Upbound Group (Q2 2026 Earnings)

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Corporate Speakers:

- Abraham Albert; Upbound Group; Senior Vice President of Finance
- Fahmi Karam; Upbound Group; Chief Executive Officer
- Hal Khouri; Upbound Group; Chief Financial Officer

Participants:

- Robert Griffin; Raymond James; Analyst
- Bradley Thomas; KeyBank Capital Markets; Analyst
- John Hecht; Jefferies; Analyst
- Hoang Nguyen; TD Cowen; Analyst
- Kyle Joseph; Stephens; Analyst
- Casey Coates; Loop Capital Markets; Analyst
- William Reuter; BofA; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Q2 2026 Upbound Group 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 Abraham Albert, Senior Vice President of Finance.

Please go ahead.

Abraham Albert^ Good morning. Thank you all for joining us to discuss the company's performance for the second quarter of 2026.

We issued our earnings release this morning before the market opened, 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 from Upbound Group, we have Fahmi Karam, our Chief Executive Officer, and Hal Khouri, our Chief Financial Officer.

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 upcoming Form 10-Q, and other SEC filings.

Upbound Group undertakes no obligation to publicly update or advise 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 webcast.

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

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

I'm pleased to share our second quarter results and provide an update on our strategic progress.

I'll start with a high-level review of the quarter and our priorities, then hand it over to Hal for the detailed financial results and updated outlook. After that, we'll open up the line for questions.

Our second quarter results reflect a continuation of many positive trends we identified last quarter, and we delivered results within all of our guided metrics.

Risk management and underwriting has supported healthy cash flow generation, ongoing balance sheet deleveraging, and solid progress on our key strategic initiatives, despite the challenging economic backdrop.

Our core consumer remains resilient but continues to manage a tighter budget, and we remain focused on giving them flexible, affordable ways to get the products and financial liquidity they need.

We operate three complementary brands, offering a breadth of solutions that help us manage category-specific demand, create multiple avenues for growth, and position us to deepen customer relationships over time.

Before discussing the results, I want to revisit our 2026 priorities.

We're continuing to strengthen the connections across our brands by investing in shared capabilities and creating a more connected experience for the customers we serve.

Our strategy is straightforward. Meet customers where they are today while expanding the ways we can serve them as their financial needs evolve.

As we strengthen the connections across our brands, we're creating more opportunities to serve a customer across multiple products and brands over time increasing the value of every customer relationship.

At the same time the shared capabilities we're building across the enterprise allow us to make better decisions, scale investments more effectively, and strengthen each brand.

Over time we believe these efforts can support stronger customer outcomes, greater operating leverage, improved capital efficiency, and long-term value creation for our shareholders.

In parallel, we're applying AI and analytics across the enterprise, starting with underwriting, customer communications, account management, and collections which are targeted initiatives where we can measure impact and scale what works.

We are actively integrating AI across discovery, search, and marketing content, while finding new ways to engage customers through generative and agentic AI.

Our teams are leveraging AI to better understand customer needs and deliver personalized experiences, whether through automation, intelligent prompts in our stores, or advanced data-driven insights.

We are investing in conversational commerce and in-contact servicing, ensuring that every customer interaction is smarter and more seamless.

Our growth organization is designed to place customers at the heart of every journey, enabling rapid experimentation and scalable breakthroughs that unlock new revenue streams and reinforce our brand's competitive edge.

By harnessing advanced personalization across acquisition, conversion, and retention, we are redefining customer lifetime value through a unified, data-driven approach.

Our commitment to enterprise-wide personalization and seamless cross-brand engagement will foster deeper cross-sell upsell and loyalty, resulting in sustainable, profitable growth.

Before discussing our business by segment, I would like to briefly address the cybersecurity incidents cited in our recent Form 8-K.

During the second quarter, we experienced incidents in which certain non-sensitive customer information and other documents were obtained without authorization, some of which we believe was subsequently used to facilitate fraudulent lease-to-own agreements, leading to elevated fraudulent contract losses of approximately $13 million in the Acima segment during the second quarter.

In connection with these incidents and in coordination with external cybersecurity experts, we have already begun implementing remediation measures including enhanced authentication controls, additional fraud detection and monitoring capabilities, and other security enhancements.

The company has also notified federal law enforcement of the incidents.

While our investigation is still ongoing, we do not expect a material impact from these incidents. Cumulatively, the aforementioned incidents, a continued tightening in our underwriting posture, and macro headwinds which impacted consumer demand in our key categories pressured our overall GMV and our Acima segment by 11% in the second quarter.

Looking ahead, our expectations for Acima GMV are flat to negative low single digits on the year, returning to growth in the fourth quarter.

We remain disciplined in our approach, focusing on maintaining losses in an acceptable range, increasing risk-adjusted margins, and protecting our balance sheet with quality GMV.

Now let's turn to our results by segment for the second quarter, starting with Brigit which saw continued momentum underpinned by another quarter of double-digit year-over-year growth in subscriptions, with revenue growth of 37% year-over-year and maintaining its trajectory towards its financial targets for 2026.

As the brand scales, more and more users are finding value in Brigit's flexible and transparent financial wellness and liquidity solutions, and we're excited about the opportunities ahead for Brigit as we continue expanding how and where consumers can use the platform.

On the product side, the line of credit pilot continues to progress, and we're working toward a broader rollout with unit economics, customer outcomes, and long-term value front of mind.

Additionally, following a successful pilot earlier this year, we are very pleased to announce that in May Brigit entered into a multi-year partnership with Experian to offer Brigit's Earned Wage Access product to Experian members with Experian Money Plus membership. This partnership represents an expansion of the Brigit platform beyond its direct-to-consumer roots and into embedded financial infrastructure, opening a new revenue channel for the business.

The collaboration brings Brigit's cash flow underwriting technology into the Experian platform, adding a new way for members to access funds directly within the app.

We're very excited to partner with Experian to scale the program, allowing us to serve more and more consumers along their financial journey.

We believe this milestone demonstrates Brigit's ability to expand distribution through trusted partners and create an additional customer growth channel for the business.

At Acima, from a top-line perspective, credit tightening and the cyber incident did weigh on GMV which finished the quarter lower year-over-year and below our expectations as we continue to take a conservative underwriting approach in this volatile macro environment. Loss performance continued to benefit from underwriting actions taken over the past year, with Acima lease charge-offs improving to 8.8% and approximately 50 basis point improvement compared to the prior year period.

EBITDA margin increased 117 basis points to over 16% in the quarter. This improvement validates the data-driven approach our team has adopted to protect portfolio quality and improve long-term economics, and it supports the foundation for continued investment in the business as we move through 2026.

We continue to invest in improving customer experience, expanding digital capabilities, and supporting sustainable GMV growth while maintaining underwriting disciplines. From a partner perspective, we are encouraged by new merchant agreements in the pipeline and further integration with current partners including the checkout button at Wayfair which is now live.

We remain focused on delivering a diverse merchant base and are happy with the pipeline of new merchant wins we expect in the third quarter that should drive year-over-year growth in GMV by the fourth quarter.

Moving on to Rent-A-Center.

Overall performance in the second quarter was favorable and stable amidst an inflationary expense environment for the company and our consumers.

We achieved year-over-year same-store sales growth for the third consecutive quarter, growing 1.6% versus last year. The team continues to prioritize portfolio quality while advancing initiatives aimed at improving customer experience and store-level profitability. Against this backdrop, we have begun a Rent-A-Center-wide optimization effort to ensure the brand remains competitive in today's environment, with the objective to drive efficient operational performance and enhance long-term returns.

These initial optimization efforts led to 69 underperforming store closures in the second quarter, with customer accounts being merged into nearby locations. Following this first phase of optimization, we will continue to evaluate our store count as part of a broader roadmap to leverage our digital capabilities to right-size the footprint, seeking to boost profit contribution.

We look to customize our approach by market including consumer preferences in product and personalized marketing, as well as testing different operating models including shared logistics, store size, and varying labor models.

Our goal is to serve more customers more efficiently by leveraging our digital capabilities and analytics to produce enhanced margins.

We're also excited about the progress we've made with the Amazon partnership we announced last quarter, enabling convenient Amazon order pickup and returns at Rent-A-Center corporate-owned stores which is now fully deployed at approximately 1,500 locations nationwide.

While still early, the partnership is driving improved foot traffic and expanding brand awareness, the types of initiatives that leverage our existing footprint, enhance the customer experience, and help us introduce our portfolio of flexible financial solutions to an even greater number of consumers.

Before summarizing our consolidated financial highlights, I want to zoom out and offer a broad view of Upbound's overall portfolio health.

We believe our portfolio is strong with delinquencies and losses relatively stable in a tough environment while we focus on building shared capabilities and delivering intelligence through data to our teams to make better operating and risk decisions and driving customer engagement. These initiatives should result in customer growth, retention, and lifetime value which will position us for long-term sustainable growth.

It's also important to acknowledge the challenges in the current operating environment we're navigating. The non-prime consumer remains resilient but continues to face pressure from elevated costs in essential categories such as groceries, rent, utilities, and energy which influences purchasing behavior and delays discretionary spending, particularly for larger ticket items such as furniture and appliances.

Despite this challenging backdrop in the second quarter, our consolidated results were in line with our expectations. Revenue was $1.2 billion, up modestly year-over-year. Adjusted EBITDA declined year-over-year to $127 million due in part to timing of marketing expenses at Brigit and higher fixed costs at Rent-A-Center.

Non-GAAP diluted EPS was $1.07, down approximately 4% from the prior year. Cash flow and deleveraging were strong in the quarter. Net cash provided by operating activities was $123 million, up $97 million year-over-year. The free cash flow was $84 million, up from negative $10 million in the prior year quarter.

Strong cash generation supports reinvestment in the business, disciplined deleveraging, and our broader capital allocation priorities.

We're pleased with our second quarter results and team execution across the company.

We're investing where it matters most, staying disciplined on investments, costs, and underwriting, and scaling capabilities that support operating leverage over time.

As we look ahead, our priorities are clear and we'll stay focused on execution through the rest of 2026.

With that, I'll turn the call over to Hal to walk through the financials in more detail.

Hal Khouri^   Thank you, Fahmi. And good morning, everyone.

I'll begin with a review of our segment results for the second quarter, then spend time on capital allocation and liquidity before closing with our outlook and guidance.

Starting with Brigit, the second quarter demonstrated strong performance across the business. Revenue was $71 million, representing a growth rate of 37% year-over-year. Revenue growth in the quarter reflected continued expansion in paying users and improved monthly ARPU which increased 6.3% year-over-year to $14.30, supported by increased shift towards Brigit's Premium tier, deeper engagement with marketplace offers, and higher optional expedited transfer revenue.

Paying users were approximately 1.7 million at quarter end, approximately 30% year-over-year, and net advance loss rate was approximately 3.6%, consistent with recent quarters and within expectations.

Brigit's adjusted EBITDA contribution in the second quarter was approximately $11.8 million, and we note an increase in advertising and marketing spend relative to the prior year quarter. Going forward, our focus remains on growing responsibly and rolling out new products carefully with subscriber economics guiding the pace of our expansion. Turning to Acima, second quarter revenue was $604 million, a decline of approximately 2.5% year-over-year.

GMV was approximately $466 million, a decrease of approximately 11% year-over-year. This outcome reflects multiple factors including additional flow-through from the deliberate underwriting tightening actions that we started in 2025 as we remain prudent in customer acquisition, impact from cyber incidents, and tighter consumer conditions that limit discretionary spending, particularly for durable goods.

These selective tightening actions were focused on improving long-term portfolio economics rather than maximizing near-term volume, particularly given the broader non-prime consumer landscape. Despite the top line and GMV pressure, loss performance improved again in the second quarter. Acima lease charge-offs were approximately 8.8%, representing an improvement of 50 basis points year-over-year.

The key indicators we monitor including payment behavior and delinquency trends, support our confidence that the portfolio is benefiting from the underwriting actions implemented. Adjusted EBITDA for Acima was $98 million, up approximately 5% year-over-year, while adjusted EBITDA margin was 16.2%, an increase of 117 basis points year-over-year. Despite the revenue pressure, improvements in loss performance and gross margin were key offsets contributing to increasing returns.

Looking ahead, we remain focused on maintaining a balance of sustainable growth paired with solid portfolio performance and profitability.

Our Rent-A-Center business showed resilience amidst an inflationary expense environment, and our disciplined approach led to same-store sales increase of 1.6% in the second quarter, the third consecutive quarter of same-store sales growth.

Second quarter revenue was $466 million, with average portfolio value per store increasing approximately 3.5% year-over-year.

Our underwriting approach at Rent-A-Center remains prudent, with lease charge-offs approximately 5% in the second quarter, representing a 30 basis point increase year-over-year, however reflecting stable performance within our expected target range for the course. Adjusted EBITDA for Rent-A-Center was $63 million, down approximately 8% year-over-year.

Our store optimization plans emphasize minimizing revenue impact through consolidation while maximizing cost-benefit to drive EBITDA contribution.

Our initial tranche identified and optimized 69 underperforming stores and will continue to evaluate the footprint with the potential for additional optimization downstream.

We remain encouraged by steps the team is executing to boost profit contribution, initiatives to accelerate progress on the digital customer experience, the expansion of product offerings to Rent-A-Center's strongest customers, and our efforts to increase store traffic and brand awareness, such as the Amazon partnership that Fahmi mentioned earlier.

Turning to cash flow, liquidity, and capital allocation, one of the enduring strengths of our model continues to be the ability to convert earnings into cash. And the second quarter is another example of that. Net cash provided by operating activities was approximately $123 million, up $97 million in the prior year quarter, and free cash flow was approximately $84 million, up from negative $10 million a year ago. These results reflect the underlying strength of the business, translating directly into stronger cash generation.

Given this trajectory and a trailing 12-month operating cash flows of $425 million, our expectation for full year cash flow is approximately $250 million.

We will continue to invest capital on key initiatives which are aligned with the strategy Fahmi outlined and are focused on technology modernization, data platform initiatives, and digital capabilities that support underwriting, personalization, and operating efficiency.

We remain selective and returns-oriented in how we deploy capital.

Over the full year, we expect capital expenditures to be similar to 2025, and we will continue to evaluate pacing and ROI as we move through 2026.

We also drove shareholder return by funding a quarterly dividend of $0.39 per share which amounted to approximately $23 million during the quarter and represents an approximately 7.5% dividend yield. The dividend remains an important component of our capital allocation framework. Strong free cash flow allows us to support the dividend while also pursuing our other priorities, including reinvestment and deleveraging.

Turning to liquidity and debt, quarter end liquidity was approximately $487 million, reflecting cash on hand and available revolver capacity. Net debt was approximately $1.3 billion, and leverage was 2.6x trailing 12-month adjusted EBITDA, a meaningful reduction from 2.9x at year-end 2025.

While the leverage ratio may fluctuate slightly due to timing of cash inflow and outflow over the course of the year, we are pleased with the debt reduction achieved through the second quarter.

We continue to prioritize disciplined deleveraging as a primary use of incremental cash, targeting leverage in the 2x range over the long term.

Taken together, our capital allocation actions during the quarter reflected a disciplined, consistent framework focused on strengthening the balance sheet, supporting returns to shareholders, and reinvesting selectively to drive long-term value. That discipline gives us flexibility and positions the company well as we move into the remainder of the year.

With that context, let me turn to our outlook and guidance.

As we look ahead, our expectations reflect continued prudence in underwriting, disciplined operating execution, and steady progress against our strategic priorities.

Our outlook assumes a continuation of the current challenging external operating environment, uneven macro factors that pressure our core consumers' discretionary income and demand levels, but also tend to make our complementary range of flexible financial solutions even more relevant to these consumers.

Factoring in Q2 results, lower demand for durable goods, and our underwriting posture, we are narrowing our full year revenue range to $4.7 billion to $4.85 billion, while reaffirming the adjusted EBITDA range of $500 million to $535 million and non-GAAP diluted EPS range of $4.00 to $4.35 we shared on our previous earnings call.

We are raising our free cash flow expectations for the year from $200 million to $250 million, inclusive of estimated legal payments. These factors position Upbound favorably to advance its capital allocation priorities as we focus on delivering compelling and sustainable returns for shareholders.

I'll now move on to share updated segment level commentary.

At Acima, we've revised our outlook to account for second quarter results, the deliberate underwriting tightening, recent cyber incidents, and our expectation of continued macro headwinds.

We expect 2026 GMV and revenue to be flat to low negative single digits year-over-year. Losses for the year are trending lower than our original expectations, stabilizing under 9% for the year.

Importantly, Acima's adjusted EBITDA margin has now moved above 16%, improving 117 basis points year-over-year.

Our outlook for Acima margins has improved relative to our previous guidance, and we now expect Acima adjusted EBITDA margin to finish the year up relative to 2025, offsetting revenue pressures. Turning to Brigit, our outlook remains unchanged, with annualized revenue growth of over 30% in the $265 million to $285 million range, and an adjusted EBITDA in the $50 million to $60 million range.

These expectations assume continued growth in paying users while maintaining net advance loss rate around current levels for the year.

We remain focused on disciplined growth and measured rollout of new capabilities as the year unfolds.

At Rent-A-Center, while trends in the company-owned segment have stabilized, store optimizations, lower demand, and contribution from our franchise business are expected to have a modest impact on full year performance.

As a result, we expect Rent-A-Center segment revenue to be flat to down low single digits for the year. No change to adjusted EBITDA margin which should remain relatively flat to 2025.

Looking to the third quarter of 2026, we expect consolidated revenue of $1.05 billion to $1.15 billion, adjusted EBITDA of $105 million to $115 million, and non-GAAP diluted earnings per share of $0.85 to $0.95. These expectations reflect typical seasonal dynamics and continued underwriting discipline.

With respect to third quarter loss rates, we expect improvement at Acima with an increase at Rent-A-Center to the mid-5% range, a level we are comfortable operating within the current environment as we balance risk, deliveries, and EBITDA dollars to cover fixed costs.

Third quarter GMV growth should improve sequentially and be down low to mid-single digits year-over-year with continued improvement over the balance of the year and returning to year-over-year growth in the fourth quarter of the year. Brigit's net advance loss rate in the third quarter should be in the mid-3% range in line with historical quarter-over-quarter trends.

Now as we wrap up, I'd like to reinforce a couple of points Fahmi mentioned earlier.

During the second quarter, the company continued to execute against its strategic priorities, delivering solid operating and financial performance while maintaining discipline in how we balance growth, risk, and returns. The actions taken over the past year to strengthen portfolio performance are showing up in the results, particularly in loss trends and cash generation.

Looking ahead, we remain confident in our ability to navigate the current environment and continue building long-term value for shareholders.

Our diversified and complementary portfolio, strong cash flow generation, and disciplined approach to capital allocation position us as we move through the second half of 2026.

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 the line of Bobby Griffin of Raymond James. Your line is now open.

Robert Griffin^   Hi. Good morning guys. Thanks for taking the questions.

I guess first for me, I want to ask about the investments or the marketing investments in Brigit. Clearly you guys saw a pickup in subscribers there, but just how do you think about the ROI on those that weighed on EBITDA this quarter as you televised to us? But where does the ROI kind of play in and what's the payback period that you're targeting with those types of investments going forward?

Fahmi Karam^   Morning, Bobby. Thanks for the question.

I'll start.

Look, we're very pleased with Q2 is a continuation of what we've seen since the acquisition with revenue up over 35% and 37% subscriber growth. Up 30% up to 1.7 million paying subscribers.

So very pleased with the performance overall and the EBITDA contribution to your question is actually to the high end of our expectations.

We guided last quarter that EBITDA margins in Q2 would be in the low-to-mid teens.

So coming in over 16% was right in line to the upper end of our expectations on the range. And if you recall last year, that was the same guide we had in Q2 in 2025, we just didn't see the same traction we're seeing in the marketing expenses this year. And so we pulled back last year.

So I think Q2 last year, a little bit of an anomaly from a margin standpoint, we want to lean in to growing our subscriber count and leaning into lifetime value of these consumers.

So very much in line with what we had expected coming into the quarter. And I think the overall environment is very conducive to our marketing campaigns because of the liquidity needs out there for the non-prime consumer.

So it is a very positive LTV spend.

Hal Khouri^   And we continue to lean in as the year progresses. Hi, Bobby, it's Hal here. Yes, might pipe in and add in. To Fahmi's point, we're seeing extremely strong demand for the product which has been terrific, exceeding expectations as Fahmi had indicated.

We may contemplate, particularly in the back end of the year, additional investment if we continue to see the performance and the demand on the product as well.

So we may look to ramp up some of our marketing activity in the tail end of the year as well.

Robert Griffin^   Thank you. That was actually my follow-up, so I'll switch to something else. You hit on it before I even got a chance to ask, but that's helpful.

I appreciate the details.

I guess secondly, for me, understanding the dynamics of the environment right now there's a lot of moving parts.

When you back into the implied remaining guidance, it does imply 4Q has an inflection back in EBITDA, so EBITDA starts to grow again in 4Q to kind of get to the midpoint of the full year guidance. And I think you talked about Acima actually returning to GMV growth in EBITDA as well.

So can you maybe just unpack what is the driver of that inflection point in the model as we get to 4Q? Is it just a function of lapping the tightening comparisons or some of the other things we've talked about starts to flow through again? Just wanting to understand that better and the confidence level of it flipping back positive from a consolidated EBITDA standpoint.

Hal Khouri^   Yes, hey Bobby, it's Hal here. Yes, definitely some seasonality at play there in terms of the ramp back up in Q4, particularly on GMV and the Acima segment and movement in [same-store sales] on the RAC side as well. You would have seen some of that in last year's kind of trending and performance in terms of uptick in the tail end of the year.

We see that as a bit more pronounced going into the back end of the year, particularly with some of the tightening that we did on the Acima side in this quarter, in this past quarter as well. And we see that as an inflection point.

I'd also say we're looking at some margin expansion there.

So GP coming in strong and our lease charge-offs and that performance and expectations around that in the tail end of the year, as well as managing our OpEx and timing of some of our expenses. And the marketing piece on the Brigit side might be one that we consider some additional incremental investments.

So that could be implied there, but again feel pretty good about the outlook, but there is a little bit of oscillation going from Q2 to Q4.

Robert Griffin^   Thank you.

I appreciate the details. Best of luck here in the back half of '26.

Operator^   Our next question comes from the line of Bradley Thomas of KeyBank Capital Markets. Your line is now open.

Bradley Thomas^   Good morning. Thanks for taking the question and nice execution here. I want to ask kind of a macro question.

I think you're doing a really nice job of being disciplined in the underwriting. That really stands out in the Acima segment with the improved profitability and EBITDA.

But as we consider elevated gas prices and other inflationary pressures on the consumer here, how do you think about the potential risks to the business in the second half? Should some of these headwinds for the consumer continue, particularly from the perspective of the potential need to do some more tightening on the underwriting front? Thanks.

Fahmi Karam^   Good morning. Thanks for the question.

So definitely very mindful as we stated in our prepared remarks around the general macro environment and how it's very uncertain right now. Pretty tough on our consumers, as you said, a little bit of a mixed bag of data and information, but as we know inflation has been pretty sticky and it puts a lot of pressure on our core consumer who is cash strapped and lives paycheck to paycheck.

As far as the underwriting and kind of risk to some of the guides around GMV, our guide and our outlook contemplates a pretty conservative underwriting posture already in a pretty tough environment for the remainder of the year, very consistent with what we've seen this quarter.

So when I think about where we are from an underwriting standpoint today, we started last year of being relatively conservative.

So going into the second half of the year, we feel very strong about how well the portfolio health is going into the second half of the year. You can see that really across all of our businesses, highlighted by Acima being 50 basis points better from a loss standpoint this quarter and delinquencies are pretty stable across the board, losses in line with our expectations at Rent-A-Center and Brigit as well.

So we feel good about where the balance sheet is today the portfolio health.

We're very dialed in from an underwriting standpoint, monitoring customer behavior and we'll adjust as needed.

You've seen that in our performance this quarter even.

We're trading off margin for volume, and we'll continue to do that until things improve. And maybe just to bolt on, we are seeing cash payments flow through as well.

So to that end...

Hal Khouri^   In terms of the health of the consumer, operating cash flow coming in very strong this quarter, $123 million free cash flow very strong.

So notwithstanding a little bit of the pressure on the top line, being very prudent particularly with macroeconomic backdrop in terms of credit underwriting, but our customers are continuing to make their payments and we are seeing those cash flows come through.

Bradley Thomas^   That's very helpful. And if I could just ask a follow-up on the GMV outlook.

I know that the GMV comparisons do get easier, so that should help you.

But can you give us a sense of maybe how much of the GMV decline is a function of some of the tighter underwriting and just the degree of improvement that's reasonable to think about in the second half here?

Fahmi Karam^   Sure, Brad, happy to answer that question. And look, obviously in the second quarter, we had some pressure on GMV, whether it's the credit or the underwriting tightening that we did. And then obviously the cyber incidents that we mentioned were pretty unique in the quarter. And then we just talked about where the consumer is from a demand standpoint.

So I think all of those have been weighing on GMV.

But as I've said before when you look at Acima quarter-to-quarter GMV, you also need to take a step back and look at what we've done over the last two or three years. And so this quarter we're comping off 16% growth last year which was comping off 21% growth the year before that.

So when you look at Acima over a two or 3-year stacked basis, it's been a really good story for us.

So I think obviously given the cyber incidents this quarter, I think it's pretty unique.

I do think as I said before we're going to remain relatively disciplined in our approach from an underwriting standpoint, and that comes at the cost of some GMV going forward.

But the good news is we do have, as I said, some really nice wins in the pipeline that not going to announce anything today but gives us a lot of confidence in our guide to be growing in the fourth quarter. Again at the Acima level.

So again very cautious in our underwriting.

We have some positive wins in the pipeline that we'll talk about hopefully next quarter. That gives us confidence that we're going to grow again in the fourth quarter and into 2027, get back to the trajectory that Acima has demonstrated over the last couple of years.

Bradley Thomas^   Very helpful. Thanks so much.

Operator^   Our next question comes from the line of John Hecht of Jefferies. Your line is now open.

John Hecht^ Morning guys, thanks very much. A lot of momentum in the Brigit customer acquisition. Maybe talk about the channels of where you're finding new customers and the competitive environment there.

Fahmi Karam^ Sure. Good morning, John. Thanks for the question.

So yes, very competitive environment when it comes to cash advance.

I think everyone has their version of liquidity solutions for consumers, and I think it just goes back to how much demand there is, especially on the non-prime side, for these types of products.

Definitely substantiates our thesis.

We're very pleased with the growth that we've seen, both our direct-to-consumer channels from a marketing standpoint, but also with this new Experian partnership that we announced today that opens up a whole another channel for us to continue to grow the business.

So we're very positive and bullish on the opportunities ahead for Brigit, whether it's a continuation of direct-to-consumer marketing, partners like Experian, and then of course the cross-sell initiatives that we've been talking about, that's gaining more and more and we're making really good progress around cross-selling the businesses across Rent-A-Center, Acima consumers and pointing them to Brigit as well.

Hal Khouri^ I'd also just kind of bolt on there.

Our recent line of credit product that we recently introduced, we've seen a ton of demand on that front.

We're very optimistic about that particular product, not only as an additional product within the suite, but also for a retention tool because our customers have asked for perhaps a little bit more liquidity and a little bit more flexibility in terms of payment options.

So we're going to evaluate that product, continue to evaluate that in terms of performance.

But that's another bright spot in the Brigit business for sure.

John Hecht^ Okay. And then turn it to the -- more of the retail business. Are you seeing any changes in customer behavior with discretionary spend? Are there any kind of green shoots or product types that you're looking at that suggest there's a transition in the market?

Fahmi Karam^   John, I would say at Acima, I think all of our categories were pressured, whether it's furniture especially.

I would call that more macro pressure on furniture.

Look at jewelry was also down for us as a segment. That one was more on our underwriting stance than it was macro.

I do think in this environment, discretionary spending, especially for larger ticket durable goods, is under pressure.

Rent-A-Center being a little bit more need-based allows it to benefit. You saw that in our same-store sales being up 160 basis points this quarter.

So I do think there's a lot of pressure around discretionary spend. Consumers are being very cautious and looking for value. They do spend when they find value in...

Hal Khouri^   In the offerings, but they are being very cautious, especially with the uncertainty in the market. Yes, and we've seen a little bit of a shift prominently in terms of customer demand.

As Fahmi said, discretionary spend around the large-ticket durable goods categories, particularly in furniture, I would say being impacted there more broadly within the market.

But we are seeing shifts, and particularly on the RAC side towards computers and electronics and tablets.

So that's picked up nicely for us as well.

So we're seeing a little bit of a shift in demand and focus from a customer perspective there.

John Hecht^   Perfect. Thanks very much.

Operator^   Our next question comes from the line of Hoang Nguyen of TD Cowen. Your line is now open.

Hoang Nguyen^   Thank you and thanks for taking my questions. A lot of my questions have been answered, but maybe I want to touch on the Rent-A-Center very exciting now that you have rolled and rolled that out can you provide maybe some of your initial take and maybe any potential for upside there.

Fahmi Karam^   Morning, Hoang. Thanks for the question. Yes, very excited about the -- rolling out the Amazon partnership now to 15% of the 1,500 corporate-owned stores, as we mentioned last quarter.

We think this is a great way for us to leverage the footprint and bring new customers and brand awareness to our business.

So yes, the pilot or the launch has gone off very, very well.

I think the last time we mentioned that in our pilot program that we saw an increase in visits, about 50 additional visits per week per store. And we've exceeded that so far.

We've seen a significant increase in foot traffic at the stores. And so very excited about continuing that partnership and really getting it up and running further as we progress.

As you all know when customers come in-store, that's our best performing customer.

That's our best performing experience from a customer standpoint. The conversion rates are much better. The loss performance is much better and overall customer satisfaction is much better.

So we may not get a lot of conversions on their first visit, but they come back two or three times we expect the conversion rates to increase.

So over time adding store traffic to our stores is going to be a really nice tailwind for us.

Hoang Nguyen^   Got it and maybe on Acima's GMV I guess there are multiple headwinds this quarter if you have the macro weakness, tightening that you guys did last year and I guess additional security measures because of the incident.

I guess can you parse out maybe how each of them contributed to the, I guess 11% negative comp on GMV and maybe when each of them may lap, particularly the macro weakness and your tightening last year?

Fahmi Karam^   Yes. So as I said earlier, [Hoang], the combination of the things that we've mentioned between our underwriting tightening, the cyber incidents, obviously unique to Q2, and then just overall the macro environment and being a distinction between Acima and Rent-A-Center, Acima being much more on the discretionary side than the need-based side that Rent-A-Center leans to.

So hard to really identify from a percentage standpoint.

I think without the cyber incident, we would have been down closer to where we were in Q1, maybe mid-single digits compared to the 11% that we saw this quarter.

But I also think it depends on the category.

I mentioned it briefly earlier that if you look at our jewelry category, that's going to be more geared towards our underwriting tightening that we've done.

If you look at furniture which is a great segment for us and obviously a safer segment from an underwriting standpoint, it's more geared towards the macro environment, putting a lot of pressure on GMV.

But again we're trading risk-adjusted margin for volume. And for us to have losses now below 9% at Acima is real positive for us. Going into the year, we guided for 2026 that it would be around 9.5% area.

Now we're changing that to around 9%, if not below 9% for the year.

And based on consumer behavior and the lack of the early buyout feature, you've seen that in our margins. And so hitting 16.2% EBITDA margins in the second quarter, that's the second highest EBITDA margin for Acima in the last five years which is great.

So for now we'll take the margin over chasing volume, but we're obviously monitoring it very, very closely, and we'll adjust either way depending on the consumer behavior.

Unidentified Participant^   Thank you very much.

Operator^   Our next question comes from the line of Kyle Joseph of Stephens. Your line is now open.

Kyle Joseph^   Hi. Good morning, guys. Thanks for taking my questions. And sorry, I had to hop on late.

So if this has been covered, I apologize.

But yes, I was just kind of hoping to get a little bit of a competitive update kind of across the three segments, if you don't mind.

Thanks.

Fahmi Karam^   Morning, Kyle. Yes, look, it's very competitive across all of our business. When credit gets a little bit tighter and underwriting becomes a little bit more restrictive, you are competing for the good quality applications.

So I think you've seen that across the board and we're pleased with the market share that we have across all of the businesses. And you've seen that with Brigit's growth rates that we just mentioned.

Rent-A-Center being up again 160 basis points from the same-store sales basis. Everybody's competing for the non-prime consumer. And we're very happy with our market share across the board, the competitive environment hasn't really changed, I would say over the last 12 to 18 months.

If anything, it's gotten more heightened as liquidity and credit becomes tighter.

Kyle Joseph^ Great. Thanks very much for taking my question.

Operator^ Our next question comes from the line of Casey Coates of Loop Capital Markets. Your line is now open.

Casey Coates^ Good morning. And thank you for taking my question.

I just want to touch on, can you speak on what you've seen in cross-brand and what you guys are doing to drive consumers across the businesses?

Fahmi Karam^ Yes. We're very pleased with the progress we've made around the integration of Brigit as well as the cross-sell opportunities we have in the business.

So right now as we mentioned, our prepared remarks really connecting customer data and some of the shared platforms across all three businesses, really focusing around a seamless customer experience and driving deeper engagement with our consumers really centered around Brigit's cash flow insights.

We always talked about them becoming our customer hub, information center, and that's what we're working towards, creating a platform where we're able to take a holistic view of the unified view of the customer to improve personalization, being smarter around our underwriting and eventually increasing our lifetime value per customer.

So really happy with the progress we've made thus far and we still have a lot of upside going forward.

Casey Coates^ Thanks.

Operator^ (Operator Instructions) Our next question comes from the line of William Reuter of Bank of America. Your line is now open.

William Reuter^ Good morning. The Rent-A-Center stores that closed, the 69, what was the EBITDA drag of those stores, and what was the process like of figuring out the right number of store closures? You seemingly may have hinted towards future store closures.

I guess how many stores are EBITDA negative?

Fahmi Karam^ Morning Bill, thanks for the question. We didn't announce the contribution, but what I will say is that we'll be positive on a pro forma basis after this first phase of the optimization.

But we're really excited using our new tools, our digital capabilities, a lot of AI data to embark on an optimization effort at Rent-A-Center. This first phase of the 69 stores that were impacted, I would call those more good hygiene.

We do this from time to time is looking at, store by store and taking a very thoughtful approach around the market dynamics and our capabilities of retaining the revenue when we merge stores together and merge portfolios together.

But broader than this just first phase. What we're trying to do with Rent-A-Center Business is keep it competitive in today's dynamic environment.

We think a fresh look and looking at our digital capabilities on how we optimize our footprint is appropriate to get our EBITDA margins back into the mid-to-high teens area. Didn't say anything specific around these stores, but we are working very diligently on improving the margin profile of the Rent-A-Center business.

William Reuter^   Got it. And then secondly for me, EBITDA guidance was maintained, but free cash flow guidance increased by $50 million.

What were the pieces that get us to $50 million of additional free cash flow?

Hal Khouri^   Yes, hey, it's Hal here. Really, part of that is working capital with some of the compression in top line and GMV really being a contributor to that, as well as credit performance has been very strong.

But generally speaking, working capital and the need around working capital would have been the main driver of that.

We had been experiencing very strong operating cash flow through the course of the year.

We were cautiously optimistic around what that might entail, but as we look at the balance of the year now really that incremental $50 million, we feel pretty confident around.

William Reuter^   Great to hear. All right, that's all from me. Thank you.

Operator^   I am showing no further questions at this time.

I would now like to turn it back to Fahmi for closing remarks.

Fahmi Karam^   Thank you, Operator. And thank you to everyone who joined us today for an update on our Q2 performance.

I'm very thankful for the collective efforts of our exceptionally talented and dedicated coworkers and merchants.

We're very grateful for your interest and support.

And we look forward to updating you again next quarter.

Have a great day everyone. Thank you.

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

And you may now disconnect.