Upbound Group, Inc.(Q1 2024 Earnings)

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Corporate Speakers:

- Jeff Chesnut; Upbound Group, Inc.; Senior Vice President, Strategy & Corporate Development
- Mitchell Fadel; Upbound Group, Inc.; Chief Executive Officer
- Fahmi Karam; Upbound Group, Inc.; Chief Financial Officer

Participants:

- Robert Griffin; Raymond James; Analyst
- Bradley Thomas; Keybanc Capital Markets; Analyst
- Hoang Nguyen; TD Cowen; Analyst
- Unidentified Participant; Jefferies; Analyst
- Alex Fuhrman; Craig-Hallum Capital Group; Analyst
- Anthony Chukumba; Loop Capital Markets; Analyst

PRESENTATION

Operator^ Welcome to the Upbound Group Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Jeff Chesnut.

Jeff Chesnut^ Good morning. And thank you all for joining us to discuss the company's performance for the first quarter of 2024. We issued our earnings release this morning before the market opened and the release and all related materials including a link to the live webcast, are available on our website at investor.upbound.com.

On the call today from Upbound Group, we have Mitchell Fadel, our CEO; and Fahmi Karam, our CFO.

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

Upbound Group undertakes no obligation to publicly update or revise any forward-looking statements, except as required by law. This call will also include references to non-GAAP financial measures.

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

Finally, Upbound Group is not responsible for and does not edit or guarantee the accuracy of our earnings teleconference transcripts provided by third parties. Please refer to our website for the only authorized webcast. With that, I'll turn the call over to Mitch.

Mitchell Fadel^ Thank you, Jeff. And good morning to everyone on the call today.

I'll begin with a review of the key highlights from the first quarter, and then I'll hand it off to Fahmi for a more detailed review of our financial results and our financial outlook. After that, we'll take some questions.

We are very pleased with the start to the year, which included revenues of nearly $1.1 billion, adjusted EBITDA of $109 million and non-GAAP earnings per share of $0.79. The trajectory of our business, which started accelerating last year, continued through the first quarter and into April as both segments grew the top line versus last year.

Similar to the fourth quarter, these results were driven by strong execution across our strategic operating initiatives, namely, growth in Acima merchant count and performance of existing merchants combined with disciplined underwriting decisions, diligent expense management efforts in our emerging direct-to-consumer e-commerce channels.

Now before we dive into our segment results, let's discuss some of the enterprise-wide themes we've seen since the start of the year.

First, I'd like to start with what we are seeing in the external environment with our consumers. Broadly speaking, the macroeconomic conditions across the quarter were stable with continued strength in employment metrics, but also with persistent inflation trends that continue to impact our customers' discretionary spending and have altered the market's expectations on the timing and size of potential rate cuts in 2024. This quarter was also affected by tax season, which typically has a positive impact on merchandise sales.

And while the external conditions this quarter were characterized with puts and takes, our consumers are accustomed to navigating uncertainty and have remain resilient through a variety of changes in the macro landscape over the past several years. That resiliency and our focus on execution helped deliver profitable top line growth at lease charge-off rates that were in line with our plans for the quarter.

Now looking ahead, we've discussed how our durable business model can succeed in a variety of macroeconomic environments. When metrics like employment and overall consumer spending are stronger, we expect consumer confidence to drive GMV growth and to support portfolio growth and positive payment behaviors. Conversely, more difficult conditions introduce new consumers to our space through trade down when traditional lending solutions tightened availability of credit.

While we continue to assume stable conditions across the year with elevated inflation persisting, we believe we are well positioned to adjust our business to the external environment and continue to grow.

Second, we're continuing to enhance our underwriting capabilities with new tools and data sets.

For our Rent-A-Center, we're now leveraging a seamless more advanced proprietary fraud detection algorithm to drive better outcomes on our e-commerce channel, which continues to grow as a portion of the segment's total revenue, representing over 26% of the segment's revenue for the quarter.

As that channel grows, Rent-A-Center will be better positioned to underwrite profitable outcomes and deliver higher customer service levels.

At Acima, we continue to integrate our y Acceptance Now merchants into the Acima decision engine, and we expect to approve more core to stronger-performing leases, thereby increasing GMV and improving losses at the same time.

Overall, the integration of ANow into Acima nearing completion and should result in improvements in the seamless lease charge-off rate across the balance of the year as the prior higher loss in our originated portfolio winds down.

Importantly, this unlocks a new growth opportunity for Acima because we can accelerate our efforts in our differentiated staff model with a more robust decisioning platform and can introduce full online checkout capabilities to some of our larger retailers something the y Acceptance Now platform could not do before the transition. And third, I'd like to reinforce our relentless focus on customer centricity, which for us means two stakeholders, the consumer and the retailer.

For consumers, it's building relationships to start wherever we meet them, whether in one of our 2,400 Rent-A-Center stores, or more than 600 staffed Acima locations, the 35,000 virtual doors at Acima merchant partner locations or even a variety of fully virtual channels in both segments.

Once that relationship has established, our goal is to strengthen the connection over time and expand how we serve that customer while lowering our cost of service through our ongoing digital investments.

As their needs change, we can serve those needs through the channels I just mentioned, but also directly through our direct-to-consumer efforts such as the Acima Marketplace into our credit card partnership for consumers graduating to traditional credit.

For our retail partners, it's building relationships and customizing our process to meet their needs and ultimately drive more sales, whether in-store virtually, in-store staffed,

through their website or pure e-com retailers, our goals to support our partners to drive incremental revenue while expanding access for underserved customers.

So as we work to grow our share of market with new retailer additions and our share of mind with existing merchants, with more leases per location, we also equally focused on increasing our new customers by offering more solutions that meet our customers' needs and increasing customer lifetime value.

So let's review the details behind our segment financial results on Slide 4. Starting with Acima, we achieved a strong double-digit increase in GMV for the second consecutive quarter with an improvement of nearly 20% year-over-year.

Excluding the stimulus period of 2021, we achieved a single largest first quarter GMV that Acima has ever recorded. This was powered by a number of factors.

Our business development sales team delivered all-time highs for active merchant locations and help drive more productivity per existing location. That led to significant increases year-over-year in both applications and funded leases for our Acima business.

On top of those efforts, we realized a full quarter of elevated activity from two of our enterprise partners, namely Wayfair and ansell.com channel after the realignment last year of their LTL partner relationships.

As a result, we continue to find success in the furniture vertical for Acima despite the broader challenges in that category from the pandemic-related pull forward.

Finally, our direct-to-consumer offerings continue to expand with applications on the Acima Marketplace growing 68% year-over-year in the first quarter and GMV growing 51%, albeit working from a relatively small base as we further develop the channel. Collectively, these efforts resulted in Q1 revenues up 16% year-over-year. Average ticket size was down slightly in the quarter, so the top line lift was driven by expanded penetration as we continue to add merchants and grow our staff and e-commerce businesses.

We also have a robust pipeline of integrations planned for the remainder of the year, which we believe will be a tailwind for growth in 2024 and beyond.

We are pleased to recently announce another exclusive relationship with a top 5-- excuse me, top 50 furniture retailer in the quarter, which came online in late April.

Overall, the Acima exited the first quarter with an open lease count that was more than 24% higher versus last year as well as sequentially higher than our seasonally high fourth quarter.

From an underwriting standpoint, we continue to take an active and vigilant approach to risk management.

Our Acima segment loss rate was 9.6%, up 70 basis points from the year ago period, but down 30 basis points sequentially. And despite the volume of applications increasing 32% year-over-year and all the strong growth numbers I've just been discussing, Acima accomplished all of that with an approval rate of 130 basis points below last year.

As for delinquencies, Acima's rate in the first quarter was down 80 basis points from a year going flat sequentially to the fourth quarter of last year. These results were all in line with our expectations for the first quarter. And with the Acceptance Now integration into Acima's decision engine, we remain confident in our risk management outlook for the year. Rent-A-Center finished the first quarter with a same-store lease portfolio value that was slightly positive year-over-year.

We are particularly pleased to see positive same-store sales growth of 80 basis points for Rent-A-Center which represented the first increase in same-store sales in eight quarters going back to the stimulus period of 2021.

In addition, we saw a slight year-over-year increases in our customer count and our open lease count is our ongoing omnichannel marketing efforts and digital investments drove higher consumer engagement outcomes.

As I mentioned earlier, Rent-A-Center's web channel volume continues to grow and represented more than 26% of revenue in the first quarter, which was an increase from both the year ago and sequential periods. These elements helped deliver revenue growth of 20 basis points, which represents the highest segment revenue since mid-2022 for Rent-A-Center. And while Rent-A-Center's top line was up slightly.

We realized the nearly 9% lift in segment adjusted EBITDA due to strength on the gross profit line. This also helped us expand our adjusted EBITDA margins by 140 basis points.

Our continued emphasis on underwriting and account management in Rent-A-Center resulted in a lease charge-off rate of 4.7% for the quarter, down 10 basis points from the first quarter of last year.

Our past due rate, which is an early indicator of potential future lease charge-offs was 3.1%, which was up 10 basis points from the year ago period, but flat sequentially.

As the tax season runs off, we expect our improvement in the second quarter, similar to trends in 2023 and consistent with our guide last quarter.

As Rent-A-Center core consumer continues to deal with higher inflation and pressure on payment behavior, our account management efforts will be an increasingly important element of customer connectivity in the near to medium term to help us maintain our delinquency and charge-off rates in our target ranges.

Overall, we're very pleased with our operating and financial results in the first quarter. Both segments successfully anticipated and met our customers and merchants' expectations, enabling us to achieve that 20% GMV growth at Acima along with positive same-store sales growth at Rent-A-Center. These results, along with the momentum we've already seen in the early April results give us confidence that we're tracking well towards achieving our full year targets.

On Slide 5, let's discuss the progress we've made on strategic priorities we outlined only last spoke. At Acima, we're committed to strong top line growth through our business development efforts with smaller and medium-sized businesses.

Our enterprise sales initiative for Super region and National Accounts and our direct-to-consumer channel.

While our enterprise client team continues to build presence and relationships with the largest retailers, our SMB team continues to add local and regional merchants as partners on our virtual leasing platform. This quarter, we realized a 9% lift in active locations year-over-year, while adding merchants and capabilities to our online direct-to-consumer marketplace as well.

We're also refining and enhancing the ways in which we work with our existing merchants and consumers with a goal of driving customer retention and more active leases per merchant location per month. This will be driven by a combination of our service first mindset as well as our investments in the digital tools to help us outperform expectations.

And by way of example, we replaced an LTO competitor and added a large regional furniture retailer last year that was realizing around $100,000 in lease activity per month. With stronger collaboration and leveraging our integration tools, e-commerce capabilities and best practices as we drove a meaningful difference to their sales.

In fact, in the first quarter, we partnered with them to achieve a significant increase to nearly $1 million of lease activity per month, showcasing that we can elevate results and exceed expectations for our partners and our customers.

At Rent-A-Center, we continue to invest in our online e-com experience, both web and mobile to help meet our customers when and where they want to interact with us.

We also executed a variety of marketing campaigns and promotions across the quarter to engage our customers and boost our value proposition, which helped deliver the top line and same-store sales growth that we booked this quarter relative to the year ago period.

Additionally, we continue to roll out our new Rent-A-Center point-of-sale system known internally as RecPad, which will enhance the productivity of our store-based coworkers and provide more centralized visibility and reporting for our regional and district leaders.

It has been architected for flexibility and additional scalability, enabling it to accommodate the evolving needs of our store-based footprint.

Our Upbound team has committed to creating a shared services environment unifies and amplifies our capabilities across the organization, things like underwriting, information technology, collections and operations. To that end, this quarter, we rolled out an additional network of collection points for Acima merchandise that leverages Rent-A-Center locations for returns and customer service.

We believe this will drive improvements in Acima's lease charge operate and make it easier for customers to interact with us while simultaneously providing select Rent-A-Center locations with additional merchandise to offer for rent.

Additionally, we continue to build out our partnership with Concora as we explore the nonprime consumer credit adjacency to our current LTO space.

We are now beginning the ramp-up phase for the Acima private label credit card, which can be used in any Acima partner location and the Acima general purpose credit card, which can be used anywhere MasterCard is accepted.

As we expressed previously we believe we can leverage our substantial in-house knowledge of nonprime consumers, extensive customer base and our brand awareness offer white label credit products that can help our customers build their credit history while shopping for the products and services they need for themselves and their families.

Over time, we believe the nonprime consumer credit adjacency will represent an important and growing contributor to our bottom line.

Finally, I'd like to share my perspective on our capital allocation philosophy. After investing in the business, we'll support our dividend first with a focus on deleveraging after that as we work to reduce our leverage ratio to less than two turns.

Our share repurchase strategy will be a tertiary goal, one that's opportunistic rather than programmatic.

So before I hand it off to Fahmi I'd like to acknowledge the collective work of our whole team because they're the reason we're able to deliver these strong results and their commitment and passion has helped deliver these terrific results in a terrific start to the year. And with that, I'll turn it over to Fahmi.

Fahmi Karam^ Thank you, Mitch. And good morning, everyone. I'll start today with a review of the first quarter results and then discuss our outlook for the rest of the year, after which we will take questions. Beginning on Page 6 of the presentation. Consolidated revenue for the first quarter was up 7.9% year-over-year, with the Acima up 16% and Rent-A-Center up 20 basis points. Rentals and fees revenue were up 8.2%,

merchandise sales revenues increased 10.3%, reflecting higher GMV at Acima and a larger portfolio of Rent-A-Center coming into the year.

Consolidated gross margin was 48.3% and decreased 150 basis points year-over-year. With a 190-basis point decrease in the Acima segment, partially offset by a 110-basis point increase in the Rent-A-Center segment. Consolidated non-GAAP operating expenses, excluding lease charge-offs and depreciation and amortization were up mid-single digits, led by mid-teens increase in general and administrative costs, which was a result of corporate investments in technology and people.

In addition to an increase in nonlabor operating expenses led by investments to support Acima application growth. The consolidated lease charge-off rate was 7.4%, a 30-basis point increase from the prior year period and in line with our expectations.

On a sequential basis, the consolidated lease charge-off rate decreased 10 basis points due to a 30-basis point sequential improvement at Acima. Putting the pieces together, consolidated adjusted EBITDA of $109.1 million decreased 2.2% year-over-year as higher Rent-A-Center segment EBITDA was offset by lower Acima segment EBITDA and higher corporate costs.

Adjusted EBITDA margin of 10% was down approximately 100 basis points compared to the prior year period with approximately 140 basis points of expansion for Rent-A-Center, offset by approximately 260 basis points of margin contraction for Acima and a 20-basis point increase in corporate cost as a percentage of revenue. I will provide more detail on segment results in a moment.

Looking below the line, first quarter net interest expense was approximately $29 million compared to $28 million in the prior year due to approximately 80 basis points of year-over-year increase in variable benchmark rates that affected our variable rate debt, which was approximately $862 million at quarter end.

The effective tax rate on a non-GAAP basis was 26% compared to 27.4% for the prior year period. The diluted average share count was $55.8 million shares in the quarter. GAAP earnings per share was $0.50 in the first quarter compared to earnings per share of $0.84 in the prior year period. After adjusting for special items that we believe do not reflect the underlying performance of our business, non-GAAP diluted EPS was $0.79 in the first quarter of 2024 compared to $0.83 in the prior year period.

During the first quarter, we generated $33.6 million of free cash flow, which decreased from $95.9 million in the prior year period, primarily due to Acima GMV growth. We distribute a quarterly dividend of $0.37 per share, an increase from $0.34 per share in the prior year.

We finished the first quarter with a net leverage ratio of approximately 2.7x, unchanged from the fourth quarter. Drilling down to the segment results starting on Page 7.

For Acima, double-digit year-over-year GMV growth continued in the first quarter. After returning to growth with a 19% year-over-year increase in the fourth quarter of 2023, GMV increased nearly 20% year-over-year in the first quarter of 2024.

GMV growth was above our expectations and was driven by year-over-year growth in key underlying drivers with active merchant locations up over 9% year-over-year, more productivity per merchant and the full quarter of the enterprise e-comm partners Mitch mentioned earlier, which resulted in overall applications increasing over 30%. Those tailwinds were partially offset by lower approval rates across all major categories as we remain disciplined in our underwriting approach as inflation continues to impact our core consumer base.

The asset value of inventory under lease was up mid-teens year-over-year. Revenue increased 16% year-over-year including a 16.3% year-over-year increase in rentals and fees revenue and a 15.2% increase in merchandise sales revenue due to a larger beginning portfolio in 2024 compared to last year. Lease charge-offs for the Acima segment were 9.6%, 70 basis points higher year-over-year and 30 basis points lower sequentially.

The year-over-year increase in Acima lease charge-offs was slightly better than our expectation as the ANow leases originated on the legacy decision engine will now begin to wind down. The conversion will strengthen our underwriting capabilities and should reduce lease charge-off rates as lease cohorts from the legacy system wind down throughout the year.

Operating costs, excluding lease charge-offs were up approximately $7 million in the first quarter, which was flat as a percentage of revenue. Adjusted EBITDA of $64.9 million was down 5.4% year-over-year, primarily due to a 19.3% increase in cost of goods sold that was partially offset by a 16% increase in revenue. Adjusted EBITDA margin of 11.6% decreased approximately 260 basis points year-over-year, while gross margins contracted approximately 190 basis points.

The decrease in margins were due to a few factors including a growing portfolio where revenue lags higher incentive, labor and underwriting costs, an increase in merchandise sales in the quarter from a dollar perspective due to a larger portfolio interim tax season than last year and the performance of the legacy ANow portfolio, all of which is in line with our expectations.

For the Rent-A-Center segment at quarter end, the same-store lease portfolio value was slightly up year-over-year, while same-store sales increased 80 basis points year-over-year, improving from a 1.6% decrease in the fourth quarter of 2023. Total segment revenues returned to growth in the first quarter, increasing 20 basis points year-over-year, improving from a 1.7% decrease in the fourth quarter. The increase in revenues was driven by an 80-basis point increase in rental and fees revenue.

First quarter merchandise sales revenue decreased 3.6% due primarily to fewer customers electing early purchase options compared to the prior year period and represented an improvement of 12.2% decline in the fourth quarter.

Lease charge-offs improved year-over-year, driven by ongoing underwriting and account management efforts decreasing 10 basis points to 4.7%. 30-day past due rates averaged 3.1% for the first quarter, up 10 basis points from the prior year period and flat sequentially.

Adjusted EBITDA margin for the first quarter increased 140 basis points year-over-year to 16.6%, primarily due to higher gross margins in addition to a 10-basis point year-over-year decrease in the ratio of non-GAAP operating expenses, excluding lease charge-offs as a percent of revenue. Adjusted EBITDA margin increased 210 basis points from the fourth quarter, reflecting the effect of higher revenues on less variable costs.

For the Mexico segment, adjusted EBITDA was higher year-over-year, and the franchise segment's adjusted EBITDA was lower due to timing of operating expenses compared to last year.

Non-GAAP corporate expenses were approximately 12% higher compared to the prior year, primarily due to additional investments in technology and people.

Shifting to the financial outlook. Considering the trajectory of our business and the latest projections for the macroeconomic environment, we believe that we are well positioned to achieve the targets we shared for 2024 in our previous earnings call.

As a reminder, the forecast assumes a stable macro environment with durable goods demand remaining under pressure, continued disciplined underwriting and no additional material benefit from trade down. With that backdrop, we'd like to share a bit more on the quarterly cadence of our performance.

Note that references to growth or decreases in generally refer to year-over-year changes unless otherwise stated.

At Acima, we expect to see a similar increase in GMV in the second quarter, continuing the trend we have experienced in the last two quarters including a strong April.

For the year, we are updating GMV guidance from up mid-to-high single digits to double-digit growth. Rent-A-Center portfolio should be up slightly in the second quarter from the first quarter based on what we saw in April from a consumer demand perspective.

For both Acima and Rent-A-Center, we expect the second quarter revenue to follow the same sequential pattern as in 2023, with a slight step back in line with typical seasonal patterns coming off tax season and lower merchandise sales.

We expect losses to remain within our previous guidance commentary with Rent-A-Center improving in the second quarter from the first quarter and to be in the 4.5% range for the year, flat to last year. Acima losses are expected to improve in the second half of the year as the legacy ANow portfolio winds down to finish the year also relatively flat to 2023.

In terms of adjusted EBITDA margins for the second quarter, the Rent-A-Center and Corporate segment should track the first quarter with Acima realizing an improvement driven by a pickup at the gross margin line coming off tax season.

We are assuming a fully diluted average share count of $55.9 million shares for the quarter with no share repurchases assumed in our guidance.

Interest expense and our tax rate are expected to be similar to the first quarter, resulting in a non-GAAP EPS range for the second quarter of $0.95 to $1.05.

Although part of the GMV growth is most likely benefiting from some of the trade down, we are not including any material benefit in our forecast, though we continue to monitor the consumer credit profile we receive via retailer waterfalls.

Additionally, the CFPB recently enacted new rules reducing credit card late fees, which are currently facing legal challenges from industry participants seeking an injunction.

We are waiting to see what impact, if any, the rule changes may ultimately have on credit card approval rates and approval amounts, which could drive trade down to the LTO industry.

In terms of capital allocation, I will reiterate Mitch's earlier comments.

We have a proven business model that generates strong operating cash flows over time and an experienced management team that allocates those cash flows in support of our strategic priorities.

Our first priority continues to be supporting innovative ideas that will improve our customer interactions and merchant outcomes. Concurrently, we will focus on enhancing shareholder value by maintaining our commitment to our dividend program and being opportunistic regarding share repurchases. Based on the strength of our year-end results and our outlook for 2024, we raised our dividend in the fourth quarter by $0.03 per quarter, and we distributed our first dividend at the increased rate in the first quarter.

We expect the balance of our free cash flow this year will go towards deleveraging as we progress towards a net leverage ratio of under 2x and our long-term target of 1.5x.

We ended the first quarter at 2.7x, which included $19 million of debt pay down in the quarter and an increase in working capital needs to support GMV growth.

The strength of our balance sheet gives us confidence in our ability to execute against multiple priorities.

As of quarter end, we carried over $0.5 billion of available liquidity, which positions us well for both defensive and offensive postures depending on future macroeconomic circumstances.

Looking ahead, we'll monitor market conditions for opportunities to optimize our debt capital stack to best support our growing business.

Finally, on Slide 11. The first quarter was a promising start to the year for the company.

Our team's focus on execution and expense management as well as our strategic investments in key growth drivers resulted in operational and financial performance that was at the high end of our expectations.

Our first quarter results and our strong competitive position give us confidence that we have the tools and team in place to continue producing strong risk-adjusted returns at each of our business segments. Going forward, we will continue to execute against our day-to-day priorities to serve our customers and boost our retail partners' businesses while pushing forward with the innovation to help us achieve our long-term growth plans. Thank you for your time this morning. Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator^ Thank you. At this time, we will conduct the question and answer session. (Operator Instructions) Our first question comes from Bobby Griffin at Raymond James.

Robert Griffin^ Congrats on a good quarter. I guess the first thing I want to talk about Acima a little bit more of a high-level question. The GMV pickup there has been very impressive, and it seems like it's balanced between new merchants as well as some organic growth. And I understand there's a timing lag between the revenue and some of the costs, but can you talk about what the-- what you see kind of now that you've got a good hand on that business as the incremental flow through there? And I'm kind of just really talking in context of EBITDA was slightly down despite all the growth, and there's that timing factor.

But what should the flow-through be over a more consistent period of time, think about on an annual basis or something like that?

Fahmi Karam^ Bob, thanks for the question. Yes, as we commented on-- in the prepared remarks, we expected the first quarter this year to have a pretty tough comp from both a margin standpoint, gross profit margin standpoint as well as an EBITDA margin standpoint.

So the results for Acima are very much in line with our expectations. And as you know the revenue does lag the GMV probably by a couple of months, maybe even a full quarter.

But looking out for the full year, we still expect the margins to pick back up in the second quarter seasonally and then-- and where we've targeted the margins to be for the Acima segment in the low-teens to mid-teens range.

And so, we haven't changed our guidance there at all for the Acima segment.

So we expect the flow-through to be very similar to what we saw in 2023, just with higher revenues coming off two quarters in a row of almost 20% growth from a GMV standpoint.

So very consistent with what we saw in 2023 and very consistent with the guide that we had coming into the year.

Mitchell Fadel^ Yes. And I'd add to that, Bobby, that not only does the revenue lag a little bit, but so do-- I mean some of the expenses are upfront when you think about all that growth in underwriting expenses and you pay some rebates on the growth, depending on the retail partner and things like that. And those are all paid on the GMV and certainly underwriting on what was it, 30,000 more applications or something like that.

So with all that growth, you got not only there's a revenue lag a little bit, but the expenses are upfront.

But yes, as the year goes on, you can see those EBITDA margins coming up.

And of course, the tax season always affect the first quarter. When you think year-over-year, there was a little more margin deterioration based on the-- from tax season on the first early payouts on the same as the cash option stuff at Acima, were similar to pre-pandemic levels, but it was higher than last year, the impact of that.

So those are all the factors that are going into it.

Robert Griffin^ And I guess, secondly for Mitchell and this is more industry-type question and maybe it's across both businesses, but we haven't-- it doesn't seem like people are-- the industry wants to call out a lot of trade down yet.

It's incremental signs of it, I think, is getting referenced. And I don't know the exact word everybody is using.

But-- so with your GMV growth, is it all just market share shifts going on in between all the players in since we're not really seeing a major impact of trade down, where we'd actually if that does materialize, you could see in the further upside.

I'm just trying to unpack kind of the organic growth here because it does seem notable without any major trade down or significant trade down?

Mitchell Fadel^ Yes. I think that's a good point.

I think trade down is a hard thing to quantify and put your finger on is why nobody wants to talk about how much is trade down.

But I agree with the point I think you're making. There's got to be some trade down in there, right? Now how material it is, is the question you get different answers from different people.

But certainly half of our GMV growth when you have 9% merchant growth is coming from there, we're certainly taking share in the market.

But there is a trade down in there.

I think I can't tell you how much of it is trade down, but there's certainly some.

If you listen to lenders above us and the stack, you hear them talking about tightening.

So there's certainly a tradedown in there.

Quite honestly, I think there's more to come later in the year.

It's not in our forecast, but I think there's going to be more to come.

Obviously the credit card fee issue could cause even more tightening above us and so forth. So I think there's some in there, and I think there's more to come.

Operator^ Thank you. One moment for our next question. Our next question comes from Brad Thomas at Key.

Bradley Thomas^ Mitch and Fahmi. I wanted to follow up first on Acima and I asked a little bit about what has been working for you in terms of these wins.

Can you share a little bit more about the dynamics behind perhaps where your approval rates may be different? Any sort of kickbacks to retailers that you're using.

What is it that you think has changed here that's helping to drive all the success right now?

Mitchell Fadel^ Yes. I think it's a good question.

I think it's-- there's quite a few things.

Our sales team is hitting on all cylinders, even without any-- the biggest name brands coming in from a national account standpoint, regional account wins, the SMB account wins, the sales team is doing a great job, both in the field and our inside sales teams and so forth, our direct-to-consumer team, the people that do the programming for that are doing a great job adding merchants to that and always looking at different friction points on any kind of marketplace. You're always looking at that.

Obviously we do have some nice national accounts that we've got 100% of national accounts now like Ashley Corporate and Wayfair last year due to repositioning of LTL providers and so forth and companies like (inaudible) discount furniture.

So national accounts are performing very strong for us as well.

But the combination of the sales team, and then it's the differentiation, I think in some of the things that differentiate us from our competition, Brad, where‰EUR Ówhere we-- from an integration standpoint, we believe we're the easiest to integrate with different partners.

Our e-com process is, as we compare it to everybody else's is not only easiest to integrate, but works very, very well.

We have an ability, others don't have to leverage Rent-A-Center when it comes to large partners and how we work together.

We have a staffed option that really drives revenue.

And when you take a 30 or 40 store regional player, and you probably don't have enough volume in every store to justify a subject matter expert and a Acima subject matter expert in the store to supplement their sales team.

But if you let's say, you do it in 10 out of the 40. And of course, you're going to get exclusivity for spending the money on the staff, not only in those 10 stores, but all 40 in that example.

So I think our staffed option is a differentiator. And when I talk about that sales team out there doing such a great job, they also-- it's not just signing people up, it's also the ongoing training, and that's where you get those organic increases by going back in and constantly doing that training.

You can sign people up with-- we get signed people up with a smaller team, but you won't get the organic growth if you're not going back in those stores depending on the partner monthly or quarterly and making sure new salespeople know how to sell the transaction within that retailer and stuff like that.

So I think it's a combination of all those things, sales, underwriting, I mean our approval rates are lower than they were last year.

I don't hear differences in approval rates between us and competition.

I think those are pretty consistent. You think about losses within the industry is pretty consistent throughout the partners.

Obviously ours will get better as the year goes on as the legacy now accounts wind down.

But I don't think it's approval rates or buying the business.

I think the other part of your question you asked about if we rebate, we all offer some rebates depending on the size of the account. Those haven't really changed over the years. They're not any higher now than they were before.

So I think it's really the other stuff I just mentioned.

Bradley Thomas^ That's really helpful, Mitch. And if I can ask a follow-up on the Rent-A-Center side of the business. Just congratulations on getting same-store sales back to positive territory after the two years of declines.

I guess if you could just talk to your confidence that we're past a more difficult period here for the segment on the revenue side of things.

I know that in the first quarter, there can be sometimes some abnormalities with early buyouts and tax refund season.

How are you feeling about that customer and the outlook to keep into sales positive here for the year?

Mitchell Fadel^ Yes, certainly optimistic.

First of all, when you think about Acima you think about trade down, the same thing happens in Rent-A-Center. It does come a little slower though because they're not in a waterfall stack within a retailer. So when consumer credit tightens, it eventually helps Rent-A-Center but not as quickly as it can help Acima for probably what's obvious reasons.

But Rent-A-Center, I think we mentioned in the prepared comments that even as we looked at April, the portfolio is looking good.

So we would expect at least slightly positive same-store sales, the whole rest of the year. They're not going to start turning 5% and 8% and 10% same-store sales numbers, but certainly slightly positive numbers, which is great for that mature business. The website continues to grow. The resiliency of the customer or back to maybe the core of your question is certainly proven over the years, you go back to the-- great recession and so

forth. And the customer is very resilient when you have really strong consumer confidence that business grows even better.

And when you have-- when things get tight out there, you do see trade down. So it's been very resilient over the years. It will continue. It's nice to be in the positive territory. We'd like it to be even a little higher as we go through the year, and that team is certainly working hard to do that.

Very encouraged by the growth with the-- in the e-comm channel, a lot of new customers come in that way. There delinquencies in line as far as the pressures on the customer, their losses came down a little bit year-over-year and their delinquencies, as you saw in the presentation, and as we mentioned, are flat.

So the customer is performing and the team is performing there, and we'd expect to continue to lease low single-digit positive comps for the rest of the year.

Operator^ Thank you. Our next question comes from Hoang Nguyen at TD Cowen.

Hoang Nguyen^ Congratulations on the quarter. I just wanted to touch base on maybe the guidance. Looks like business trends are pretty strong and has improved since the last quarter.

I mean the guidance is maintained, right? So I guess my question is what would you-- what would it take for you guys to get more constructive on the guidance going forward?

And maybe if you could give us some color on some of the strong and weak categories within the Acima during the quarter, that would be helpful. And I have a follow-up.

Fahmi Karam^ Thanks for the question. Yes, look, I think as far as the guidance for the rest of the year. We're very pleased with the first quarter results, obviously at the high end of our range. So we're very pleased with the performance.

We're pleased with the momentum we've built into both businesses, but Acima specifically with another strong quarter from a GMV standpoint, which we look to continue for the rest of the year.

As far as the guidance goes, as I said, the quarter came in line was exactly where our expectations were maybe slightly towards the higher end.

So still early in the year, no point to changing at this point for the rest of the year.

But as we progress, if we get the margin pick up, we expect, we continue to do the GMV growth that we expect will we revisit the outlook at the appropriate time.

But we feel really good with our results that we've been able to do, and April has been a continuation of the first quarter.

As far as what we saw from a strength or weakness standpoint on the Acima, I'm guessing your question is really around GMV and loss performance, really strong across the board.

If I look at all the different categories, we talked a little bit about furniture, even though furniture has been under pressure, furniture and mattresses have been under pressure as a category.

Our ability to add some of those merchants that Mitch has mentioned, have made that category for us as a growth category, even in this environment.

So between furniture, auto, jewelry, some of those bigger categories for us, we're really up across the board on all of those categories. Performance has been in line with our expectations. The ANow conversion is still putting a little bit of headwinds on our loss rate.

But early indications of the merchants who have converted over to the Acima platform have been really, really strong, both from a GMV standpoint and from an early read on performance.

So across the board, all categories being able to grow GMV at the level that we've been growing it with tighter underwriting and lower approval rates is a great story for us and should be a tailwind for us for the rest of the year.

Mitchell Fadel^ And I'd add to that, Fahmi, and Hoang the-- we may be lost here a little bit as you guys think about the commentary Fahmi the second quarter of when he went through all the different components of it and came out on a range between $0.95 and $1.05.

So if you just use the midpoint of that range of $1 when the first quarter is $0.79, I mean that's not nothing that increased from $0.79 to $1. And when you think about how that sequences and you compare those that sequence that-- and people say, when is it going to flow through? I mean $0.79 going up to $1 that doesn't always happen in this industry, whether you look at our numbers or anybody else's.

So that's-- there's a strong trajectory there.

So don't lose sight of that, I guess, is my point.

Hoang Nguyen^ Got you. And I saw that you guys commented on the early buyout trends for Rent-A-Center, but I mean can you give a comment on the Acima early buyout trend as well.

I mean I think merchandise sales in Acima was a little bit elevated this quarter.

So I just want to get some color on that.

Fahmi Karam^ Sure. Yes, as we mentioned, Haong, the early purchase option, we think is pretty much normalized to pre-pandemic levels.

What we saw this year, if you look at each of the vintage monthly vintages for the last 6-7 months, they've come in flat to last year, if not slightly lower from a percentage of an outcome standpoint of the 90-day buyouts.

So we continue to normalize there.

For the quarter, coming into the year with the kind of mid-teens higher portfolio, you're going to have higher merchandise sales from a dollar perspective, and we saw that play out in the first quarter.

So merchandise sales were up year-over-year, and that obviously has an impact to our gross profit margin.

But when we look at it on a bit by vintage basis, it's very normal to pre-pandemic levels and actually slightly better than it was this time last year.

So that trend has continued.

Operator^ Our next question comes from (inaudible) at Jefferies.

Unidentified Participant^ Kind of touched on this a little bit in your commentary on the Acima growth, but just wondering if you could touch on kind of product category mix at RAC as well and then kind of trends in average ticket price across both RAC and Acima.

Mitchell Fadel^ Yes.

On the ticket price, it was actually down a little bit at Acima. And not surprising in this economy and of course, there's a little bit of deflation out there too more on the electronic side, but even in furniture, there's some.

So down a little, which is just probably makes the growth that much more impressive because it's not ticket.

But it didn't drop a lot, but it is down a little.

The mix is, as was mentioned earlier, is all across the board at Acima with-- between furniture and jewelry, electronics, appliances and wheel and tire and same with Rent-A-Center. Rent-A-Center ticket is probably a little higher in the first quarter year-over-year. That's a lot of the mix we carry and so forth and what we put in the stores.

But it was only slight. So we're not getting a lot out of ticket.

It's getting a lot out of new customers, and it's pretty much across the board.

We did see some-- we get asked a lot about the furniture category. And of course, that had the biggest pull forward of demand during the pandemic.

But we've seen in the first quarter, some of our larger partners, a couple of them have turned positive comps year-over-year, of course, goes after two years of negative comps.

But at least they've turned positive.

So we're starting to see where we were talking about that yesterday, we called some green shoots in there about starting to see some positive.

You may have seen the report of-- Wayfair report this morning was pretty positive on the furniture side of things.

So I think we're seeing some similar results in furniture where that seems to be coming back. It certainly is at least stabilized and isn't dropping anymore, I would say. And if anything, it's actually coming back a little bit.

Unidentified Participant^ Great. Helpful color there. And then just one more quick one for me. Kind of on the Acceptance Now charge-off headwind just based on your integration commentary there on to Acima, is it fair to assume that charge-off headwind is going to abate over next quarter and two quarters from now that headwind will be gone.

Fahmi Karam^ Yes. I think it's going to be more in the second half of the year than it is next quarter. I think we guided to a better second half than the first half. And so, the second quarter loss rate will be similar to the first quarter, and then you'll start to see it trend down.

We still think for the year we'll end up pretty flat to where we ended in 2023, somewhere in between the 9% and 9.5% range for the year.

So look forward to start winding down now that it's pretty much fully converted probably closer to the second half of the year.

Operator^ One moment for our next question. Our next question comes from Alex Fuhrman at Craig-Hallum Capital Group.

Alex Fuhrman^ Really nice to see the very strong GMV growth at Acima, especially in spite of lower approval rates here.

Can you give us a little bit more color on what's been driving the lower approval rate? And if you were to see more meaningful trade down later this year or next year,

especially perhaps as a knock-on effect if the credit card issue goes through, would you start to see approval rates perhaps then start to rise?

Mitchell Fadel^ Yes. Good question, Alex.

It certainly could, depending how much that trade down happens because you're certainly going to be approving those that come in at the top of the funnel, so to speak.

So it certainly could. And of course, all of that, when you think about underwriting, all varies depending on the category, depending on the retail partner, we're very targeted when we look at underwriting and our underwriting committee, which includes all the way up to Fahmi and myself.

Like I said, there may be one retailer we're seeing more trade down, they might have had a higher approval rate in the first quarter than last year. That's an accumulation of everybody to think would we say, down 130 basis points the approval rate.

So it's never all across the board.

It's a very targeted process. And certainly our-- we have the ability to target down every single store.

So and our underwriting team is so good it's that targeted.

It's not a blanket-- it's certainly on the Acima side. That's part of all that benefit we're going to get from Acima on those Acceptance Now conversion.

But certainly more trade down.

I hope that number.

Performance of the customer as payments come in, that affects it, too, the customer performance, not just trade down.

Our-- how well we're collecting on our current portfolio impacts it and so forth.

So I think all of that will matter. And we just-- we'll be diligent.

It's always a balance.

We've got plenty of demand, but we need to keep our-- and certainly we could add higher GMV if we were kind of running wide open, so to speak, but we wouldn't do that.

So it's a balance.

Operator^ Thank you.

Our last question comes from Anthony Chukumba at Loop Capital Markets.

Anthony Chukumba^ So I was just looking back at your original guidance for 2024, which you've reiterated and certainly it seems like you're off to a pretty good start. You are anticipating three Fed rate cuts.

Now it looks like that's certainly probably not going to happen, maybe we don't even get any. Does that give you any sort of pause given that it really looks like inflation is sort of higher for longer, we may not get those Fed rate cuts. How do you think about that?

Fahmi Karam^ Yes. Thanks for the question. The new version of our forecast doesn't include three rate cuts any longer, pretty consistent with how the market is feeling after the last few data points.

But given that we've given a $0.50 range to our EPS guide, we didn't feel like we needed to adjust for it's about $0.08 from an EPS standpoint of having three rate cuts at 25 basis points of piece.

So nothing really there from an EPS standpoint. As far as interest expense goes, we can definitely absorb it inside our range.

As far as any impact to kind of interest rates being higher for longer, I think the consumers we stated, has been very resilient to the environment today.

So we expect them to continue to be resilient going forward. Going back to maybe the last question from Alex on why approval rates are a little bit on the lower end.

We're very mindful of the environment we're in and the uncertainty in the environment, and we're being very cautious in our approach. And the great part about it is we were able to grow GMV by 20% and still have that cautious approach.

So the consumer is very resilient, and we expect them to continue to be resilient.

Mitchell Fadel^ And the other thing I'd add to that, Anthony, is that yes, the range is wide enough to absorb that $0.08 without any rate cuts as well as the start we got off to in the first quarter as well obviously helps offset that.

Anthony Chukumba^ Got it. Okay. And so the-- just can you just remind us like what percentage of your debt is floating rate debt I'm just looking at just you guided to $105 million to $115 million of net that remains the same. So yes, what percentage is floating rate?

Fahmi Karam^ About $850 million of the variable debt a little bit higher than that of the $1.3 billion.

Operator^ Thank you. This concludes the question and answer session. I would now like to turn it back to Mitch for closing remarks.

Mitchell Fadel^ Thank you very much. Thank you, Operator. Thank you to everyone who joined us today for an update on our first quarter performance and for our outlook for the remainder of the year. Certainly I'm grateful for the collective efforts of our team and our merchants who help deliver such strong GMV and the positive same-store sales results for the quarter.

So very grateful to everyone the hard work of all our coworkers and certainly thankful for your interest and support as well and we look forward to updating you more towards the middle of the year and our continued progress towards our near, mid and long-term goals. So have a great day, everyone. Thank you.