Upbound Group, Inc.(Q4 2023 Earnings)

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Corporate Speakers:

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

Participants:

- Kyle Joseph; Jefferies; Analyst
- Bobby Griffin; Raymond James; Analyst
- Bradley Thomas; KeyBanc Capital Markets; Analyst
- Anthony Chukumba; Loop Capital Markets; Analyst
- Alex Fuhrman; Craig-Hallum; Analyst
- Hale Holden; Barclays; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to the Fourth Quarter 2023 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, Head of Investor Relations.

Please go ahead.

Jeff Chesnut^ Good morning. And thank you all for joining us to discuss the company's performance for the fourth quarter and full year of 2023 as well as our outlook for 2024.

We issued our earnings release before the market opened today 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 Mitch Fadel, our CEO; and Fahmi Karam, our CFO.

As a reminder, some of the statements provided on this call are forward-looking and are subject to factors that could cause actual results to differ materially and adversely from our expectations.

These factors are described in our earnings release as well as in the Company's SEC filings.

Upbound Group undertakes no obligation to publicly update or revise any forward-looking statements except as required by law.

This call will also include references to non-GAAP financial measures.

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

Finally, Upbound Group is not responsible for and does not edit or guarantee the accuracy of our earnings teleconference transcripts provided by third parties.

Please refer to our website for the only authorized webcasts.

With that, I will turn the call over to Mitch.

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

I'll begin with a review of key highlights from 2023, as well as a discussion of our priorities for 2024. 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.

As we reflect on our achievements throughout 2023, we believe our business took meaningful steps forward across both major segments and the new shared services holding company. At Acima, we saw growth in both customer base and our retailer network.

We also continue to develop our direct-to-consumer options with the virtual Acima marketplace where our customers can shop at merchants, including unintegrated merchants to select eligible products and enter lease with Acima. Acima return to year over year revenue growth in the fourth quarter driven by a 19% increase in GMV. The investments we have made in our technology and product offerings are beginning to pay off with GMV momentum throughout the fourth quarter.

Importantly, we're driving GMV growth while remain disciplined on underwriting with Acima loss of stable throughout the year. Our disciplined and targeted approach to underwriting combined with normalizing customer behavior drove material year over year profitability improvement with full year 2023 gross margins increasing 340 basis points and adjusted EBITDA margins increasing 490 basis points versus 2022.

At Rent-A-Center, we remained focused on offering a broader product lineup as well as an enhanced digital experience. We expanded our merchandise lineup with new products in our existing categories while adding new product verticals such as jewelry and tires in the fourth quarter. Whether in the showroom or our extended aisle web channel, our product mix continues to grow and evolve to meet our customer's needs.

These efforts are driving improvements in customer growth and retention with recent portfolio growth positioning Rent-A-Center for continued success in 2024. 2023 also included a significant milestone for our parent company, which was the announcement of our corporate name change to Upbound group. It reflects our combined platform, which enables us to meet our customers wherever they are, whether in our stores, it leading retailers across the country or online.

Creating the Upbound Group was part of our initiative to evaluate our current structure and how we manage the business to position us for long-term growth and adjust to the dynamic environment in which we operate. Through this initiative, we've developed an enhanced shared service model where the business units are supported by centralized resources that utilize best practices and include coworkers across the organization to drive productivity, creativity, and efficiency.

Our latest efforts in this new operating model include leveraging the capabilities of Acima underwriting and data scientists across the consolidated business, which is produced promising early results that should benefit us in 2024 and beyond. 2023 marked a rebound year as both segments improved their loss rates relative to the challenging environment experience in 2022. We're pleased with our risk and account management efforts and have proven our ability to grow our customer base while identifying targeted areas of risk and opportunities to maintain losses within an acceptable range.

We remain committed to pursuing a balanced approach to our capital allocation as well as evidenced by the growth strategy we highlighted at our Investor Day last May. Our focus on deleveraging the balance sheet and our ongoing returns of capital to our shareholders. Collectively, these initiatives produce a strong year, built a foundation for our future, and positioned Upbound for additional profitable growth as we move into 2024.

Let's now discuss our financial results on Slide 4. Our full year results included revenue of $4 billion adjusted EBITDA of $456 million and non-GAAP diluted earnings per share of $3.55, each of which finished at or towards the high end of our increased guidance from the third quarter. Our full year free cash flow of approximately $147 million finished below our guidance, almost entirely driven by stronger than expected GMV growth at Acima and/or replenishment of inventory at Rent-A-Center during the holiday season.

Acima finished 2023 with the largest portfolio values we have seen in the last two years, and Rent-A-Center had its largest ending portfolio balance since mid 2022. We're very pleased that both segments showed sequential and year-over-year portfolio growth through year end. The growth experience in the fourth quarter was driven by a number of factors, including the strategic initiatives from 2023 that I mentioned earlier. Both segments expanded and diversify their product offerings.

At Acima, we continue to broaden our merchant partners while also working to generate more activity within our existing merchant network. Demand was above our expectations across most categories and produced 19% year-over-year GMV growth despite overall lower approval rates in the quarter than 2022. We also continue to test, learn, and iterate as we work to expand our LTO solutions and incorporate credit offerings to further benefit our large customer base and leverage our new Upbound operating model.

Optimizations are ongoing to find the best outcomes for our customers, partners, and business. We spent the second half of 2023 integrating systems with Concora Credit, formerly known as Genesis Financial, enhancing the risk models by leveraging our proprietary data and piloting both the general purpose credit card and the private label card. That work has positioned us to ramp up the business throughout 2024, after which we'll be able to further evaluate the timing and the size of the opportunity.

We noted on our last call that we believe the non-prime consumer has been and we expect we'll continue to be resilient in this macro environment. From an underwriting standpoint, the continued performance of the broader economy helped guide our decisions on risk and led to full year loss rates and improved 40 basis points at Rent-A-Center and 130 basis points of the Acima.

While certain aspects of the economy seem to stabilize, the consumer does remain under pressure and we'll maintain our vigilant approach as we seek to balance top line growth objectives with prudent risk management utilizing our proprietary data analytics resources.

And the second half of the year, we opportunistically repurchased 1.7 million shares representing approximately 3% of shares outstanding. In 2024, we expect to continue to prioritize investments in our business, debt reduction, and supporting our dividend. We may also capitalize on future windows with opportunistic share repurchases, if we believe the near term share price diverges from the long term value we expect to create.

On slide 5, we can see the details behind our segment level performance. At Acima year-over-year, revenue trends improved throughout 2023, culminating in a return to top line growth in the fourth quarter. Acima's revenues in 2023 were supported by year-over-year improvements in the number of total merchant locations, active locations which are defined as locations with at least one lease transaction in the quarter and total funded leases, while the average ticket size was also up slightly. Acima's commitment to providing first class service and support to our retail partners has expanded our merchant network, while also securing with select retailers elevated prominence or exclusivity for our offerings.

GMV improved sequentially throughout the year, finishing 2023 with 19% year-over-year growth in the fourth quarter. The acceleration started in earnest late in the third quarter and with sustained throughout the holiday shopping season, and we believe this momentum is positioned Acima for strong growth in 2024. Acima's loss rate declined 130 basis points from 10.6% in 2022 to 9.3% in 2023. We carefully adjusted our decisioning algorithms across the year in response to economic development, and we'll continue to optimize our underwriting decisions to help produce an appropriate risk adjusted return for the business.

With the improvement in the loss rate relative to the prior year, Acima realized 35% year-over-year growth in adjusted EBITDA that $294 million and that represents the largest full year adjusted EBITDA amount for Acima in its history and will afford to building out such strong results. Rent-A-Center ended the year with its highest portfolio balance since the first half of 2022 and its highest customer count across the year. Our tactical marketing approach benefited our portfolio balance throughout the year with our 50 drops in 50 days program over the summer to celebrate our 50th anniversary and a similar but more compressed campaign in the first part of the holiday season.

Revenue and adjusted EBITDA were both down against difficult comps from 2022, but in line with our expectations for the year. The early part of the year with softer in terms of revenues and deliveries, but we saw favorable portfolio growth in the back half of the year due largely to improve customer retention and an uptick in the number of open leases. An important factor in Rent-A-Center performance was the strength of the web channel, which hosted 31% more visits and 60% more orders than the prior year with a share of revenue from that channel reaching 26% up a hundred basis points versus 2022.

We continue to invest in our strong physical retail presence across local communities alongside our innovative digital footprint so that our customers may interact with us wherever and whenever they prefer. Rent-A-Center losses improved 40 basis points in 2023 to 4.5% with steady sequential improvement from 4.8% in the first quarter to 4.2% in the fourth quarter. This favorability resulted from underwriting adjustments earlier in the year combined with declining fuel prices for consumers and a reduction in inflationary pressures.

Past due rates, which are an early indicator of potential loss rates finished 2023 flat to the prior year. Gross margins were generally consistent with our historical average with adjusted EBITDA and operating margins returning to pre-COVID levels last seen in 2019. Overall, we believe Rent-A-Center portfolio is well positioned for solid performance in 2024.

Our priorities for 2024 build off the strategy we outlined at our Investor Day and the achievements we delivered in 2023. For Acima, we plan to continue to grow our top line with small- and medium-sized businesses as well as expand our push into large, regional and national enterprise level accounts. As we continue to widen our merchant network, we're equally committed to deepening penetration with our existing retail partners and generating more leases per merchant per month.

The key to achieving that goal will be to offer superior differentiated service to our customers and our merchants which we expect to drive higher rates of engagement and retention. For our customers, we are focused on having the right products available on the right terms that meet their needs. For our retailers, we're focused on providing proven and flexible solutions for their business and their customers will continue into simplify the integration process.

Acima's overall value proposition combines the best of in-store and online shopping at leading retailers with point of sale solutions, plus a staff model for higher traffic locations through the integration of our Acceptance Now business into the Acima platform. The migration of A Now into the Acima infrastructure is expected to be complete by the end of the first quarter with the transition of the final two major retailers currently in process.

As we discussed last quarter, the legacy A Now business will benefit from the enhanced virtual underwriting capabilities and customer experience at Acima, and we've seen that benefit from retailers that have already been converted. Our underwriting approach is built on an individualized assessment of each customer and each transaction within the context of the broader economic environment. Our robust decisioning is a key contributor to our profitability and margin profile, which we will supplement in 2024 with a dedication to optimizing efficiencies across our organization.

Rent-A-Center plan for 2024 builds off the momentum built in the back half of 2023. In 2024, Rent-A-Center will focus on continuing to serve its customers with desirable name brand products, and hard goods, consumer electronics, jewelry, and automotive verticals. Additionally, as we add digital touch points with our customers whether it be text, email, in app, or on the website, we can offer them relevant and time-limited promotions for exclusive deals and products. Our 12 drops of Christmas promotion created awareness, drove interest, and helped compound the seasonal lift we saw in December.

We also deployed optimization to our online product recommendation engine that led to more relevant product suggestions, higher engagement, and better user experiences. Throughout 2023, marketing and personalization efforts created the largest year in our history for rentacenter.com with web visits as I mentioned up 31% and web orders of 16% year-over-year. We know that the combination of the right products and the right offers available across our physical and digital channels will enhance our value proposition to consumers.

We expect our stores to remain at the center of our customer relationships where we are preparing for more growth in the online channel. An important element of this initiative is a rollout of a new point of sale system, which leverages updated technology to enhance scalability, resiliency, reporting, and automation. As our online activity continues to grow and as we see surges in demand during promotional campaigns or holiday seasons, this infrastructure will help us deliver a reliable and seamless experience to our customers, whether in store or online.

The new platform will also allow us to receive more timely and granular data to make more informed and quicker decisions. The nationwide rollout of the new POS system is underway and we're excited about laying the groundwork to improve our productivity and support our future growth with enhanced flexibility and capabilities.

Turning Upbound at the holding company level our priorities for 2024 will be driven as always by our focus on creating sustainable long-term value. For our business segments will continue to prioritize making our processes more efficient, ensuring our people and platforms collaborate to share best practices across our organization. In addition, we're committed to actively managing our expenses to protect and improve our margin profile.

Our customers will continue to evaluate new solutions beyond LTO that elevate their financial opportunities and enable us to support them more often and with more insights. And for our shareholders, we'll continue to focus on thoughtfully allocating capital to fund investments in our business while supporting our dividend and de-leveraging plans.

Now, before I hand it off to Fahmi, I'd like to emphasize how proud I am with our whole team for their focus, their determination in delivering such strong results. Your unwavering commitment to supporting our customers and our merchants is what makes our company special, and I really, really appreciate it and thank you.

And with that, let me turn the call over to Fahmi.

Fahmi Karam^ Thank you, Mitch. And good morning everyone. I'll start today with a review of the fourth quarter and 2023 results and to discuss our fiscal year 2024 guidance, after which we will take questions.

Beginning on Page 7 of the presentation. Consolidated revenue for the fourth quarter was up 2.8% year-over-year with Acima up 6.6% and Rent-A-Center down 1.7%. Rentals and fees revenues were up 4.3% reflecting higher portfolio values for both businesses during the fourth quarter. Merchandise sales revenues decreased 5.6% due to fewer customers electing earlier purchase options.

Consolidated gross margin was 50.3% and increased 30 basis points year-over-year with improvements in both the Acima segment and the Rent-A-Center segment. Consolidated non-GAAP operating expenses excluding skip/stolen losses and depreciation and amortization were up mid-single digits. Led by a low teens increase in general and administrative costs as a result of certain corporate investments in technology and people and higher incentive based compensation tied to company performance in addition to mid single digit increases in both store labor and other store expenses. The consolidated skip/stolen loss rate was 7.5% unchanged from the prior year period and in line with our expectations.

On a sequential basis, the consolidated loss rate increased 50 basis points due to a modest uptick in the Acima segment, driven primarily by the legacy Acceptance Now business. Putting the pieces together consolidated adjusted EBITDA $107.6 million decreased 2.2% year over year as higher Acima segment EBITDA was offset by lower Rent-A-Center segment EBITDA and higher corporate cost. Adjusted EBITDA margin of 10.6% was down approximately 50 basis points compared to the prior year period with approximately 20 basis points of margin contraction for Acima, approximately 10 basis points of contraction for Rent-A-Center and a 40 basis points increase in corporate costs as a percent of sales.

I'll provide more detail on the segment results in a moment. Looking below the line, fourth quarter net interest expense was $28 million compared to $26 million in the prior year. Due to approximately 200 basis points year over year increase in variable benchmark rates that affected our variable rate debt, which was approximately $881 million at quarter end. The effective tax rate on a non-GAAP basis was 24.6% compared to 25.8% for the prior year period. The diluted average share count was 55.5 million shares in the quarter.

GAAP loss per share was $0.21 in the fourth quarter compared to earnings per share of $0.05 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 $0.81 in the fourth quarter of 2023 compared to $0.86 in the prior year period. Due to stronger than expected GMV growth at Acima in the fourth quarter, we deployed our fourth quarter free cash flow and an additional $37 million toward inventory investments compared to $44 million of free cash flow generated in the prior year period.

In the fourth quarter, we distributed a quarterly dividend of $0.34 per share and we repurchase approximately 800,000 shares in the quarter. We finished the fourth quarter with a net leverage ratio of approximately 2.7 times up from 2.5 times in the third quarter. As previously reported, we increased the dividend of $0.37 per share with our January 2024 payment.

Drilling down to the segment results starting on Page 8. For Acima, GMV year over year trends continue to improve sequentially in the fourth quarter, and we returned to positive year over year GMV growth. GMV increased 19% year over year in the fourth quarter, an improvement from a 1.4% decrease in the third quarter.

GMV growth was above our expectations it was driven by year over year growth and some key underlying drivers with active merchant locations up mid-single digits, applications up over 20% due to strong demand and average ticket size up high single digits. Those tailwinds were partially offset by lower approval rates across all major categories. The value of assets under lease was up mid-teens both year over year and sequentially, and was the highest level since the fourth quarter of 2021.

Revenues increased 6.6% year-over-year, including a 9.6% increase in rentals and fees revenue, merchandise sales revenue decreased 3.9% year-over-year due to fewer customers electing the earliest purchase option with a mix of those transactions for the fourth quarter returning to pre-pandemic levels, skip/stolen losses for the Acima virtual platform were 7.9%, 10 basis points higher sequentially, and 10 basis points lower year-over-year.

Losses for the legacy Acceptance Now staff business were in the double digits and drove the sequential increase in Acima consolidated results in line with our expectations. We have continued tightening underwriting at A Now to optimize performance, and more importantly, we're in the process of completing the migration of some of our larger merchant partners from the A Now underwriting decision engine over to the Acima platform. We expect to finish this transition in the first quarter of 2024. This will strengthen our underwriting capabilities and should reduce loss rates as lease cohorts from the legacy system wind down throughout the year.

On a combined basis, including Acima virtual and A Now, the loss rate was 9.9% of sales. A 100 basis points increase from the prior year period and 50 basis points higher than the third quarter. Operating costs excluding skip/stolen losses were up approximately $8.4 million in the fourth quarter or 120 basis points as a percent of sales. Due to higher labor costs as well as increased marketing investments. Adjusted EBITDA of $75 million was up 4.7% year-over-year, primarily due to a 6.6% increase in revenue. That was partially offset by 3.6% increase in cost of goods sold.

Adjusted EBITDA margin up 14.8% decreased 20 basis points year-over-year, while gross margins expanded approximately 190 basis points. For the Rent-A-Center segment, at year end, the lease portfolio value was up 1.5% year-over-year, an improvement of 420 basis points from the end of the third quarter. Total segment revenues decreased 1.7% year-over-year, an improved from a 4.2% decrease in the third quarter. The decrease in revenues was driven by a 12.2% decrease in merchandise sales due primarily to fewer customers electing early purchase options compared to the prior year period.

Fourth quarter rental and fees revenue declined 80 basis points and improvement from a 3.2% decline in the third quarter. Same store sales decreased 1.6% year-over-year in the fourth quarter compared to a 4% decrease in the third quarter. Skip/stolen losses continue to improve driven by ongoing underwriting and account management efforts, decreasing 160 basis points year-over-year and 10 basis points sequentially to 4.2%. Past due rates also decreased year-over-year with 30 day past due rates averaging 3.1% for the fourth quarter compared to 3.5% for the prior year period.

Adjusted EBITDA margin for the fourth quarter decreased 10 basis points year-over-year to 14.5%, primarily due to the de-leveraging effect of lower revenues on less variable costs. This is reflected by 190 basis point year-over-year increase in the ratio of non-GAAP operating expenses, excluding skip/stolen losses as a percent of revenue, even though expense dollars decreased year-over-year.

Adjusted EBITDA margin decreased 50 basis points from the third quarter, primarily reflecting normal seasonality in addition to higher marketing and labor expenses. For the Mexico segment, adjusted EBITDA was higher year-over-year, and franchise segment adjusted EBITDA was lower. Non-GAAP corporate expenses were approximately 12% higher compared to the prior year, primarily due to higher projected performance based compensation than in 2022.

On a consolidated basis, the Company finished 2023 on a strong note meeting or exceeding the high end of the initial full year guidance that we provided in February, 2023 for revenue, adjusted EBITDA and non-GAAP diluted EPS. Full year consolidated revenues of $4 billion were at the high end of our initial guidance.

While adjusted EBITDA of $456 million was approximately 15% higher than the original midpoint. The non-GAAP diluted EPS of $3.55 was 29% higher than the midpoint of initial guidance, significantly exceeding our expectations.

Let's shift to the 2024 financial outlook. Note that references to growth or decreases generally refer to year over year changes unless otherwise stated. For the full year, we expect to generate revenue of $4 billion to $4.2 billion and adjusted EBITDA $455 million to $485 million, which excludes stock-based compensation of approximately $25 million. We are projecting consistent adjusted EBITDA margins with 2023.

Fully diluted non-GAAP earnings per shares expected to be $3.55 to $4, which assumes a fully diluted average share count of 55.7 million shares with no share repurchases throughout the year. We're also projecting $100 million to $130 million of free cash flow. Net interest expense of $105 million to $110 million and an effective tax rate on a non-GAAP basis of 25.5% to 26.5%. We do not have share repurchases or M&A activity included in our guidance for 2024.

Our forecast assumes a macro economic backdrop consistent with current conditions along with three rate cuts by the Fed across the year. As we experienced in the fourth quarter of 2023, the free cash flow range will ultimately be determined by the level of consumer demand and resulting growth in GMV and the portfolio. The cash flows dedicated to investing in profitable leases reduces our overall free cash flow in the short term, but should support stronger results later as we benefit from a larger portfolio.

For the Acima segment, we expect GMV to increase mid to high single digits with a high single digit increase in revenue. We expect gross margins to contract from the prior year, especially in the first half of the year due to a more normalized tax season and the impact of promotions offered in the fourth quarter. Consolidated Acima losses for the year are expected to be relatively flat to the prior year with higher losses in the first half of the year than the second half due to the elevated legacy A Now portfolio, which will wind down as the year progresses.

Adjusted EBITDA margin expected to be in the mid-teens range consistent with 2023. For the Rent-A-Center segment, we expect the portfolio revenues and same store sales to be flat to up low single digits. Loss rates are projected to be stable to 2023 levels. Adjusted EBITDA margin is expected to be in the mid teens range consistent with 2023. We expect the Mexico and franchising businesses will generate similar results to 2023, and we expect corporate costs to hold steady as a percentage of consolidated revenue year over year.

As we are still testing and learning with the new general purpose and private label credit cards, this forecast does not include any meaningful contribution from those initiatives in 2024. As we proceed through the year, we'll continue to evaluate our progress and the results stemming from our new partnership. The 2024 plan does not incorporate the benefit of any material trade down. However, we are closely monitoring lenders that sit above us in retailer waterfall and specifically the proposed rule changes around credit card late fees.

If the CFPB's new rule is finalized as proposed then credit card late fees could decline meaningfully. One possible reaction from card issuers would be to manage credit more tightly, which may cause effective consumers and retailers to explore alternatives, including the LTO offering. This potential trade down could cause more consumers with a stronger and more resilient credit profile relative to the traditional LTO customer base to apply for a lease. Although our guidance for 2024 does not include any meaningful impact from trade down, whether from a typical recession or regulatory actions, such developments could represent a potential tailwind to our business.

In terms of the first quarter, total consolidated revenue is expected to be up low to mid single digits year-over-year. We expect losses at the Rent-A-Center segment to be in line with the first quarter of 2023. Acima consolidated losses are expected to be consistent with the fourth quarter. Adjusted EBITDA margins are expected to be in the high single digits range. Interest expense, tax rate and share count are expected to be similar to the fourth quarter of 2023, resulting in a non-GAAP EPS range of $0.70 to $0.80.

We expect consolidated adjusted EBITDA margins to expand following the first quarter due to normal seasonality coming off tax season and higher earlier purchase options and improvement in loss is at both segments, especially at Acima as the back book from the legacy A Now business winds down and Acima GMV growth throughout 2024.

Moving the capital allocation, our overall strategy remains the same. Our proven business model generates strong operating cash flows over time, and our disciplined capital allocation framework deploys it in support of our strategic priorities. Our top priority remains investing in the business to position us for ongoing success. We'll continue to invest in delivering a lease portfolio that meets our return objectives, while investing in new channels like the credit card partnership and in our digital capabilities that improve the customer and retailer experience and further enhance our competitive position.

We're committed to our strong regular dividend and strengthening our balance sheet by reducing debt over time. In addition, we will evaluate other strategic deployments of capital, including opportunistic share, repurchases and inorganic growth opportunities as they arise. Based on the strength of our results and our outlook for 2024, we recently raised our dividend by $0.03 per quarter. We expect the balance of our free cash flow this year will go towards de-leveraging as we advance towards our long-term target net leverage ratio of 1.5x. The net leverage ratio of 2.7x as of year-end reflected the impact of $69 million of debt pay down across the year, and an increase in working capital needs at year end to support GMV growth.

Concluding on Slide 12, on February 27th, we will celebrate the one year anniversary of our new Upbound ticker on the NASDAQ Exchange. As Mitch stated last year, our rebranding represents a transition to an enterprise operating structure that will enhance and coordinate our collective efforts on strategic planning, operations, risk management innovations, and digital investments. We have made headway across each of those areas, and those gains have set the business on a positive trajectory going into this year.

We feel confident in our current competitive position and underwriting capabilities that can balance the uncertainty in the market, while producing strong margins at both of our major business segments. In 2024, we expect our continued customer service focus, disciplined approach to risk management and hyper-focus on cost controls will help us deliver sustainable growth and strong risk adjusted returns. Our leadership team is optimistic on the opportunities ahead of us and is confident in our ability to execute on our objectives for the year ahead.

Thank you for your time this morning.

Operator, you may now open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question will come from the line of Kyle Joseph from Jefferies.

Kyle Joseph^ Just on the pre-cash flows in ‘23, it looks like came in a little bit below your guidance. Is that really just a function of the better growth at Acima or the better GMV growth out of Acima?

Fahmi Karam^ That's what causing a lower free cash flow for the year. As we stated, the GMV came in above our expectations, and so you'll have an impact on the short term on free cash flow, but we'll benefit in the long run from a higher portfolio.

Kyle Joseph^ Obviously, GMB was really strong in the fourth quarter. Is that kind of the new run rate? Was there any sort of one-time things related to holiday sales, just trying to connect GMB in the fourth quarter versus your revenue outlook at the segment?

Mitch Fadel^ This is Mitch.

I wouldn't call 19% the new, the new run rate. Although, I will tell you it's held up really well going into this year. Our guidance for -- and I'll come back to that in a second, guidance for ‘24 is mid to high single digits on GMV four Acima. So we certainly expect to continue. In fact, it'll be higher than that at the beginning of the year. It'll get a little lower as we comp over the plus 19% in the fourth quarter, and in fact, January within the 15% range and February's looking to repeat that so far.

Obviously, February's not done yet, but we're talking about 15% in January and looking about the same so far, at least in February, so really strong momentum. We're saying mid to high single digit GMB growth for the year because it will get a little tougher as we get later in the year. But when you are comping over 19% in the fourth quarter, but really strong -- obviously at the 19% really strong so far this year, and we're really happy with the demand and the overall performance of Acima keeping delinquencies flat with all that growth.

And good underwriting everything we just talked about in the prepared comments. But a lot of momentum, a lot of new merchants lot. In fact, I think it was on one of the slides or it is on one of the slides, we added 6% merchant growth. Our productivity per merchant went way up in the quarter, about 25% increase in productivity per merchant. Our direct to consumer almost doubled the business from last year in the fourth quarter. Our e-comm did double in the quarter smaller numbers, but those numbers doubled. So, every aspect of their business is going really well.

Kyle Joseph^ And then last one for me, and I can hop back in the queue, but just talk about what merchandise you're seeing really strong growth in at Acima and then some or others where you're not seeing the growth. Is it really kind of consumer electronics? Is it tire? And then, how furniture and mattress been trending as well. And that's the last one for me. Thanks guys.

Mitch Fadel^ Sure. Kyle. In the fourth quarter, we had great growth in every segment, every category that we're in, even furniture that's obviously had a lot of headwinds. But we grew in all of them. All the ones you mentioned, everything we're in, it was pretty consistent across the board, of course, again, it's not just a matter of our current merchants, just more productivity within the current merchants. We're adding a lot of merchants, like I said, 6% growth, and more coming in the first quarter. Adding merchants and getting more productivity in each category is driving those numbers.

Fahmi Karam^ Maybe just to add to that, Kyle, we saw it across the board as Mitch said, of course in the fourth quarter you'll have a run up in jewelry and consumer electronics being one of the more riskier segments for us, we're able to make sure that we're monitoring that from an underwriting standpoint.

But even in furniture, we talked about apps being up overall by 20% in the furniture category, it was up over 30% in the fourth quarter, and that's a reflection of adding merchants and going exclusive on actually.com, which is one of our biggest accounts. And doing that it gives us more apps to look at. We actually had lower approval rates in the quarter, so we were able to be a little bit more selective and still grow GMV year-over-year.

Mitch Fadel^ Yes. I think that's a great add-on that's growth with lower approval rates than 19% growth.

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

Bobby Griffin^ Mitch, I want to maybe just unpack the GMV growth in a little bit more if possible, and spend a few moments there. Look, the 19%, a pretty notable flip from trends, and I would say, our checks at least from investor side, is that retail was just okay, probably during 4Q and maybe even in the categories you guys do was a little less than, okay. So, can maybe unpack what you saw there and what do you think is driving the success to flip this pretty meaningfully here in the fourth quarter?

Mitch Fadel^ Sure, Bobby, good question. I think, at the end of the day, we're taking share, just to cut to the chase. And when I say we're taking share, there's different ways of taking share. When an account taken away from someone else, you can get in a better position with that account, because you're servicing them better or the flow is better, the other e-comm flow whatever. You can get in first position wherewith retailers that have more than one LTO option in the store. We had some where we got exclusivity in the store, we had some where we took the account from a competitor. So, it's a combination, all those things. I think when you sum it all up, we're taking share.

And one of the big successes of Acima, as you know, Bobby, Acima has a fantastic. One of the things we loved three years ago, last week when we acquired Acima with their sales team out in the field and with a strong sales team as the way the Company built with that diverse sales team and really go after the regional and SMB accounts. And of course, we've got the enterprise team too. So, we've got a multi-pronged diverse approach where this fantastic sales team.

Between the people out in the field and some inside sales support, you're over a hundred people, probably about 125 people in total. And they just keep adding accounts and servicing those accounts well. And we just keep adding -- not only adding merchants, but getting in better position with merchants being first one they run, and as long as we approve that customer, then they don't run them through anybody else. Things like that. Taking accounts, taking market share.

And then we got some good regional wins, we got some national wins, on the board, some bigger accounts like Ashley, that family mentioned, and we got the enterprise team going after the big accounts. But as you know, the biggest accounts are such a long sales cycle. We don't just rely on going after those big accounts. We're growing merchants whether we get a big account or not, we don't rely on that. We're in the conversation with every one of the large accounts. But like I said, the sales so darn long, we don't put all our eggs in that basket. We have much more of a diversified growth strategy.

The sales team is one of our differentiators. The other differentiators that that sales team uses, like the options we have for retail partners to be virtual or we can staff stores if they're high enough volume, they can do either or some stores can be staffed, some can be virtual. We've got a great e-comm platform. We've got full online capabilities for any retailer that wants to use full online checkout capabilities. I mean, for any retailer that wants to use it, and a lot of them do. And then the direct to consumer, the Acima marketplace doubled year over year. So, I think when you put it all together, we've got a lot of diverse growth vehicles, not everything all in one basket, and we're taking market share.

Bobby Griffin^ And I guess secondly for me tough, I don't want to call it one quarter a huge flip and trend, but just hypothetically speaking, if this does kind of build from here.

Can you talk a little bit about the scale of the organization and kind of will you need to scale up for this type of growth from an OpEx standpoint? Or is the organization at a good scale really on both sides of the business, the core Rent-A-Center stores as well as the Acima, that if we start to see kind of more sticky, meaningful GMV growth, you guys can handle it and, and what would it kind of flow through at?

Mitch Fadel^ I think we're at a good scale. We mentioned -- Fahmi mentioned when we talking about the 2024 outlook, we were able to keep -- by building scale and by adding things, a lot of technology investments and so forth. We're able to keep our percentage, our corporate overhead percentage, the same as last year, which I think going forward when you start talking about ‘25 and beyond, we talk about leveraging the revenue growth obviously this year keeping that percentage flat and then seeing leverage down the road as the revenue grows.

But I think this year we've got the investments already in there keeping the percentages the same because with revenue growth, you should actually see it go down a little bit. But because of some of those investments we've had to make, they're in there. And so, I don't think you would have to go over that. And I think actually if you want to look longer term, like ‘25 and ‘26, you'd be talking leverage against that number.

Fahmi Karam^ Bobby, the high growth that we're talking about, especially at Acima obviously being a virtual business, you can really scale that business up without adding a lot of expenses.

Operator^ Our next question will comes from line of Bradley Thomas from KeyBanc Capital Markets.

Bradley Thomas^ Wanted to kick off with maybe one more follow up on the GMV dynamic that seems so -- it seems to have such a great momentum here right now. Wondering if you cut the data and you'll look at how many are new customers to Acima versus repeat perhaps who's new to rent to own, or if you have any data, if they've been a rack customer previously? Just curious about that dynamic.

Mitch Fadel^ Yes. There's not as much overlap between the Acima customer and the Rent-A-Center customer, as you might guess. It's certainly -- of course as we look at the demographics, there is a bit of a spread between them. The customer going in shopping for retail and getting denied or maybe not having traditional financing options, there is a pretty big difference between them and we don't see a whole lot of overlap.

We see as you probably know, Brad, the repeat business is extremely strong in Rent-A-Center. Of course, you can get every product under one roof at Rent-A-Center, and it's a little more the demographic a little different than the Acima customer. So depending on the year, we see as much as 70% repeat business in Rent-A-Center and Acima it's about half that from a repeat business standpoint.

Something we're always trying to grow because they -- again, it is more diversified if they got tires somewhere or they got furniture somewhere that it may be a few years before they come back and use Acima. We only count repeat business if it's within a period of time. I think its12 months when we count it as repeat business. So, we do get a lot of repeat business. I guess the short answer is, we get a lot of it more Rent-A-Center than we do at as Acima just virtual the way the business models work.

But I think where the expansion of the consumer base -- well, let put it this way, if 35% roughly of Acima customers are repeat business, obviously 65% are new. A lot of new customers coming through the pipeline more so at Acima than Rent-A-Center because we're getting them through all those retail partnerships. You're talking about over 35,000 retail partner stores that you could do a lease into Acima, not to mention the direct to consumer stuff. And I say 35,000, and then a website like Wayfair is one customer, right.

So, there's an awful lot of places that LTO is becoming much more popular and much more mainstream through these retail partnerships, and a lot of new people are being exposed to it. I think, especially if the economy gets any worse going forward, even more people will get exposed to it. More people will need it. Family mentioned, the credit card fee, late fee kind of thing could affect some approval rates above us. And we may get more trade down going forward. We didn't build that in, but it certainly could be a tailwind for us. So a lot of people need LTO and a lot of people getting exposed to it every day.

Bradley Thomas^ Absolutely. That's helpful, Mitch. Just to ask the question about underwriting. As you think about the segments, could you just talk a little bit more about how you feel about the underwriting and potential needs to tighten on the horizon versus opportunities to maybe loosen?

Fahmi Karam^ Yes. Brad. The underwriting, we've talked about it a few times, it's a continuous process of us to evaluate where we are, where the market is, and where we are compared to our competitors. And it really was a good sign for us to be able to really reduce the approval rates in the fourth quarter and still have that growth.

From an underwriting standpoint, we try to optimize our decisioning for EBITDA dollars and the yield that we've seen specifically at Acima over the last 12 months has given us the opportunity to be very opportunistic on where we want to lean in.

And also we're very confident we can identify pockets of risk going forward, but that the higher yields allow us the ability to absorb potentially higher losses down the road if the macro worsens and still generate those mid-teens. So, we feel good about our capabilities to manage it and produce the returns that we're looking for.

Mitch Fadel^ And the other exciting thing about the underwriting is not just as Acima, we mentioned that we're taking our legacy business, we only have two more large retailers to convert, and that'll be done by the end of the first quarter. So that we're excited about the early results of accounts we've already switched over there. Again, getting in line compared to the underwriting that Acceptance Now was using.

And we're excited about that because after we get through, as Fahmi mentioned, after we get the first half of the year, the losses come down from where they are now based on the consolidated losses come down after those accounts were run through, and then we'd have all of A Now on it, looking at some of those best practices, some of the great tools that the Acima uses, and using them on the Rent-A-Center side as we get into 2024 is exciting.

So, there's some potential tailwinds on underwriting. We talk a lot about A Now, but even on Rent-A-Center, using some of that same team to influence and put some of the same tools on Rent-A-Center that can -- not only most people only think of underwriting. Well, if it's better underwriting, you reduce your losses. But one of the things you learn when you really dig in is better underwriting also finds you green shoots of things you can approve that maybe you weren't approving before.

So it can also drive volume be, because if it is so much more sophisticated than targeted, you don't have to cut out whole swabs of a particular group or and if a customer looks like this, you cut out the whole group, a particular score or whatever. And when it's better sophisticated and targeted, you certainly can -- maybe you can improve half of what you would've turned down in that group that's got a particular vantage score or whatever.

So, it can find your volume too. So, we're excited about some of those things that once we get Acceptance Now done of how can some of those same tools help Rent-A-Center drive more volume and with lower losses as well. So the underwriting is a real -- there's two things that we really loved about Acima three years ago when we bought it, about the organization that -- had built was the underwriting capabilities. And we're seeing that, and then the sales team I was talking about earlier, the way it was such a diverse growth vehicle versus only going after a certain type of account.

We got competitors that only that we -- and there's some good competitors that go after just the SMB accounts. And then there's other competitors that only go, we only compete with when we're going after the big accounts and, but we're in all of them, whether it's one team's on the small accounts, another team's on the regional accounts, another team on the big accounts, the enterprise accounts, you'd call them.

And even though we see different competitors in each one of those buckets, we're the only one in every one of those games. And it feels really good. And that's the way -- it seamless built on that small SMB business. We've added the enterprise team, and those were the two things we loved about it. The way they approached the sales and the great sales team, some of the great people they have on that team and have had since the beginning as well as the underwriting. And we're seeing the fruits of all those things now.

Bradley Thomas^ That's very, very helpful. If I could squeeze in one more here, just on how to think about gross margin and modeling it for the year. Fahmi, it strikes me that probably mix towards the Acima away from rack would be one of the more powerful drivers just in terms of how the margin rate on a consolidated basis plays out. But anything else we should think about, as we think about baking the cake on the gross margin for the year?

Fahmi Karam^ Yes. I think that's right between the mix of Rent-A-Center and Acima for looking into 2024 for Rent-A-Center, expect to have gross margins to be relatively flat year-over-year. For Acima, the guide has us coming down a little bit year over year especially in the first half of the year. We have some tough comps in Q1 and Q2 compared to 2023. And we talked about the early payout options and fewer customers electing that. We expect that to continue this year, but maybe not to the same degree more normalized.

If you look at Q1 of last year, the gross margin expanded almost 500 basis points or over 500 basis points. And so, we don't expect it to do that again in the first quarter of 2024. But it'll be close to that. We expect it to be slightly down from that. So it's more of a cadence of first half being a little bit lower than 2023 and then catching up in the second half of the year.

Operator^ Our next question will come from the line of Anthony Chukumba from Loop Capital Markets.

Anthony Chukumba^ I wanted to focus just a little bit on the Rent-A-Center business. You had a nice sequential improvement in terms of comps. You mentioned in your prepared remarks some new product categories, jewelry and tires. I guess my question is, how much do you think that jewelry and tires contributed to that sequential improvement in your fourth quarter Rent-A-Center comp? And also related to that, do you think that credit tightening above you contributed to either the Rent-A-Center comp improvement or the really strong GMV growth in Acima? Thanks.

Mitch Fadel^ Sure, Anthony, good morning. Rent-A-Center -- those new products that we put in the fourth quarter, pretty really small contribution.

I would give them a little bit of credit, but not much quite honestly, but a little bit. And obviously we expect them to grow in 2024. But it was pretty late in the year.

So, the thing about the thing probably that helped Rent-A-Center more than that is overall the extended aisle that we added to all year adding products in not necessarily new categories, but new -- a lot more product offerings on the website where instead of going through the -- let me give you an example. The 20 living rooms maybe that we had on a fast ship to our stores that our stores could get on a weekly basis from say, an Ashley Furniture from the manufacturing side of Ashley Furniture.

Now the customer can shop the all of Ashley's products on the website and the special order anything on there through our Rent-A-Center store. So I think the extended aisle on there, there's so many more products, like 6,000 more products or something. I mean, it is a huge number more products on there and that's really where the growth of Rent-A-Center is coming from. As I mentioned, in my prepared comments over 30% more web visits, 16% more orders coming through there. And that's what tighter underwriting as well.

So, when I say orders coming through, those are orders that -- those are approved orders coming through, and we got 16% more. I think the extended aisle is more the story in Rent-A-Center. I think certainly the demand is there, the consumer's still under pressure. And the good part about that business, the reason it turned 50 years old last year is when the consumer's under pressure we get more trade down and when things are better we get better performance from our base. And that's the resiliency of the business of why it goes through very well through any cycle.

But the second part of your question, I think tightening above us has to be helping when we look at vantage scores and people ask us, all the time about trade down and we saw it early last year in the scores coming through, then it kind of leveled off. We've seen them go back up just a couple of points though in the last say, well, maybe six, eight weeks. They went up early last year leveled off.

Now, we're seeing them tick up again a little bit here recently. And then it is not all just about that score either, right? Some of it is mindset if the customer goes into Rent-A-Center because they don't want to commit maybe to a contract and they're just rent it and see what happens to their finances over the next few months. So it's a much more flexible, uh, way to acquire things, obviously because you have return at any time.

It's a much more flexible way to acquire things for your home than a revolving account or finance contract where you can't just give it back to the retailer. So, I think trade downs part of the story, not just when you look at vantage scores or credit scores or something like that, I think mentality is always part of the trade down when the economy worsens. So I think that's certainly part of it, and both the Acima side and the Rent-A-Center side.

Anthony Chukumba^ And then just real quickly, you mentioned going exclusive with Ashley Furniture. Can you just remind us, I guess how many LTO providers did they have previously? And when did you go exclusive and do you think that was a meaningful contributor to Acima GMV growth?

Mitch Fadel^ Of course, Ashley also has a lot of licensees, so when we say exclusive of them, we're talking about corporate stores, which I think there's over a 100 corporate stores. We were splitting them. There was two LTOs in there before now there's just us. And the website was split between two LTOs and now it's just us. So we've been with them a long time, but we're splitting the account and now it's a 100% ours, I don't know the number. I mean, I imagine it was probably worth a couple of points of the 19% though two or three. I'm looking at --, 2% or 3% probably out of the 19. It's not insignificant. But it's not the whole thing either. There's a lot of growth out there.

Operator^ We come from the line of Alex Fuhrman from Craig-Hallum.

Alex Fuhrman^ Mitch, you mentioned that you've been having some success adding merchants to Acima that aren't fully integrated with the platform. Can you talk a little bit about how that works and what categories that you've been able to do that in? And just over time, I mean, how much growth could that potentially unlock for you?

Mitch Fadel^ Well, you're asking me to get technical now, Alex, but I'll do the best I can. Yes. The only -- when I mentioned the unaffiliated merchants, I'm talking about the Acima marketplace where you can go on there and you'll see a partner. We were just talking about Ashley. You'll see a partner like Ashley where we're certainly integrated with them and so forth. Then you'll see another partner on there like Best Buy where we're not fully integrated with them, we don't -- we're not on their website, but yet our customers can shop Best Buy and put it on Acima lease if they go at it through Acima, through the Acima marketplace.

We can take unaffiliated partners like that and put them on there. So when you say, what's the growth potential of that? I mean, it's almost any retailer out there. The largest retailers in the world you can put on there and then our customers can shop there. So, we've got some already that are unaffiliated. I mentioned, Best Buy, and there's a few others on there that are unaffiliated, but more will be added really every quarter.

And of course we're partial to the ones we're affiliated with to put on there as well. Not every single one of our partners wants to be on there. They'd just rather us be their partner in their stores, but most do, and so we put them on there, and you can find any of our partners on there, even local partners through something we call find a store. If you are shopping in one particular area, you can find one of our partners there. But as far as nationwide ones to answer your question, really the sky's the limit as far as how much we can add there. And like I said, it doubled in the fourth quarter the GMV from it.

Fahmi Karam^ Now, the way we think about it is just giving customers more choices and more options. And we really want to be fulsome in our product category lineups. We want to make sure they have access to all the major categories, whether it's furniture, electronics, appliances, and all of the above. So, when we look out to round out the unintegrated with the integrated it's making sure that we have all the product categories kind of filled out.

Operator^ Our next question will come from line of Hale Holden from Barclays. Please go ahead.

Hale Holden^ On the growth potential to change credit card late fees, does that change your outlook for the private label credit cards that you're looking at this spring or the economics around that potential launch?

Mitch Fadel^ Good morning. No. It doesn't. I think, all of the credit card providers are finding ways to maybe offset some of those rule changes and our partnership is no exception to that. We're even more bullish about the opportunity just based on the feedback we're getting from some of our retailers and specifically the more the larger retailers around the benefit of having two products under one umbrella and one integration. So, if anything, we're more bullish about the opportunity.

Operator^ Thank you. And I'm not showing any further questions in the queue.

I'd like to turn the call back at over to Mitch Fadel for any closing remarks.

Mitch Fadel^ Thank you, [Viktor]. And thank you everyone for your continued interest in our business.

As we discussed today, we're awfully proud of what we achieved last year. We look forward to updating you across the year on our progress in 2024. We certainly believe our team's focus on the customer and on our retail partners and new partners and existing partners and so forth will continue to create opportunities for growth that at Upbound, whether you're talking to Seymour, the Rent-A-Center side and create value for our investors.

So we appreciate you. We appreciate all of our hardworking teammates out there in the field.

And with that, I'll just wish everyone a great day.

And operator, you can now disconnect.

Thank you everyone.

Operator^ Thank you for participating in today's conference. This does include the program.

You may now disconnect.

Everyone have a great day.