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Rent-A-Center, Inc. (RCII)

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MANAGEMENT DISCUSSION SECTION

Vincent Caintic
Analyst, Stephens, Inc.

Good morning, everyone. Thank you for joining the Rent-A-Center fireside chat. My name is Vincent Caintic. I'm the specialty finance equity analyst here at Stephens. I'm pleased to be joined by Mitch Fadel, CEO of Rent-A-Center as well as Maureen Short, CFO of Rent-A-Center.

To get started, I'll ask for maybe some brief opening remarks. And for investors if you'd like to ask a question, feel free to push the upper left hand box where it'll open up a chat and I can see your questions and feel free to send those over. I'll prioritize those. But Mitch, maybe if you could get started and just kind of talk about the state of the union for Rent-A-Center?

Mitchell E. Fadel
Chief Executive Officer & Director, Rent-A-Center, Inc.

A

Sure, Vincent, and good morning everyone. Thanks for joining us this morning. State of the union at Rent-A-Center is really good as most of you probably know, we really have two different segments that we'll talk about on this call. I'm sure we'll get some questions on each segment. The Rent-A-Center segment is our legacy segment, brick-and-mortar primarily, but this had a tremendous amount of growth in e-com, not only because of the pandemic, but even before that our strategy was going very digital.

And thankfully that was the direction we're going because when the pandemic hit certainly digital only increased. But we're making a lot of investments in digital and the cool part for the legacy businesses is as more and more people order online again not just pandemic-related, but just more and more people in general. We don't have to add a lot of investments up for technology with the website and those kind of things because our 2,300 stores, about 400 odd franchise and the rest are company-owned. They do the final mile delivery for the e-com. So we don't have to. We didn't have had to add infrastructure different warehouses and all that. The stores through the final mile and then manage the account thereafter on the leased-owned account.

We use our store base to complete the transaction and like I said to manage the account any returns go to the store to rerun it. So the e-comm really fits very well with our legacy business and just providing a tremendous amount of growth. Basically 13% same-store sales last quarter I mean our two-year same-store sales are higher than that off the charts so to speak. And we can – we see that continuing meaning that 13%. We see good same-store sales doing well into the future as e-comm continues to grow. On the other side of the business, the other segment that is growing even faster is our preferred lease. It's a retail partner business that we call preferred lease. And that's a business where we've been in it a long time on a staffed model but just got into the virtual model last year and it's growing fast. Lot of growth opportunity there. We brought in a tremendous been tech executive J. Hogg to run that business for us and take it to the next level and we've had really good growth there. Consumer credit tightening up is good for us with a very resilient business model. We were doing fine before the pandemic and we have to have a recession to do well, just that we do well in any economic environment recession or not. So business has been good for us. Supply chain was a little quanky at times but it's really good now, really come back. It was never horrible for us. We always maintained having just barely enough product went a little low but depending on the category but the supply chain is back now. We have a lot of momentum and with or without the pandemic we've got a lot of momentum hopefully without the pandemic real soon. Right. So with that Vincent I'll – hopefully I was brief enough. I could talk all morning as you know and you've heard me. So I'll just stop right there and open it up for more questions.

Q

Okay. That was great. And I [ph] spurred some investor questions Q&A

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. That was great and spurred some investor questions so I'll read some of those first talking about the e-com growth opportunity. Maybe if you could size up what the potential addressable market or opportunity set is for going into e-com versus your existing in-store model. And then does some of the e-com growth opportunity cannibalize some of your existing business when you think about both the Rent-A-Center business as well as prefer lease?

A

I think the work will be about it will be about in the legacy business about 25% of our business and the Rent-A-Center side by the end of the year. We think they can grow to grow into the mid-30s maybe 40% and maybe beyond that but I'm just – we're just Maureen and I are looking at the next couple of years getting the 40% just continues to grow again with or without the pandemic. And that is the coolest part there Vincent and for the investors is that two thirds of the customers that come through our website are e-com channel our new to Rent-A-Center. So think about that two thirds being new.

So little bit of cannibalization. Yeah you know certainly walk-in traffic is down by some percentage of that 25%. Otherwise it because of e-com grown 25% well e-com last quarter was in the low-20s and it had 70% growth. So that was a little higher than our same-store sales. If you do the math that translated to 50% or 60% same-store sales and same-store sales I think we're 12.9%. So you know there's a couple of percent of offset there but not much because again two thirds are new. And then the question is where those customers coming from?

[indiscernible] customers coming from. And if you think about it and what our data shows us as it's a younger demographic and what our data shows us is this is the younger demographic and the demographic of the country, Vincent and others is going our way, right when you think about e-com or people not wanting to acquire ownership. So the lease-to-own is – lease-to-own program we can acquire ownership, but we have a lot of options is – fits right in with what younger people want today is options, not necessarily in ownership. You think about people not owning their own cars anymore and Uber and all that kind of stuff and it kind of fits with us too and a lot of people are opening their eyes up to leasing versus buying. Again, they can always take ownership. So why not lease for a while, make sure you like it then take ownership. So new customers come in younger demographic.

Q

Okay. Great. Thank you and then another question about the comment on consumer credit tightening up. Is there a way for you to measure that or see that and if we see increased credit tightening up does that mean more growth for Rent-A-Center or at some point do you also tighten up?

A

I think the credit tightening is good for leasing transactions because in one of the ways we know it's tightening up is just watching – Federal Reserve does report – bank reports pretty consistently. You can listen to synchrony calls and things like that, but just the Federal Reserve data. We had some of that back at the end of last quarter and it was pretty significant the amount they are tightening up and it ebbs and flows and two weeks later a report will come out where they're not quite as tight as they were and so forth, but overall pre-pandemic gets tighter and tighter is good for lease-to-own. It pushes more people to the lease-to-own transaction. Again, we had positive same-store sales before the pandemic. We'll have positive same-store sales after the pandemic even when credit loosens up. I mean, there may not be 13%, but will the e-com growth is going to be there with or without credit tightening. Credit tightening just helps and why don't we have to tighten up is because it's a lease and not a sale. If all we ever are verifying is fraud with a consumer, and if they're – if they can't pay for it we pick it up and run it to somebody else. So, it doesn't cause us to have to tighten up because about half of the product in our store at any point in time, it's used returns that we rent somebody else hit a better deal than new product than anyone.

We actually need to use product in our stores to have deals versus new products. So, we like a 50/50 mix of new versus used and we pick it up rent somebody else. So, we do not see the need to tighten up, collections has been great, especially in the Rent-A-Center side, and there's no need to tighten up because there's no obligation by the customer. You're not approving a customer and seeing, okay, are they – can they pay for the next 18 months or on a – heck on a mortgage 30 years? But on consumer financing, can they pay for this refrigerator, or living room, or set of tires for the next three years or five years? We don't have to look at it that way. Of course, we want our customers to take ownership, but if they can't afford it, we just pick it up and rent somebody else. And so, we don't have to take.

Q

Okay. Great. Thank you. And people on the line, feel free to send even more questions. So, always thought that your investor questions. We will just go back to the state of union a little bit. Looking at rent-to-own, it's been so strong during the recession and during this pandemic situation. I guess it doesn't seem to be surprising to you, but maybe if you could describe why that is in a typical recession that rent-to-own does better. And in this particular situation, maybe if there was any learnings you had that you could have done differently or to improved operating model going forward?

A

Well, a couple of things that come with a recession, any recession that we've seen since I've been in this business, which is a long time, the credit tightening is part of it but also flexibility is part of it. Consumers not wanting to make long term commitments. Remember when a customer gets in a leased owner agreement they can return at any time or they can or they can leased owner to they can buy it at any time. So talk about options whereas if you go you go buy that living room group you're pretty stuck with it even if even if you don't like it after three months or your job situation changes after three months. If you want flexibility with an option acquire ownership and with our with 120 and 180 days same as cash programs depending on the state and depending on the product I mean you have an opportunity to acquire ownership at a very reasonable retail rate.

So and if you go beyond that and just do the lease for all you know 15 months, 16 months on average you will pay more than you know if you than other alternatives. We had all that flexibility the whole time. So flexibility is a part of it Vincent besides just the besides just the credit tightening.

Well I don't know what we would have done different? What happened when – when the pandemic hit we had our digital strategy going forward and what it did is speed things up and we had to take a few a few things off the table so we could prioritize some of the some of the technology that we needed right away. Things like you know being part you know being able accept Venmo and PayPal or Venmo especially so that people without credit cards or bank accounts could make payments through Venmo even if they don't have a bank account. So some of that stuff you know when the pandemic hit we had to accelerate. It was on the docket. You know you got you got a tech department and some outside resources working on 10 projects. So you take the four that you really have to have for the pandemic. Forget the other six and get them done real fast. And they performed tremendously.

I suppose Maureen with the with the ability of hindsight you know if those things are already done we did – we'd about a month ahead of the curve. Things like that you know. But – but honestly, we were working on the technology that we needed. We just had the speeds them up and set some stuff aside and I can't think of anything else. So we said gosh darn it I wish we had done that, but can you.

Maureen B. Short
Executive Vice President & Chief Financial Officer, Rent-A-Center, Inc.

A

No. I mean, I think we had a lot of those things already slated to happen this year. It was just a matter of accelerating it. I guess one thing that may have helped us a little sooner is the centralizing the collections on the preferred lease side of the business. We did that quickly when we had some of our retail partner locations shut down. But there was a disruption period with – with the higher losses that we took as a reserve in the second quarter. But as you've seen in the third quarter, the losses are doing much better than we expected. So in hindsight, we would have done that a little more quickly, but either way we got it done and we're in a much better position now, lower labor costs going forward and the centralized collections makes it a lot more flexible.

Mitchell E. Fadel
Chief Executive Officer & Director, Rent-A-Center, Inc.

A

That's a good point. We had to get a 30-day window in there are those pretty clunky and – and it had a little bit of a jump in losses in there. So that. Yeah. And we're already – we're working on that. We just said we had accelerated that. That's a good that's a good point. But we saw you know early on that now in March whatever day that was Vincent, March 11h and 12 and I disremember you know the night the NBA shut down actually Maureen and I had just flown back into Dallas from New York and seeing that you know it was pretty scary. As you know obviously none of us knew what to think. It felt like the world was coming to an end in some cases So but it only took a couple of weeks for us to see. And I can't tell you I knew it was going to happen at that point. I don't think anybody can. But it didn't take long to see that that our products and the need for leasing and the need for household goods people were going to need this stuff for their house right away especially the appliances refrigerators freezers. They weren't only just stocking up on toilet paper but it was also you know the refrigerator and you know for extra food freezers flew out of the store things like that and laptops people you know being told to work from home. They didn't have a laptop to work enough to do it. So you know that's us. Our fines became pretty obvious within about two weeks. Man we need to stay open for our customers. And I think you know Vincent and we fought really hard to stay open as in the central business anywhere where they told us where we're not a central business. And we were able to do that everywhere. And we fought hard to stay open for our customers because they needed us. And it's proven to be to have been the right decision. And our customers needed us then and they need us today. And they'll need us without the pandemic because you know leasing is a great option.

Vincent Caintic
Analyst, Stephens, Inc.

Q

All right great. Thank you for that. Some questions following up on that one here. So one question kind of impressed with your that you were able to sell through this environment and that your inventory levels weren't impacted as much as some of the as your peer rent to own competitor as well as some of the other retail guys. I guess if you could talk maybe about your supply chain and how you're able to how you're able to manage all of that where everything was very efficiently done through this pandemic?

A

You know we're you know for our primary furniture vendor for our primary furniture vendor – actually furniture were their largest customer outside of their own home store. So as their largest customer I think we got some benefits of being a larger customer. They've – they certainly have fallen behind, but not to levels where we didn't have enough inventory. It was – you know, if we wanted 50 of something and we had 40 instead of 50. So it wasn't perfect, but they did a great job keeping us stocked well enough. You know, I think size really helped a lot in how much we buy and how important we are to the vendors. I mean, we're not Wal-Mart or Lowe's when it comes to appliances, but we buy a lot and our vendors prioritize us over some other customers and it worked out pretty well and we're certainly in hindsight partnered with the right vendor partners.

And I think the other thing that helps in our business as compared to retail is if you think about it the business model helps the situation because we don't have to tighten up on our credit because if the customer can't afford it and wants to return it we just pick it up and rent to somebody else or they drop it off so we rent somebody else. Well, that also helps the inventory supply because we have a lot of – we get a lot of returns. So if we supplement our inventory, half the inventory just comes from a return.

So the business model helps keep the supply up as well and our vendors did a really good job for us and knock on wood, we're in really good shape especially going in the last two weeks of our Black Friday sale and in the Christmas we're in really good shape.

Q

Okay. Great. Thank you and speaking

Q

Okay. Great. Thank you. And speaking of, I guess, the fourth quarter to Black Friday sales, how do you think about this season shaping up that might be different than last season? And so, look like you could be more aggressive here or you could actually get more volume in the time?

A

We said on our earnings call right at the end of October that October had come out pretty well. So, I already commented on one quarter or one month out of the quarter performing well. And I think beyond that, I personally think it's going to be a really good holiday season. I think with – for all – especially household durable goods retailer or leasing companies because with the people not spending money, in some ways, that they used to from a travel or entertainment standpoint, sometimes shopping or buying something new for the house or leasing something new for the house with the option to own it is a form of entertainment, right. I know, my wife thinks shopping as a form of entertainment. So, I think a lot of people think shopping as a form of entertainment.

And so, I think it's going to be a good retail season for household goods, maybe not so much for clothes and some things that people don't need it much because they're working from home and so forth. But I think in the right product category, it's going to be a good season. It's going to be a form of entertainment. And money has certainly come out of categories like travel and entertainment into household durable goods. So, I see this – I'm excited about the next six weeks.

Q

Okay. Great. Getting a bunch of investor questions to ask about preferred lease. So, I guess, I'll get right to it. Maybe if you could talk about kind of the changes that you made or announced in the third quarter with preferred dynamics, what's new versus the old preferred lease? And I guess – so we got that. And then, the National Retail Partners, what – maybe if you could put some perspective around And then the National Retail Partners what – maybe if you could put some perspective around when you could get there?

A

Yeah. Sure. Real exciting there and if you think about – you think about our business you got the legacy business just being a cash cow driving the growth, having real great growth on the e-comm side itself. But even our more exciting growth vehicle than that is Preferred Lease. So if the e-comm side of Rent-A-Center is not enough growth the bigger growth even is on the on the Preferred Lease side. As you know Vincent with almost 35% invoice volume growth last quarter. So as I mentioned earlier in the state of the union we've had this retail partner business [indiscernible] in fact we've started it over 10 years ago. But we did it all staffed, we weren't a virtual business. We're slow getting to the virtual business as virtual competitors popped up and then the company went through some tough times with different management 2016, 2017 and so forth. And as you know Vincent the founder of the company and I both left between 2014, 2015. I came back at the beginning 2018. So we lost a few years in there and get slow to that game in the virtual world. We're then in 2018 we went through a strategic review process and by 2019 we knew we were out of the woods as a company and started to do much better and it wasn't [ph] going to get sold. And we needed and now it's like we got to get into virtual business. So our plan was more than had had a lot of components to it. And one was buying a platform to get there faster and we ended up buying a small company out of Atlanta, Merchants Preferred last summer and it's summer of 2019. And it gave us a platform, it gave us a contact center that Maureen referred to earlier that we and it gave us a platform, it gave us a contact center, the marine referred to earlier that we did had transitioned enough our business too soon enough when the pandemic hit happened, but we got there pretty quickly once the pandemic happened and we – so we had the foundation. We had a sales team at the beginning of a sales team or at least the foundation of a sales team context and the technology platform, but we knew it was a very small company as you recall, Vincent. We knew that wasn't enough. We would also need some management to take preferred lease to the next level and I mentioned Jay Hogg earlier – Jason Hogg, we hired him this past summer. So that was the second part of the plan was get the right leadership. Jay brought in Tom Abel, a product guy that he's worked with before and they're really taking preferred leases foundation to the next level and part of what we are announced in the third quarter. Excuse me. Let just take a drink of water.

What we announced in the third quarter. Again, between Tom and Jay they've been here about four months, but they've taken this platform to another level. They've developed the mobile app that's already in test just in these last few months that takes our approval, the whole process down under a minute from 15 minutes to 20 minutes with some different technology, fraud technology to get customers faster approval and then they can put in the rest their information after they're approved. So the approval is gone from 15 minutes to 20 minutes total in the process down less than a minute.

So that's a game changer for us with our partners both staffed and virtual partners and then beyond that the most exciting if you go to preferreddigital.com, you'll see there's a lot of information there about this new product that how we're going to use this mobile technology, but we're also by first quarter of next year, we're going to be – we're going to be able to use that technology as a platform for people to lease items and pay with a digital wallet, Vincent, with without even necessarily having a pre-ordained relationship with that retailer. They'll be able to use this – this lease on digital wallet in a store and just do it at checkout. You know whether we have a relationship with that retailer or not.

So a lot of and this is a patented process, we've put together with the technology. So right now, we're testing the mobile app, the speed of it's fantastic. We're growing. We're growing preferred lease really well as I said 35% invoice volume growth last quarter. I think it was like 10%, 9% or 10% revenue growth. The revenue takes some time to catch up to – to the invoice volume. So really good growth there and really great exciting technology in both the mobile app. And then, how the mobile app is going to become a product that we can do even – even if we don't have a relationship with that particular retailer and that'll be first quarter next year. So not that way down the road or anything like that.

And when we think about those relations we'll first start using that technology in our relationships with the retailers. But eventually, we can use it without even having a relationship. As I said, when you think about those relationships, we got some big, big accounts now like rooms to go and Ashley and Bob's Discount Furniture and so forth. But we said on our earnings call we're in the final stages of – of working on some large national accounts and we're in the final stages of conversation. So, really excited about the pipeline. We already have great growth on a regional basis with that invoice volume I just mentioned. But we also are in the final stages with a couple of national accounts. And – and we think that with the team we've put together, we've added to the sales team. Jay has the team we've put together that technology we're putting together and we're going to be a really, really strong player in that space. And our competitor – there's a few competitors in that space as you know Vincent but with only one other one being public, Progressive being the other public one, national accounts much easier to get national accounts when you're a public company. Some of the other private companies can do really well on a local or regional basis but hard to get national accounts when you're not a public company. And we're the only other public company besides Progressive. And they're going to have some competition on those national accounts, they already do and have us as a competitor on the national accounts. And the good news is that you don't have to win every one because there's lots of national accounts for both of us to get and I think our future on both sides is very bright.

Q

Great. Thank you for that. And that spurred a bunch of investor questions. So great answer. I'll just read through a couple of these. So talking about the Preferred Leasing offer. It sounds really interesting this investor is asking if you could maybe so Preferred Lease versus Progressive and all the other guys out there maybe if you could differentiate how Preferred Lease is different from the other players and why a retailer should pick Preferred These versus the other offerings that are available?

A

Really good question. There is a few competitors out there besides Progressive as I mentioned but we're the only ones that you don't have to have a bank account to get approved. We do business with unbanked customers. They can pay in cash, they can pay with Venmo. They can – they don't have to have a bank account to get approved, there's other ways to pay and there's other ways to get approved. So they don't need a bank account, that's the biggest reason that – I don't know why anybody would pick anybody else because we have the – when you had that into the approval level, we have the highest approval level. I mean, the only reason you wouldn't win accounts at that point with that kind of differentiation is somebody is just working harder on sales than you are. So we just have to have work people on sales and I already mentioned Bill and their team, but unbanked customer's number one.

Number two, we're willing to supplement the staff if they have enough cash and credit constrained business that we think together us and the partner think that if we have a person there at least during peak periods to supplement their staff and help them close the deal kind of quarterback the program because if it gets too busy because sales people can close the deal with us on our virtual site or in our competitors virtual site, but if they get three customers at the same time they may take the path of lease resistance. So if you have a lot of volume, we'll supplement the staff at our cost and we only do that when you get to the same or better EBITDA margins after the labor. So you got a high volume, but – and right now about 900 of our 4,500 overall retail partner locations about 900 are staffed and the rest are virtual. So they give you an idea of the kind of breakdown maybe going forward 10% actually use supplemental labor. It's going to be mostly straight virtual in e-com, but we will supplement. So that's a differentiator and certainly the technology now is a differentiator as well. [indiscernible]

A

One of the things [indiscernible]

A

What else Maureen did I forget something?

A

Yeah. One other thing to add with the new preferred dynamics program, we will also be directly marketing our consumer base whether existing customers or new customers and bringing those customers to our retail partner locations rather than just relying on the foot traffic of that merchant partner location.

So that's something new that we're rolling out that our other competitors are not doing today. Really actively directly targeting our consumer having them come into the retail partner location or onto their website and providing them a lease approval amount upfront to come in and use at the time that they enter the stores or go on the website. So that's another differentiator that other competitors don't have.

A

That's a great point Maureen driving traffic to the retailer. And then when you think about you asked earlier Vincent about how come we don't have to tighten up which reminds me of yet another differentiator in that from a approval level and we use Preferred Lease uses the Rent-A-Center stores to help with the tougher collections. It's the phone calls are done from a centralized call center but we have Rent-A-Center go and pick up the account and then re-rent if the customer can't pay for it. So we use Rent-A-Center which means we can take a little more risk when we're approving than our competition because we have an outlet for the product and no one else does. I mean Progressive has an outlet for the product right through [indiscernible] 00:30:53 but they're splitting now so they won't have that outlet and they don't use it anyhow to my knowledge. So it's only the split changes anything but they really have running pretty independent anyhow and obviously pretty successfully run them independently especially on the Progressive side. So that's worked for them but they run them independently. We use Rent-A-Center as an outlet for the return so we can decision. And when you put all that together besides driving the traffic Maureen was talking about our approval levels are the highest in the industry and not at the detriment of yield But those are the highest in the industry for the reasons I just talked about and that's why – and I don't know why anybody wouldn't pick us Vincent.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Because I'm a little biased. [indiscernible]

Mitchell E. Fadel
Chief Executive Officer & Director, Rent-A-Center, Inc.

A

Very thorough. Yeah. It's great.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Let's see. So another investor question and this is about the – so what you just talked about in terms of the Preferred Lease marketplace. So this is interesting. And I thought this was new too. So, the idea that you can go into any retailer and rent or own to so it's – it's sort of like a SKU level that the app kind of looks at the product. And if you are able to underwrite that product then you can go to any retailer and pay for it. How does that work?

Mitchell E. Fadel
Chief Executive Officer & Director, Rent-A-Center, Inc.

A

Okay. The SKU you know a can of Coke is not going to be in there.

<<Q – [06Z4Q4-E]Vincent Caintic – Stephens, Inc.>: Yeah.

Mitchell E. Fadel
Chief Executive Officer & Director, Rent-A-Center, Inc.

A

But the refrigerator will be or the tool potentially you know the expensive tool kit or whatever. So yeah, yeah. The marketplace is being developed with all those SKUs in there and there and y yeah then just its QR code, it's QR code stuff.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. Really interesting. I think I don't know that anybody else off or set.

Mitchell E. Fadel
Chief Executive Officer & Director, Rent-A-Center, Inc.

A

No. No. And again – again, it preferreddigital.com. I sound like a salesman. Then you go website order today. No. But the information – the information's there you know as well. So I think you'll find it and it's long website. It's going to you about 5 minutes to get even a better feel for what we're doing. If you preferdigital.com.

Vincent Caintic
Analyst, Stephens, Inc.

Q

And so that website I'm going through it right now.

Mitchell E. Fadel
Chief Executive Officer & Director, Rent-A-Center, Inc.

A

There you go.

Vincent Caintic
Analyst, Stephens, Inc.

Q

It's one of the...

Mitchell E. Fadel
Chief Executive Officer & Director, Rent-A-Center, Inc.

A

[indiscernible]

Vincent Caintic
Analyst, Stephens, Inc.

Q

[indiscernible] have to Zoom. Yeah. They're having the Zoom media. I can go around. This is interesting.

Mitchell E. Fadel
Chief Executive Officer & Director, Rent-A-Center, Inc.

A

Good looking website too. Really well....

Vincent Caintic
Analyst, Stephens, Inc.

Q

Yeah. It is.

Mitchell E. Fadel
Chief Executive Officer & Director, Rent-A-Center, Inc.

A

Is that MCD Maureen? I put a plug in for the team that put that idea. Gets MCTD the agency there did a great job.

Maureen B. Short
Executive Vice President & Chief Financial Officer, Rent-A-Center, Inc.

A

That's right. Yeah. We've – we've been looking at Yeah. We've been looking at other digital focused partners and they've been really great for us these last few months.

A

Not about the discountability, I just came up for [indiscernible]

Q

That's okay. So I guess this way of doing things and it's nice said I mean you're kind of building this from the ground up so it sounds like your product might be better than maybe the other competitors out there who already have established products that was built a while ago, but would this make it easier to roll it out with a retailer? So like the way you're doing is very app based, QR codes so very flexible.

A

Absolutely. Yeah.

Q

During the same period [indiscernible] yeah.

A

Yeah. Integration time is almost nothing. I'll tell you when we brought Jay in and he brought Tom Abel with him I mean these are top notch product people in the Fintech space and yeah, you make a good point, Vincent a little bit of – being late to the game maybe we're able to being – we're late, but the best and technology and you could say well okay who have somebody in copy. We've also patented this process. Now patents, people can figure out another way to kindly get to the same thing, but we have a lot of patents on the stuff we're talking about.

Q

Okay. Great. I think a lot of preferred these questions, but also getting a lot of other questions so maybe I'll switch gears a little bit here. So one question just completely switching gears, but asking about stimulus what that means for your business? Are you thinking about a second round of stimulus here? Does that help or hurt?

A

I think it helps. I think more money on the street I would never say it doesn't help. Whenever there's more money out there it helps. What we saw first time around is it does drive a few people, a few more people paying out their product, but it drives a lot of new rentals too. So you get payouts which drops the portfolio brings in a lot of cash, but then you get re-rentals that drive the portfolio back up, and obviously, it really high or we wouldn't be running 13% same-store sales. So, I think it's a good thing for us. We don't need it like other parts of the economy that need it whether you're talking about restaurants, or entertainment or travel and so forth, we don't need it. I hope for the sake of the country and for the sake of national debt, Vincent, that they can be a little more targeted about just who needs it. We don't need it. But if it's this wide open, just give people more money, it will help us. We don't need it, but it's still overall a net positive.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. Great. Another question kind of related on regulations asking what a kind of the current outlook, which is a Biden administration, but a Republican senate, does that do anything or change anything for your business in terms of regulatory outlook CFPB or anything like that?

A

We've operated – I've been doing this for most of my adult life. And we've operated under a lot of different administrations, mixed government, all one-sided government. We operated when the CFPB was formed under a Democratic administration under Obama. The CFPB doesn't have jurisdiction over [indiscernible] 00:36:51 FTC does because the leases don't come with a 90-plus-day minimum, which is what the CFPB guideline is.

But even if they changed that rule, we follow 47 state laws plus this law is in District Columbian Puerto Rico, 49 laws that we follow that are state-driven. It's really a state government process program from a regulatory standpoint. FTC has federal jurisdiction. They can give it to the CFPB. We follow the state laws. And like I said, we've operated under many different governments – government conservative, liberal and so forth. And feel like as long as we follow the rules we're in a good shape. I think for the country my personal belief for the country is a split government with the Senate being held by the Republicans is probably a good thing because if it forces those two parties to work together if anything forces two parties to work together I'm for it. So I think that they'd be good. I'd feel the same way if it was reversed with a Republican president and Democratic Senate because at some point we got to stop the fighting and we got to work together in Washington. I think it's a good thing for the country if this [ph] stay Republican. And but I think either way for our business we're going to be just fine for the reasons I said.

Q

Okay. Great. Thank you. Switching gears again a question about expenses. And so you talked about kind of going into this recession that you're able to get lean very quickly and still maintain good service levels. Coming out of this as you're growing and you kind of actually been growing very well during the recession, your expenses have been very strong coming out of this is this the right level of expenses to be thinking about going forward or do you need to add back in certain places or maybe invest in other places as well?

A

I mean look Maureen getting into the details of the question but the good news about our most of our growth whether it's e-comm we already have the stores to do the final mile, don't need more investment. Preferred Lease is mostly virtual growth. So you're talking about technology investment, CapEx dollars versus OpEx dollars and with scalable resources. So our growth plan doesn't necessitate a lot of added expense when you think about it being e-comm on our Rent-A-Center side and virtual on the Perfectly Lease. But Maureen I'll let you hit it a little harder than that.

A

Yeah. We're at around the run rate that we think is needed going forward. If you're thinking about comping year-over-year though, of course in the second quarter we did have some furloughs and other reductions we looked at all non-dis – more discretionary spend or non-essential spend and made some cuts in the second quarter. So they'll – that's obviously a difficult number to comp over, but we're at the run rate and believe that some of the structural changes that we made on the preferred lease side where we centralize collections will actually offset a lot of the year-over-year differences when it comes to the labor line, but we're – if you look at the third and what's implied in the fourth quarter it's pretty much the quarterly run rate for going forward.

A

Yeah and based on where the portfolio is to there's some expense cuts, especially in the second quarter like Maureen said that we will run a little higher expense in the second quarter because of furloughs this past year in the second quarter, even Executive pay reductions and things like that that we comp over, but don't get the impression even though we haven't put out 2021 guidance, don't get the impression or comfort [indiscernible] company sales 2021 can't be as good profit wise as 2020.

We don't see that. As we look at our portfolio and we've got this recurring revenue stream, it's not like – when we do put out 2021 guidance, it'll be lower than 2020. Again, I don't want to say any more about next year. I'll wait until we put our guidance, but it's not like we're going to be – like I think a lot of companies that won't be able to comp over their earnings this year for some of those reasons Maureen just said we because our portfolio is so strong we're going to be – we're going to have an increase. How much you have to wait for Reed Vincent's estimates. He has already read Vincent's estimates he's already got out there for next year. But we're not going to be that company where next year is lower than this year because there's going to be some of them right based on savings this year during the pandemic and we're going to continue to grow our earnings thankfully.

Q

Okay. Great. We have one minute left so maybe Mitch I'll leave it to you for closing remarks and maybe to talk about that year-over-year comp because I think some people do think that maybe the spending of this year was because of stimulus or other things and it was pulled forward from future stimulus – future or maybe 2021 tax season. But maybe you could kind of give the closing marks on that.

A

Yeah. Good way to close up. On the Rent-A-Center legacy side we see the future being mid-single digit comp. So even this year comping over 13% say in the third quarter this year, our three-year comp next year is just going to be awesome. You take mid-single digits on top of where we are now. So no we don't see it – we don't see that going negative at all. Again with the momentum we have with the e-comm growth we see mid-single digits. So on the Preferred Lease side and we said our roughly $800 million business this year is going to be $1.2 billion, $800 million this year about $1.2 billion in 2022 as we've already said publicly we're more than confident in that number and that's without even a national account. That's just the way the current trends on regional sign ups and so forth. So $1.2 billion in 2022 very confident in that guidance and very confident we have a few national players and to beat that that number. So no this is not one of those with stimulus goes away and their numbers are going to be negative, not at all.

Unverified Participant

Perfect. Well thank you very much guys for your time. Appreciate it. And if anyone else has any questions feel free to reach out to me and I can respond and distribute. But thanks very much Mitch and Maureen for your time.

Mitchell E. Fadel

Chief Executive Officer & Director, Rent-A-Center, Inc.

Thank you, Vincent. Thanks, everyone.

Vincent Caintic

Analyst, Stephens, Inc.

Thank you. Take care, everyone.

Maureen B. Short

Executive Vice President & Chief Financial Officer, Rent-A-Center, Inc.

Thank you. Take care.