I do think it lends itself very well for all of our brands including Brigit.

Operator^ Our next question comes from Hoang Nguyen of TD Cowen.

Hoang Nguyen^ Thank you. I want to touch a little bit on Rent-A-Center. It looks like it's a very opposite performance versus Acima this quarter, inflecting to the positive side.

I guess my question is, is this it? Is there any other headwinds in the coming quarters for Rent-A-Center that we may want to take note? And what gives you the confidence from here that maybe Rent-A-Center is now past the hump and should return to the growth level that you indicated back in your Investor Day?

Fahmi Karam^ Yes, outside of just the general macro that we've mentioned and we've touched on the call as I said, Rent-A-Center really performed well this quarter coming off a tough second quarter and a tough first quarter after the underwriting changes we made last year and trying to recapture some of that volume.

But as I said in our prepared remarks, the team is very energized here around some of the promotions and some of the inventory we have on hand for the fourth quarter.

So nothing major from a headwind standpoint. Great to see the trends improve in Q3 and really now we're gearing up for a big holiday season with a lot of great products in there.

Losses are stable to down year-over-year. When you look at our delinquencies, they're also down year-over-year.

So I feel like from an underwriting standpoint, we got that kind of locked in. And now we just need to go push on deliveries, and I know the team is ready to do that.

So I wouldn't point to anything from a headwind standpoint.

I think the takeaway from the Rent-A-Center business is very positive coming out of a rough first half of the year and starting to comp over some of the changes we made in 2024.

Hoang Nguyen^ And maybe another question on the Acima side.

I think in the second half of last year, you also mentioned some sort of softening in, I guess, the lower end of your consumers there -- and then you tightened a little bit.

I guess, versus last year, I mean how should we think about the degree of tightening that you guys are doing this time or have done this time versus last time? And how serious a problem it is this time versus last year?

Fahmi Karam^ Yes. I think the deterioration that we saw in the second and third quarter definitely was worse than last year, Hoang.

But I think, as I said, our risk posture has been relatively conservative now for quite some time even last year and into this year. And we've had to adjust even further.

I think the cuts that we've made over the summer are a little bit more broad-based than what we did last year.

And maybe to a certain degree, we maybe overtightened at this point, but I'd rather take that position with all the uncertainty in the market, get our our losses back down into kind of the high end of that range and see how this plays out over the next few months.

Maybe some of the things that I mentioned as far as the macro solve themselves and then maybe we'll feel like we can then get back to where we were pre Q2 of this year.

But generally speaking, the team is very focused on our portfolio, the health of the consumer and feel like we've corrected what we've seen earlier this year and positioned now to grow from this point going forward.

Operator^ Our next question comes from Bobby Griffin of Raymond James.

Robert Griffin^ I guess, first, can you maybe talk about the pathway for seeing a return back to kind of that growth algo in '26 with the current credit environment? And I guess what I'm asking is, is the GMV growth picking up next year that you guys are kind of flagging that you think is a possibility, is that predicated on credit conditions changing? And it's more just on the function that you are tightening, so you're seeing that come down here in 4Q.

So I would think that GMV growth would carry forward unless you see some opportunities for like new customer wins or further trade down or something.

So maybe just help us connect those dots.

Fahmi Karam^ Yes, Bobby, thanks for the question.

I definitely think it will be harder for us to achieve those. And I think if you think about the cadence for 2026, we may start off a little bit slow, but then ramp up in the second half of the year as we start comping some of these changes that we've been talking about this morning.

But you said it, I mean what gives us confidence in hitting the high single digits and low double digits is our ability to grow our merchant count, continue to focus on our existing merchants and increasing productivity there, whether it's through smarter and more personalized marketing efforts across the board. And then our direct-to-consumer channel, all those things, but really adding the merchants piece of it is going to be the key for us to continue the growth at Acima, including some of the more pronounced wins that we mentioned on the call earlier this morning.

So yes, there are going to be some headwinds from a credit standpoint, but I think just our ability again to add merchants into our network and some of the tools that we're building for our returning customers, I think that's what gives us the confidence to get back into that high single-digit, low double-digit range for GMV into 2026.

Robert Griffin^ Okay. And then maybe on just the tax benefits and the tax changes.

I mean I know you guys talked about your standard capital allocation policy, but leverage is still close to a turn above the target. You mentioned some more uncertainty out there today.

So is the right way to think of that is first call really is plow back and deleverage?

Or is there capital calls on the business outside of growth that you need from an investment in systems or something as we go into '26? Just trying to understand near-term capital needs and uses of cash a little bit better.

Fahmi Karam^ Yes.

I don't think our priorities change, Bobby.

I think we're always looking for ways to reinvest in the business to spur growth and sustainable growth so I don't think that changes.

The \$150 million or so that we mentioned on the call based on the new tax policy definitely gives us a little bit more flexibility around that growth, but also gives us a little bit more flexibility to pay down debt a little bit faster while also leaving us some dry powder for optionality, whether it's tack-on M&A or opportunistic share buybacks.

But our mode right now just given everything that we've talked about this morning is probably going to be on the conservative side and using that excess cash to either invest in the business or pay down some debt.

But a really nice tailwind for us from a free cash flow standpoint, being able to improve free cash flow this year and then obviously over \$100 million next year from a cash tax standpoint. It's a big benefit.

Operator^ Our next question comes from Bill Reuter from Bank of America.

William Reuter^ I just have two. You previously just mentioned opportunistic M&A.

I would think, given all the uncertainty, the profitability of potential businesses may be difficult to get a good handle on and it might lead to a little more caution.

However you do have the \$150 million coming in, as you just mentioned, or lower tax payments.

Can you talk a little bit about how you're viewing M&A at this point?

Fahmi Karam^ Yes. I think just building off what I just mentioned on Bobby's question, I think, look, we're always looking to expedite our strategic plan, whether it's through technology or some of the AI fronts or just doing a little tack-on acquisitions that improve our product offering to our core customer.

But as I mentioned, I think on our last call we also have a lot of opportunity with the three big brands that we have now to reinvest in those, and we have plenty of growth opportunities with what we have. And we're still in the early days of integrating the Brigit offerings.

So we like being in the mix. We like taking looks. Nothing imminent at this point.

As I mentioned, our stance is going to be more conservative and probably paying down debt, but we also like to be actively looking on ways to add on to our product mix and our product offering, looking to serve our customers in different ways.

So I never rule it out. But at this point in time, we are focused on delevering.

William Reuter^ And then just secondarily, you mentioned new merchant growth being probably a core part of trying to get to that low double-digit growth of Acima in the next year.

I guess, how does the pipeline look for new potential customers versus maybe where that pipeline was a year ago? And that's all for me.

Fahmi Karam^ Sure. Yes.

Look, I think the pipeline is strong, and we've talked about before the lead time to winning some at least on the bigger names, there's a long lead time and it takes effort both on the -- from an RFP standpoint as well as integrating from a point-of-sale standpoint.

So our focus right now is trying to be less reliant on integration with retailers and developing tools where we can operate, grow volumes either through returning customers or through technology.

So the pipeline is good.

We're not waiting around for integrations.

We are doing things either direct-to-consumer, as I mentioned, or through our returning customer base to help grow GMV.

But our bread and butter is growing merchants, and that's going to be and continue to be an important acquisition channel for us. And so our sales team is hyper focused on growing merchant count and the pipeline remains strong.

Operator^ This does conclude the Q&A portion of this session.

I would now like to turn it over to Fahmi Karam, CEO, for closing remarks.

Fahmi Karam^ Thank you, Operator. And thank you to everyone who joined us today for an update on our Q3 performance and our outlook for the balance of 2025.

Before we conclude, I'd like to again welcome our two new senior leaders to the organization and extend my sincere gratitude to all of my colleagues at Upbound. Thank you for your unwavering contributions and support of our mission, our values and our customers. Thanks, everyone. Have a great day.

Operator^ Thank you for your participation in today's conference. This does conclude the program.