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Rent-A-Center, Inc. (RCII)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for holding. Welcome to Rent-A-Center's First Quarter Earnings Conference Call. As a reminder, this conference is being recorded, Thursday, May 6, 2021. Your speakers today are Mr. Mitch Fadel, Chief Executive Officer of Rent-A-Center; Maureen Short, Chief Financial Officer; Jason Hogg, Executive Vice President of Acima; Anthony Blasquez, Executive Vice President of Rent-A-Center Business; and Daniel O'Rourke, Senior Vice President of Finance and Real Estate.

I would now like to turn the conference over to Mr. O'Rourke. Please go ahead, sir.

Daniel O'Rourke

Senior Vice President-Finance, Rent-A-Center, Inc.

Thank you. Good morning, everyone, and thank you for joining us. Our earnings release was distributed after market close yesterday and it outlines our operational and financial results for the first quarter of 2021. All related materials, including a link to the live webcast, are available on our website at investor.rentacenter.com.

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

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.

I'd now like to turn the call over to Mitch.

Mitchell E. Fadel

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

Thank you, Daniel, and good morning, everyone. Thank you for joining us. We will be providing a voice over to the presentation shown on the webcast that can be found on our website at investor.rentacenter.com.

We delivered the most successful quarter in our history in the first quarter same-store sales, invoice volume and portfolio performance were driven by strong demand tied to an improving economy and we're pleased with the momentum across the businesses. The Acima integration is right on schedule. The teams are optimizing the business for scale as we increase our digital presence to our new functionality and continue to grow the portfolio. Our Acima segment, which combines our previous Preferred Lease segment with the acquired Acima business, drove strong merchandise sales and invoice volume in the quarter.

On a standalone basis, the Acima business we acquired in February had adjusted EBITDA margins of 17.5% in the first quarter. The path we're on is truly exciting and we feel great about our strategy to capture more of the retail partner opportunity. As we move ahead with Acima, the Rent-A-Center Business is also making important progress to continue to accelerate profitable growth and the first quarter is a testament to that. Demand was broad-based and driven by our value proposition, e-commerce and the digital investments we've put into motion.

Total revenues were up 47.7% driven by the Acima acquisition and a 15% year-over-year revenue increase in our Rent-A-Center Business. Adjusted EBITDA margin was 13% up approximately 370 basis points supported by top line improvements and efficiency gains. The retail partner business had a great quarter with Acima invoice volume up approximately 28% on a pro forma basis driving over 30% pro forma revenue growth.

The Rent-A-Center Business generated outstanding results with a 23.4% increase in same-store sales that's the 13th consecutive quarter of positive comparable and it's a nice lift in the two year stack trend. Our digital strategy continues to drive growth, e-commerce and mobile in the early innings and we think there's a long runway for each.

Now turning to slide 4, as we've discussed, we're operating two leading LTO platforms as broad reach and compelling evidence to increase revenue and earnings. Acima has immediately transformed our retail partner business to a higher growth, higher profit and best-in-class virtual platform. Acima is doing so many things for us. It's improving our ability to compete for high value, national retail accounts, and enhancing our underwriting with a high performing decision engine that supports more verticals. The team is bringing extensive data and digital expertise and we now have a superior back-end infrastructure.

The agreement with MasterCard announced recently is just one component of our strategy to create better access to more products for cash and credit constrained consumers. We'll have much more to report as the year progresses. From a financial perspective, Acima tilts our consolidated revenues to a majority fintech business with an extremely attractive growth runway. We're on track with our target for 30% accretion for non-GAAP EPS in 2021 we believe some of our long-term targets may be conservative given the progress we're making.

I can't discuss the record first quarter without addressing the powerful traction we're seeing with digital across the business. Our scale allows us to serve customers of multiple touch points lease-to-own captures new product

verticals and a younger generation of customers who want the flexibility offered by lease-to-own. We're adding multiple capabilities to meet the customer where they want to shop and it's paying off and accelerating growth and profitability. We see it in omni-channel and our Rent-A-Center Business, which is driving more efficient faster growth in both stores and online. And we expect it to play out in numerous ways to Acima and improve performance for retail partners and favorably impact customer acquisition costs.

There's little question that stimulus and reopenings combined to catalyze strong performance and our portfolios reflect that and ended the quarter in great shape both in size and in quality. Well, that should underpin strong performance in 2021 our updated guidance incorporates a return to more normalized environment in the second half. The good news is that the work we're doing improve digital and grow Acima represents sustainable improvements that should benefit in future periods. And it supports our confidence in our 2023 goal for \$6 billion in consolidated revenues with mid-teens consolidated adjusted EBITDA margin. And that equates to a very enviable growth and profitability for any sector. And we believe it's a very attractive story.

Before I turn the call over to Jason, I'd like to thank our co-workers, our retail partners, our franchisees and our suppliers for their dedication to serving customers. We've put together a best-in-class for the assets to support lease-to-own and we look forward to working with you to grow the business further. Jason?

Jason J. Hogg

Executive Vice President-Acima, Rent-A-Center, Inc.

Thanks, Mitch. Turning to slide 5. The retail partner business had an excellent quarter with sales doubling versus last year. As you're likely aware, Q1 is the first quarter we include Acima in our financials after closing the transaction in mid-February. The business performed well versus our expectations supported by improvement in merchandise sales and strong growth in invoice volume. The revenue gains were achieved despite continued constraints on inventory that have impacted many of our retail partners.

Skip/Stolen losses were 8.6% improving by 360 basis points from the prior year. For 2021, we expect the total Skip/Stolen losses for the Acima segment to be between 9% and 11%, which we expect to decrease as we transition to the Acima decision engine. We continue to expect Acima's EBITDA margins to be approximately 14% for the full year. Adjusted EBITDA margins for the Acima LTO business, we acquired in February with 17.5% and Skip/Stolen losses were 3.7%.

Turning to slide 6, which had some updates on our progress. We're making significant progress to integrate Acima. We're operating with a deliberate approach to optimize the business as we move forward on our strategy to scale revenue growth. Immediately following the successful close of the acquisition, we were able to restructure the regional leadership of our staff in virtual businesses. We're leveraging the existing Acima organization to improve span of control while reducing our organizational overhead.

Additionally, we've consolidated the sales organizations that Acima segment with a three-pronged organizational approach designed to maintain our organic growth while accelerating our National Accounts strategy. As such, we've completed the integration of our regional sales force getting overhead efficiency, while maintaining strong growth in new merchant partners. We've simultaneously placed equal emphasis on utilizing talent within the combined companies to formalize our National Accounts team and have amplified our robust pipeline of over 200 targets that we are pursuing and we're in active negotiations with numerous national retailers.

Finally, we've invested further in a dedicated e-commerce team to complement Acima's brick-and-mortar approach. How quickly these organizations have come together and maintain productivity as one cohesive team is a testament to the excellent cultural fit between the two companies. We've made the decision to move of

collections and servicing activities for the virtual business into a seamless centralized operations which will drive much better efficiency. Consequently, we have provided notice that we will be shutting down the servicing and collection center in Atlanta in its entirety no later than the third quarter as we ramp operations staffing in Utah.

We're also on track for all virtual locations to be converted to the Acima platform by mid-year with all staffed locations converted by the end of this year. We've targeted \$40 million to \$70 million in potential synergies and given the actions I just described we are well on our way to capturing \$25 million of that in 2021. We continue to believe Acima will grow revenues 20% to 25% on an annual basis with the mid-teens adjusted EBITDA margin.

Now turning to slide 7. Mitch mentioned the MasterCard agreement to multiyear partnership to create a new category of payment card to supplement the credit, debit and stored value segments. This new segment defined as the first open-loop LeasePay card to shop at a broad array of physical and digital retail locations without the need for physical integration. To put this into context, where traditional lease-to-own and buy now pay later firms have acceptance of tens of thousands of merchants when fully implemented customers will have access to shop at approximately [ph] 2.2 million (00:11:18) durable goods MasterCard merchants, utilizing their LeasePay MasterCard with no integration required.

This should unlock a new level of shopping power for cash and credit constrained customers to lease eligible goods that improve their quality of life. This is the first LPO payments card in the industry that provides retailers access to a significantly larger segment of consumers that couldn't previously count as customers since they don't qualify for traditional financing alternatives and the ubiquity of access to consumer base that has traditionally been locked out of shopping at name-brand merchants. Customers will be able to utilize their native Acima mobile application to select items in store, initiate a lease with Acima and then check out at the point of sale just like any other MasterCard cardholder.

Strategic partnerships are just one of the ways we can leverage Acima to drive customer origination along with proprietary technology. We think there is a \$40 billion to \$50 billion total addressable market opportunity as LTO and buy now, pay later concepts become more widely adopted. Three key differences between our LTO model and existing BNPL models is that first and foremost LTO doesn't sell consumers with long-term debt obligation. Our unique ability for the customer to return an item to one of nearly 2,000 Rent-A-Center locations enables us to address this large and traditionally underserved segment of consumers. Second, from a retailer perspective, while BNPL shuffles the same set of consumers from one financing solution to the next in an effort to just improve [ph] vastly (00:13:14) conversion, LTO provides almost 100% incremental revenue for the merchant by addressing the needs of consumers that likely don't qualify for BNPL solutions.

Lastly, while we have the same number of merchant origination partnerships as the largest BNPL companies, our platform will enable consumers to utilize their lease-to-own capacity at exponentially more merchants. Consumers will have the ability to move fluidly between brick-and-mortar locations with the Acima LeasePay MasterCard, utilize the Acima mobile app, the Acima browser extension or Acima MarketPlace to continue initiating leases for the goods they need. As with traditional payment card platforms, our platform provides greater utility than BNPL solutions, which we believe will result in greater repeat utilization and consolidation of expenses.

As we look forward, we're focused on leveraging our proprietary low friction origination and utilization technologies such as our mobile app, browser extension, MarketPlace and LeasePay MasterCard in combination with our newly acquired machine learning based decision engine. This will enable us to fully unleash the \$40 billion to \$50 billion of addressable market that is currently underserved. Our quantitative marketing group has already completed several successful tests of originating customers through a variety of the technologies mentioned with

direct-to-consumer customer acquisition costs averaging \$83, which compares favorably to the leading fintech companies.

We anticipate [ph] continually declined (00:14:55) direct-to-consumer acquisition costs as we scale e-commerce and mobile as an augmentation strategy to our existing merchant origination platform. In addition, these technologies further support our National Accounts strategy by reducing integration efforts. I'd like to personally thank the technology team and commend them for bringing these paradigm shifting technologies to fruition in record time. The integrated approach should enable us to accelerate our growth through a frictionless experience that gives us repeat access to potentially tens of millions of customers and allows us to pursue our strategies within an overall market that we estimate is in the tens of billions of dollars. All while having a proprietary technology advantage to achieve our revenue and profit growth expectations. During the second quarter, we'll be releasing a video overview that shows our beta products in action and demonstrates the power of the Acima's family products.

Now I'll turn it over to Anthony to discuss the Rent-A-Center Business.

Anthony Blasquez

Executive Vice President-Rent-A-Center Business, Rent-A-Center, Inc.

Thanks Jay. As we look at slide 8, the Rent-A-Center Business had a terrific quarter with total revenues up 15% driven by our strongest comp ever of 23.4%. It's our 13th quarter in a row of positive same-store sales. While we recognized the macro-environment played a role, I want to underscore how proud I am of the team for executing in such a high level to achieve these results as well. Digital initiatives continue to be a big part of improving the customer experience. E-commerce grew over 50% in the quarter compared to the first quarter of 2020, now representing almost 25% of revenue and digital payment penetration increased as well.

Similar to the Acima business, we experienced higher early payout activity due to the tax season and stimulus that helped the top-line performance, but the demand for new agreements significantly outpaced our expectations as well. The net result is that we achieved sequential growth in the portfolio in Q1 for the first time in our history. To put a finer point on it, the portfolio was up 10% in 2020 and we came out of March with a portfolio that was 17% ahead of last year. We believe the current level of the portfolio, coupled with stronger retention that we are seeing will benefit us in future periods. The top-line performance mixed with low skip/stolen losses of 2.7% and our consistent expense focus led to an increase in adjusted EBITDA of almost 70% versus last year with an adjusted EBITDA margin of 24%.

Turning to slide 9, in addition to digital improvements first quarter performance benefited from proactive measures to implement alternative inventory sourcing strategies. These strategies help to offset the inventory constraints we've experienced in certain product categories. And we ended the quarter with higher inventory levels than last year. One area we're really excited about going forward are the new product categories. Notably, we launched the tire category nationally and as we say it's gaining traction. The category is a true value add for our customer and is one of the ways we will keep the momentum going. We believe tires along with our other new product categories will approach 5% of the portfolio by the end of the year.

We continue to enhance the online customer experience, which will reduce friction and give customers more control and tools to manage their lease transactions. The enhancements include a faster approval process and a more seamless checkout. Centralized decisioning in our stores has also helped improve the customer experience by increasing efficiency and reducing losses. We've also invested in modernizing our stores with new technology to increase speed and enable mobility in customer interactions. So our co-workers can reach customers with a more seamless experience that further improves customer interactions. Along with the advancements in our

online customer experience, we believe there's an opportunity to grow our physical presence in key markets to serve more customers, operate more efficiently and ultimately grow revenue. Within our communities, we plan to open a few new locations this year in order to test a smaller footprint with a more technology-focused customer experience given our strong e-commerce demand.

Turning to slide 10 while Maureen will expand on the guidance in a moment, I'll touch briefly on the Rent-A-Center Business outlook for 2021. With the Q1 performance and favorable portfolio, we've increased our revenue and adjusted EBITDA guidance. We now think our same store sales for the year will be 12% to 14% which does assume a return to more normalized mid-to-high single digit comps the back half of the year. We also believe we can sustain skip/stolen losses in the 3% range for 2021 and we'll have an adjusted EBITDA margin above 20%. As I've discussed, we've benefited from the macro environment, but have also worked hard to implement several transformational changes to the business that have positioned us to keep the momentum going.

I'll now turn the call over to Maureen.

Maureen B. Short

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

Thanks, Anthony. On a consolidated basis, total revenues were \$1.037 billion, a 47.7% increase versus the same period last year, benefiting from the Acima acquisition in mid-February. Pro forma revenue growth was 24.8%. Organic growth was driven by higher early payouts, strong demand and better customer payment activity aided by government stimulus. Adjusted EBITDA was \$135 million, which is more than two times our performance in Q1 of last year and pro forma adjusted EBITDA growth was 49.3%. Adjusted EBITDA margin was 13% of revenue, a 370 basis point improvement over the same period of last year. The margin improvement was driven by higher revenue, lower losses and lower operating expenses due to the asset-light virtual Acima model, partially offset by a lower gross margin percent given the mix shift to virtual.

Diluted EPS on a non-GAAP basis nearly doubled versus Q1 of last year coming in at \$1.32 versus \$0.67 in the previous year. The Acima acquisition and strong operational performance drove the improvements year-over-year offsetting higher interest cost. On a GAAP basis, pre-tax earnings were negatively impacted by one-time Acima transaction and integration cost, stock compensation expense related to equity consideration subject to vesting and amortization of intangible assets related to the acquisition of Acima.

Free cash flow was \$124 million up \$86 million versus Q1 of last year. We ended the quarter with a \$123 million cash balance and gross debt of \$1.38 billion. Given the strong performance and higher early payout activity in Q1, we're well ahead of our target date to be under two times leverage as we were right at two times on a pro forma basis at the end of Q1. During the quarter, we paid down \$110 million on our ABL revolver and paid down an additional \$25 million in April. Liquidity at the end of Q1 was \$528 million. Our diluted share count increased to 68.6 million shares as a result of the Acima acquisition, but was 66.3 million on a weighted-average basis in the first quarter. During the quarter, we paid a cash dividend of \$0.31 per share, which was approximately 7% higher than last year during the same period.

Turning to our 2021 guidance on slide 12, based on our results in the first quarter and our improved outlook for the rest of the year, we're increasing 2021 guidance. Our guidance assumes no additional government stimulus and improving global supply chain and that key metrics return to more normalized levels in the back half of the year.

We now expect consolidated revenues to be between \$4.45 billion and \$4.6 billion for 2021 with the increase driven by stronger than expected revenue in Q1 and an improved outlook primarily due to the higher rental

portfolio balance in the Rent-A-Center Business. Consolidated adjusted EBITDA is expected to be between \$600 million and \$650 million. Non-GAAP diluted earnings per share are expected to be between \$5.30 and \$5.85. We also expect to generate free cash flow of \$250 million to \$300 million, which is an increase of over \$100 million versus the guidance issued last quarter. The increases are primarily driven by strong performance in Q1 as well as higher outlook for the rest of the year.

Turning to our segment projections. We expect our Acima segment to generate revenues of \$2.32 billion to \$2.42 billion. Adjusted EBITDA of \$320 million to \$350 million is expected with adjusted EBITDA margin of 13.8% to 14.5% of segment revenues. Margins were impacted in Q1 due to higher payout activity. Gross margins and adjusted EBITDA margins are expected to grow sequentially throughout the rest of the year for the Acima segment as we implement synergies, which are expected to increase our yield, reduce duplicative costs and offset the impact of metrics returning to more normalized levels.

We expect the Rent-A-Center Business segment to achieve revenues of \$1.94 billion to \$1.99 billion. As Anthony mentioned, we expect same store sales to moderate to mid to high single digits in the back half of the year. Operating expenses will increase year-over-year as labor and losses return to normalized level resulting in adjusted EBITDA of \$405 million to \$425 million or 20.9% to 21.4% of segment revenue. Regarding the cadence of results for the rest of the year we expect revenue to increase year-over-year by approximately 65% each quarter and non-GAAP diluted EPS is expected to be up approximately 70% in Q2 and up 35% to 45% year-over-year in the back half.

Turning to slide 13. Our capital allocation priorities continue to be investing to grow the virtual lease to own business including growing the e-commerce channel via strategic partnerships and new technology innovation. Secondly, we plan to continue reducing our net leverage to our longer term target of 1.5 times both through strong adjusted EBITDA growth and debt pay down while preserving robust liquidity. And finally, we plan to continue to provide attractive total shareholder return by returning capital to our shareholders in the form of dividends. And they also take advantage of share repurchases opportunistically.

With a large addressable market of the virtual lease-to-own business and the highly profitable Rent-A-Center Business, the company is well positioned for long-term earnings growth and strong free cash flow generation. We're excited about our prospects for 2021 and confident in our 2023 goal for \$6 billion in consolidated revenues with the mid-teens consolidated adjusted EBITDA margin. As always detailed income statements by segment are posted to our website and the 10-Q will be filed tomorrow.

Thank you for your time today. I'll now turn the call over for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Anthony Chukumba from Loop Capital. Your line is open.

Anthony Chukumba

Analyst, Loop Capital Markets LLC

Q

Good morning. Congrats on the strong start to the year and thanks for taking my question, lot of really good detailed information in the press release and in your comments, so appreciate that a lot. I guess my question is on your second half guidance. You're assuming no additional fiscal stimulus, which makes a lot of sense, but I guess, I'm just wondering how are you thinking about the child tax credit because if that doesn't really kick in until July, which is obviously the start of your second half. And I would have to think with your core customer that could be really beneficial to them? So how are you factoring that into your guidance? Thank you.

Mitchell E. Fadel

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

A

Good morning, Anthony. This is Mitch and thanks for joining us this morning. We don't have that factored in. So if that is a benefit that would be upside to our numbers. We haven't really factored in.

And it's kind of, we really don't know what the impact that's going to be, I agree with you if it's anything it's going to be positive. But we didn't factor in anything positive in our forecast because of that.

Anthony Chukumba

Analyst, Loop Capital Markets LLC

Q

Got it. And I know this is probably pretty tough to parse out. But as you think about maybe we'll just focus on the Rent-A-Center Business. You did your strongest comp ever, 22%, very impressive. I mean, how much of that was fiscal stimulus, right? I mean, there was – with the checks, like started coming out in December and those other checks started coming out in March like is that, that sort of half of the comp? Or was that, three quarters of comp, I know you guys have been doing very strong comps for quite some time, but as you said that I mean it accelerated meaningfully even on a two-year stack basis?

Anthony Blasquez

Executive Vice President-Rent-A-Center Business, Rent-A-Center, Inc.

A

Hey good morning Anthony. This is Anthony, so thanks for the question. Yeah, it is kind of hard to parse out and be specific on it. So we believe that maybe a third of it was driven by stimulus namely the merchandise sales. I think the bigger question is if you look at our go forward shown in our revised guidance you can see that we still believe we're going to continue to outperform throughout the rest of this year. And we're taking market share. We believe that obviously some of the guidance increase that we have is driven by what happened in the first quarter. But what's more important to us and what we're focused on is really we're exiting this quarter with a portfolio that sequentially is up 17%. We exited the fourth quarter up 10%, exit this quarter up 17% and I'd say that stimulus played a role. We're extremely excited as well with what's happening in e-comm, 50% comps – 50% improvement in our e-comm performance, so on a go forward basis I think that – that's what really exciting to us.

Anthony Chukumba
Analyst, Loop Capital Markets LLC

Q

Thanks so much for taking my questions and keep up the good work guys.

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

A

Thanks.

Anthony Blasquez
Executive Vice President-Rent-A-Center Business, Rent-A-Center, Inc.

A

Thanks, Anthony.

Operator: Your next question comes from the line of Brad Thomas from KeyBanc Capital Markets. Your line is open.

Bradley Thomas
Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning everybody and congrats on a great quarter here. Two questions, if I could, the first around Acima and decisioning tool and your ability to leverage some of Acima's expertise and insights across the broader portfolio. Hoping Jason and Mitch you all could talk a little bit about your early learnings and your level of confidence that this could reduce losses and potentially also increase equivalence?

Jason J. Hogg
Executive Vice President-Acima, Rent-A-Center, Inc.

A

Yeah. So, good morning, Brad, this is Jay. The good news for us is it's one of those things where when you acquire a company, you sort of always have some sort of mental discount factor and that couldn't be more untrue. When we got in and began working with the team and the decision engine, we couldn't be more pleased. So the direct impact that it will have is sort of threefold. The first is the engine is radically better at reducing – sussing out fraud and reducing fraud, which we are already seeing benefits of. The second is that the engine does a much better job with regard to the approvals and the line assignment which enables us and kind of through a commendatory effect to increase yields. And so as we've migrated and continue to migrate, which will be kind of largely complete with at the end of Q2 to prefer these portfolio on that platform we'll begin to see a material improvement in our yield and EBITDA contribution margin as a result.

Bradley Thomas
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. And if I could ask a follow-up regarding the guidance, I mean, I think just at a high level, you all beat by about \$0.30 flowing through about \$0.30 to your guidance. Just as we think about the balance of the year, I would think there might be reason for more enthusiasm for the balance of the year. Can you just talk about any puts and takes and are there any offsets that may be creeping up or is it just conservatism as we think of the year? Thanks.

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

A

Yeah. Good morning, Brad. There are some puts and takes as we think about the guidance and keep in mind that the variance versus the Street is slightly different than the various – the variance versus our internal targets. But

as we think about the back half of the year, we have additional costs that will be flowing through with labor and losses going back more towards a normalized trend. Some of the customer behavior we expect to become more muted towards the back half of the year, as the country opens back up. And then, we'll have the implementation of the \$25 million of synergies in the Acima segment that will actually improve our margins going forward, both with gross margins and EBITDA margins. So those are the assumptions worked into the guidance.

Mitchell E. Fadel

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

A

Yeah. And Brad, this is Mitch. I think you know, we're based on the way we've operated the last few years, we like to make sure we can do what we say we're going to do, you can call that being conservative or just making sure we fulfill our commitments and so forth. And as Anthony pointed out we didn't take things like the child tax credit and how much is that worth and try to put everything in the kitchen sink into our forecasts throughout the year. We're pretty much normalized trends. That still takes the latter half of the year, like Anthony said, still takes Rent-A-Center Business into the mid to high single digits from the same-store sales standpoint even late in the year. Obviously great growth in the Acima business, but it's not we threw everything in there, every best case scenario either. So, yeah, I think every time, we come out with numbers there's the potential for upside in them.

Bradley Thomas

Analyst, KeyBanc Capital Markets, Inc.

Q

That's very helpful. Thank you all so much.

Mitchell E. Fadel

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

A

Thanks, Brad.

Maureen B. Short

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

A

Thank you.

Operator: Your next question comes from the line of Vincent Caintic from Stephens. Your line is open.

Vincent Caintic

Analyst, Stephens, Inc.

Q

Hey, good morning. Thanks very much for taking my questions and let me echo the good result. And I appreciate all the seasonality details in the outlook, so that's really helpful. First on the Acima business, so you talked a bit about National pipeline working with 200 different accounts and that's pretty exciting and interesting. As you're going through the pipeline, just kind of wondering what retailers are looking for sort of a base – load the pace or are they kind of where are you and sort of what are the general things you're looking for in this current environment?

Jason J. Hogg

Executive Vice President-Acima, Rent-A-Center, Inc.

A

Well, good morning Vincent, this is Jay and thanks for the question. So, a few things, one, the retailers continue to look for augmentative revenue streams and so the LPO option that we provide is incremental towards as I had mentioned earlier, the BNPL segment. And so, that gives them access to new consumers. They're also looking for low friction lease in which to implement and integrate both from a physical brick-and-mortar perspective as well as

from a digital perspective. So, obviously the Acima platform gives us that capability. And then the third is that they want to be able to activate repeat utilization, so continue to drive an ongoing relationship with the customer. And so the ecosystem that we're putting in place and then we've been testing with our mobile solutions and browser extension and such enable them to do that. All-in-all, still very strong demand on those fronts.

Vincent Caintic*Analyst, Stephens, Inc.*

Q

Okay. Great. Thank you. And then switching to the Rent-A-Center Business, so a really strong result this quarter, and I was basically wondering how big the competitive environment looks like. So your other publicly traded peers had a good result. But when I think about the broad brick-and-mortar, rent-to-own industry, I'm wondering are you taking share from other guys like maybe the mom-and-pops? And how much of a – when you think about your e-comm benefit that nice 50% growth, how much of that kind of thinking about how that's affecting you as a differentiator and maybe [ph] arrange (00:38:08) things from a market share perspective? Thank you.

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

A

Yeah. Good questions, Vincent. This is Mitch. I think, I think you're right. I mean there's good results in our industry, not a lot of other public companies to look at, but good results obviously [ph] ours are (00:38:27) – we've done well for a number of years now.

And as we got similar bumps that our competition got in the first quarter, we maintained that differential between our same-store sales and our competition, whether one quarter you're 10% somebody else is zero, another quarter you're 23% and we still got that differential in there. So we're really happy with the way the team is performing. Anthony and his team are doing a great job. E-comm has been a big part of it, as you mentioned. And I think it is a differentiator, probably more with not so much a differentiator with the other public company as much as it is a differentiator for us, and the other public company against more mom-and-pop or regional businesses, because we've got a little more investment into things like e-comm. So I think it is a competitive advantage for us against the smaller regional players.

So – and I think it only continues to be more – it'll continue to be more and more of a tailwind as we invest every day in e-commerce and you're not going to see much of that through smaller regional 5-store chains, 10-store chains, 20-store chains so, I think it will only continue to get better. Yeah, the differentiators as you have the money to invest our numerous e-comm be in one of them. Certainly, the supply chain, we have advantages in the supply chain as others don't and things like that. So, boy, we couldn't be happy with the way that business is performing. The customer – I mean, the customer demand is incredible not just because of stimulus, but I – we've talked about this before Vincent. I – as LTO – as the virtual business continues to grow not just with Acima, but the competition as buy now pay later things become more mainstream it's just helping drive – there's more awareness I should say to lease-to-own. And I believe that's one of the tailwinds for Rent-A-Center too and that's not stimulus tailwind and I think it's a much longer term tailwind as lease-to-own becomes more mainstream.

Vincent Caintic*Analyst, Stephens, Inc.*

Q

Okay. That's very helpful. Thanks very much.

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

A

Thanks, Vincent.

Operator: Your next question comes from the line of Bobby Griffin from Raymond James. Your line is open.

Bobby Griffin

Analyst, Raymond James & Associates, Inc.

Q

Good morning, everybody. Thank you for taking my questions and congrats on a great start to 2021 in the initial integration of Acima.

Mitchell E. Fadel

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

A

Thanks, Bobby. Thank you.

Bobby Griffin

Analyst, Raymond James & Associates, Inc.

Q

Mitch, first I want to circle back on the core business and this is more kind of a long-term question, but obviously, there's been a lot going on with stimulus and different things, but you guys have also done a lot of really interesting initiatives, pulling cost out, e-commerce growth and different things like that during this period. So, clearly the business is benefited some from the government support, but when you look out and you think about the core business on a longer-term basis, any idea or kind of color around what maybe the normalized EBITDA margin is? Is it now a 20% EBITDA margin business, or is it at some point need to return back to maybe the high teens it was doing before? And I guess, I'm just asking really in context given that the mix of the business has changed so much with e-commerce as well?

Mitchell E. Fadel

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

A

Yeah. Good question, Bobby. Yeah, I definitely believe it's a 20%-plus business on an ongoing basis and it shouldn't come below that, when you think about the technology and the e-comm growth. Anthony even mentioned that we're going to open a few stores in markets this year and some smaller footprint to act as much as a showroom for our walk-in traffic as a technology center for payments and fulfillment center for e-comm orders. So there's such a transformation of business. I think a lot of people out there see Acima as our "fintech play" when the Rent-A-Center Business is turning into a fintech company as well. It just happens to have a couple of thousand fulfillment centers out there that are brick-and-mortar. So – and I think as we go more and more into technology, we have the potential to even reduce our square footage cost. We're going to try some of that using technology to show more of the product and so forth. So I think when you put it all together it's definitely a 20%-plus business moving forward.

Bobby Griffin

Analyst, Raymond James & Associates, Inc.

Q

Okay. That's very helpful. And then I guess secondly for me is just on the Acima EBITDA, kind of looking at dig and maybe a little bit to the bridge to get to the 14% for the year. I think Jason, you mentioned in your remarks the yield on the portfolio as you get the Acima decisioning kind of rolled out fully across its segments one driver? But anything else to help kind of bridge from the 9%, 8% here in 1Q to get to the 14% that would – and then I guess secondly, that would imply a quarter or two above 14%, so that in the back half or anything around there to help us think about some of the big drivers there?

Maureen B. Short

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

A

Yeah. I'll take that question. This is Maureen. So we're assuming that both gross margins and EBITDA margins improved sequentially each quarter. And that's really driven by the integration and the \$25 million of synergies that we've outlined for 2021. So as far as the gross margin improvements are concerned that's the benefits of moving over to the Acima decision engine and capturing lower loss rates, improved yield based on the superior decision engine versus what we have today as well as the synergies from a bottom line perspective including lower loss rates for more fraud detection and also streamlining our staffed business and some of those locations will be converted to virtual and they will be moved to the Acima decision engine as well. So those are some of the drivers of the improved EBITDA margins throughout the year.

Mitchell E. Fadel

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

A

And I think...

Bobby Griffin

Analyst, Raymond James & Associates, Inc.

Q

Okay.

Mitchell E. Fadel

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

A

...Bobby, I'd add to that, that's one of the reasons we pointed out is as you factor all those things out, we thought it was important to point out with the standalone Acima virtual business did in the first quarter by itself, it's 17.5% so that kind of gives us the target, right.

Bobby Griffin

Analyst, Raymond James & Associates, Inc.

Q

Yes.

Mitchell E. Fadel

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

A

And even though the extra early purchase options from stimulus can bring those margins down then you obviously outperform or maybe it's not obvious, but you outperform on the loss line. The customer performance is so good attempt to make up for that. So the \$17.5 million had some puts and takes in it, but it's pretty good number that's why we pointed it out a couple of times to shoot for. So as we go through the year and go from 9% and get to 14% for the year obviously that's \$17.5 million is our target once we're fully integrated. And the other thing, I'd say the – when you think about that first quarter margin and remind everybody the first quarter the overall is usually the lowest. No stimulus helped this quarter. And when you look at the some of the estimates out there where that segment missed the estimates, but we obviously didn't change our annual guidance on Acima. So obviously we're too disappointed internally with our – with how we performed against our estimates that 9% margin compared to maybe the way it was modeled by some of the analysts.

So when you think about our full-year guidance, we're still right on track. Even though I think some people – some analysts think that 9% was a surprisingly low number obviously, internally without having to change our annual guidance. We had forecasted a little differently because of the first quarter always being under pressure because of the extra payouts from taxes and in this case stimulus. But the short answer is that \$17.5 million is a real important number for – from a target standpoint when you think about how we step up to the year average 14% and where we get to going into 2022.

Bobby Griffin

Analyst, Raymond James & Associates, Inc.

Q

Absolutely. I appreciate the details and best of luck here in the second quarter and remainder of 2021.

Mitchell E. Fadel

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

A

Great. Thanks, Bobby.

Operator: Your next question comes from the line of Kyle Joseph from Jefferies. Your line is open.

Kyle Joseph

Analyst, Jefferies LLC

Q

Hey, good morning. Let me echo congratulations on a very strong start to the year. A few follow-up questions from me, in terms of Acima, did you guys give the mix of e-comm versus brick-and-mortar and can you give a kind of longer-term outlook of how you see the balance there?

Mitchell E. Fadel

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

A

I don't think we did say it. But we talked about it before it's in that 15% range, depends how you look at it whether you're talking about buying versus contract and so forth. But it's creeping towards that 15% range. We think there's a lot of upside to that number. So, as we mentioned, we're in the early innings there. And the Rent-A-Center side with a 50% growth is – we're almost at 25% of the business, on the Acima side, we're almost at the 15% and a lot of upside in both the businesses from an e-comm standpoint.

Kyle Joseph

Analyst, Jefferies LLC

Q

Got it. Thanks. And then, on the Rent-A-Center side of the business, given how much of the business is now e-comm, and you touched on this earlier, but give us a sense for how you see store count evolving over time. I think in some of your prepared remarks you talked about adding new stores in some markets for their potential for store consolidation and others.

Anthony Blasquez

Executive Vice President-Rent-A-Center Business, Rent-A-Center, Inc.

A

Hey Kyle, this is Anthony. Yeah. So, our strategy was – and I think I mentioned it last quarter was to remain at least net neutral and the way we think about it this year is, as we progressed through the year, there's going to be opportunity to renegotiate leases. We might exit some leases and so forth. But, our plan with a pretty strong pipeline is to continue to look for opportunistic new locations in the communities that we serve recognizing the fact that at least net neutral is where we expect. And both from the opportunity, from a revenue perspective, we're not looking to lower the store count, but equally we still see that there's plenty of white space out there.

And as I mentioned in the prepared remarks, I think Mitch commented just a minute ago, the opportunity to test a smaller footprint is really exciting something that's more technology-focused, more of a fulfillment and a payment center for our customers. And at the same time it allows us to remain embedded in the communities that we serve. And we do a lot of business with unbanked and underbanked customers, cash paying customers. So the ability to remain in those communities and serve those customers is really intriguing. So the short answer is at least net neutral, good pipeline of opportunities for stores and that's our go forward plan.

Mitchell E. Fadel

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

A

And if we can hit on the right smaller square footage program with the technology and so forth that Anthony just mentioned, think of the long-term impact of the 2,000 stores, roughly 2,000 corporate-owned locations where we can – as leases expire obviously, it's a long-term play, 5 years, 10 years out. What's the average rent – what's the rent percentage against our revenue compared to what it is today? And there's quite a bit of room in there, if we can – the business has changed and we can use technology a little differently. And if there's a 10%, 15%, 20%, 30% square footage reduction somewhere in there, if we can find that by trying a few of these this year, it can be pretty darn significant at least for the long term – from a long-term view, which Wall Street doesn't always have. But from a long-term view, where we look at the business we're pretty good about at least exploring that opportunity.

Kyle Joseph

Analyst, Jefferies LLC

Q

Got it. Thanks Mitch and Anthony. And Anthony your [ph] tire pun (00:50:50) was phenomenal. So thank you.

Anthony Blasquez

Executive Vice President-Rent-A-Center Business, Rent-A-Center, Inc.

A

No problem.

Mitchell E. Fadel

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

A

[indiscernible] (00:50:54-00:51:02).

Anthony Blasquez

Executive Vice President-Rent-A-Center Business, Rent-A-Center, Inc.

A

Yeah.

Kyle Joseph

Analyst, Jefferies LLC

Q

And then last one for me, Maureen just want to make sure from a modeling perspective. Did you give the ending share count and then kind of a what you expect the weighted average diluted count to be for the year?

Maureen B. Short

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

A

Yeah. We expect it to be around that 68 million count number that I gave that occurred in April and that should be around the number on a go-forward basis. It was a little lower than that on a weighted-average basis in the first quarter. But going forward it's around that same 68 million.

Kyle Joseph

Analyst, Jefferies LLC

Q

Got it. Thanks very much for answering my questions.

Anthony Blasquez

Executive Vice President-Rent-A-Center Business, Rent-A-Center, Inc.

A

Thanks, Kyle.

Maureen B. Short

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

A

Thank you.

Mitchell E. Fadel

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

A

Thanks, Kyle.

Operator: Your next question comes from the line of Tim Vierengel from Northcoast Research. Your line is open.

Tim Vierengel

Analyst, Northcoast Research Partners LLC

Q

Good morning and thank you for taking my question. Everyone else seemed to have asked the good ones, so I'm going to pick on Anthony one more time. Regarding supply chain, it seems like you guys commentary at least on the brick-and-mortar side of this is seem to be a little bit more upbeat than maybe some of your competitors and durable good business. I was wondering if there's anything inherent about kind of your product categories or maybe the price points on the rent-to-own industry that make you guys feel a bit better about your supply chain and sourcing than some of your maybe larger higher priced competitors? Thank you.

Anthony Blasquez

Executive Vice President-Rent-A-Center Business, Rent-A-Center, Inc.

A

Thanks Tim. Yeah I appreciate it and good question. So from an inventory perspective, we feel like we're positioned well. We have done some things. Our strategy to order product, order promotional inventory to go ahead and beef up our supply was an important component. We've done some things about – around regional and local sourcing of inventory as well. And those were really proactive measures that we took to get us in the position that we are in right now, and if you look at our health release, one of the ways that we look at it to realize the strength is, it's up almost 9% versus the same period last year. And that's even considering that we have about a 100 fewer locations – the re-franchised locations in California.

So we feel good about where we're at right now. Like I said, our promotional purchases regional and local sourcing, and don't forget that we're also in the business. So we do have some customers who tend to, they'd like to return the product once in a while, and that's okay, because we get that merchandise back and we're able to go ahead and re-rent it to somebody that's looking for a good deal. So those things coupled with the success and we're very proud of our merchants and our suppliers for their support and the things that they're working on. And as we go through the subsequent quarters the back part of the year, we just expect that the supply chain will continue to get better. So we feel good right now. We've got enough inventory to meet the demand.

Mitchell E. Fadel

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

A

And I would add to that, Tim. Those are all great points, I would add one other one is, inherent to our business compared to traditional retail is the SKU counts are a lot lower because of those returns that Anthony was talking about because you do get returns, you've got to kind of limit what you have. I mean, we are not going to have –

you're going to have 4,000 different living room groups to pick out of like you might on a Wayfair or something like that or even in a big furniture store like Rooms To Go where you can match frames to fabrics and so forth.

So the limited SKUs in a rent – in a rental store due to the returns primarily and obvious as you know we're small box retail so we're not large showrooms. So the limited SKUs, I think really, really helps in this kind of an environment and that is an inherent piece of the model that it's always there. So I think it helps from a supply chain standpoint and then we get not only the returns and Anthony just talked about, but we get a few returns from our Preferred Lease business, the legacy business, and soon we'll down the road we'll be monetizing some of the Acima returns as well. So we get – we got product coming back from there that really helps the supply chain as well not to mention the variety of it.

Tim Vierengel

Analyst, Northcoast Research Partners LLC

Q

No that's really great color. I really appreciate it guys that's all for me. Thanks.

Mitchell E. Fadel

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

A

Thanks Tim.

Anthony Blasquez

Executive Vice President-Rent-A-Center Business, Rent-A-Center, Inc.

A

Thanks Tim.

Operator: Your next question comes from the line of John Rowan from Janney. Your line is open.

John Rowan

Analyst, Janney Montgomery Scott LLC

Q

Good morning everyone.

Mitchell E. Fadel

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

A

Hey John. Good morning.

Maureen B. Short

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

A

Good morning.

John Rowan

Analyst, Janney Montgomery Scott LLC

Q

I want to make sure that the timing of the capital raise and the deal with Acima isn't impacting kind of the implied cost of debt, can you just walk me through if that stayed stable what happens to interest expense going forward?

Maureen B. Short

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

A

Sure. So as we generate more cash flow, we will be paying down the ABL revolver first to preserve liquidity since we have that's a revolving line of credit that is our lowest rate as far as the interest rate goes. So there'll be a minimal change in interest rate going forward versus what we're seeing today.

John Rowan

Analyst, Janney Montgomery Scott LLC

Q

Okay, so the interest rate is roughly the same, but should interest expense come down as you're paying off some of that debt?

Maureen B. Short

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

A

Yes, it will. As we pay down debt, it will – the dollars will decrease over time.

Mitchell E. Fadel

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

A

Maybe that's down from the first quarter because the first quarter we closed in the middle of the quarter right?

John Rowan

Analyst, Janney Montgomery Scott LLC

Q

That's what I'm trying to get. Are you closing in the middle of the quarter, so I'm just trying to figure out if the interest expense actually goes up next quarter because you only had a partial period, which makes the cost of debt look lower when you're just looking at one period end statement?

Maureen B. Short

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

A

Yeah, that's right. So the – approximately \$12 million that we saw in the first quarter was only about half of the quarter's worth. So it'll be around \$20 million each quarter going forward. And that will reduce every time, as we pay down debt.

Mitchell E. Fadel

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

A

Yeah, it won't double from the \$12 million, because we paid down. We already got to that 2 times leverage that we're talking about, let say, the 12 months to 18 months, the first quarter was so strong, we're already down to the 2 times, so won't quite double, but that's the ballpark, it goes to about \$20 million.

John Rowan

Analyst, Janney Montgomery Scott LLC

Q

Okay. And then just a couple of housekeeping questions. Maureen, you talked about EPS guidance in 2Q versus second half. I didn't quite get it written down? I believe you're talking about year-over-year growth. Can you repeat what you said?

Maureen B. Short

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

A

Yeah, so the second quarter on a non-GAAP diluted EPS basis is expected to be up approximately 70% versus last year. And then, for the back half of the year, we expect to be up 35% to 45% year-over-year. And part of that is because the metrics returning to more normalized levels in the back half.

John Rowan

Analyst, Janney Montgomery Scott LLC

Q

Yeah, okay.

Mitchell E. Fadel

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

A

Yeah, partially down and then – obviously we're comparing the last year, so last year's second quarter, 70% in the second quarter than going to 35% to 45%, which so obviously pretty strong. The latter half of the year has a lot to do with what the second quarter last year was with the pandemic and taking reserves on collection and skip zones not knowing where those were going to end up with closures and so forth. So it has a lot to do with, what happened last year as well.

John Rowan

Analyst, Janney Montgomery Scott LLC

Q

Okay. And just last question for me. Mitch, you mentioned around 2,000 company-owned stores. You have the actual number I didn't see it in the press release?

Mitchell E. Fadel

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

A

I think it's, 1,844 in the US and 121 in Mexico and then was it 461 in franchise? That's pretty good on top of my head.

Maureen B. Short

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

A

Yeah.

John Rowan

Analyst, Janney Montgomery Scott LLC

Q

It sounds pretty accurate to me. Okay, all right. Thank you.

Mitchell E. Fadel

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

A

Thanks, John.

Maureen B. Short

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

A

Thanks, John.

Anthony Blasquez

Executive Vice President-Rent-A-Center Business, Rent-A-Center, Inc.

A

Thanks.

Operator: Your next question comes from the line of Anthony Chukumba from Loop Capital. Your line is open.

Anthony Chukumba
Analyst, Loop Capital Markets LLC

Q

Thanks for allowing me to double dip. I'll keep it brief. So, you mentioned a couple of times buy now pay later. And I guess I was just wondering because one of your soon to be public competitors has a partnership with a large buy now pay later provider and they certainly got a benefit from that. So, I was just wondering if you have any – are having any conversations about similar partnerships? And if not if you would consider partnering with a buy now pay later to provide the lease-to-own in the credit stack? Thank you.

Jason J. Hogg
Executive Vice President-Acima, Rent-A-Center, Inc.

A

Yeah. Anthony thanks for the question. This is Jay. So a few [indiscernible] (01:00:27) not going to obviously comment on any specific partnership. But I put them into a few buckets, we have a [indiscernible] (01:00:37) bucket that we are always actively pursuing. We are already integrated in with a number and we are in discussions to continue to expand on that strategy. Specific to your buy now pay later, we are in discussions there as well because once again it is incremental and additive to those players. Our consumer segment is very complementary and so that is absolutely part of the strategy as well. And then the third is that as we've had mentioned with the MasterCard partnership, we actually have other ways in which we can begin to tie in with merchants with little to no integration effort in order to enable our consumer segment to get much broader access to name-brand merchants. So it's a three-pronged assault essentially that we are very coordinated of.

Anthony Chukumba
Analyst, Loop Capital Markets LLC

Q

That's helpful. Thank you.

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

A

Great. Thanks, Anthony.

Jason J. Hogg
Executive Vice President-Acima, Rent-A-Center, Inc.

A

Thank you.

Operator: That concludes our Q&A session. I'll now turn the call back to Mitch Fadel for closing comments.

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

Thank you, Jason and thank you, everyone, for joining us this morning. We appreciate your time. We're pretty excited about what we've got going on here. We're very excited about our future. We – we've got fantastic growth rates at this point and we look at our EBITDA margins and put those two together with the – with our current multiple and we think it's a pretty compelling story. So we appreciate your time listening to it and look forward to reporting again next quarter to you. So, have a great day out there. Thanks, everyone.

Operator: That concludes today's conference call. Thank you everybody for joining. You may now disconnect.

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