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Rent-A-Center, Inc. (RCII)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for holding. Welcome to Rent-A-Center's Fourth Quarter Earnings Conference Call. As a reminder, this conference is being recorded, Thursday, February 25, 2021. Your speakers today are Mitch Fadel, Chief Executive Officer of Rent- A-Center; Maureen Short, Chief Financial Officer; Jason Hogg, Executive Vice President Preferred Lease; Anthony Blasquez, Executive Vice President Rent-A-Center Business; and Daniel O'Rourke, Senior Vice President of Finance and Real Estate.

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

Daniel O'Rourke

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

Thank you. Good morning, everyone, and thank you for joining us. Our earnings release was distributed after market close yesterday and it outlines our operational and financial results for the fourth quarter of 2020. All related materials, including a link to the live webcast, are available on our website at investor.rentacenter.com.

As a reminder, some of the statements provided on this call are forward-looking statements, which are subject to many factors that could cause actual results to differ materially and adversely from our expectations. These factors are described in our earnings release issued yesterday, as well as in the company's SEC filings. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements except as required by law. This call will also include references to non-GAAP financial measures. Please refer to our fourth quarter earnings release, which can be found on our website for a description of the non-GAAP financial measures and the reconciliations to the most comparable GAAP financial measures.

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

Mitchell E. Fadel

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

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

2020 was a pivotal year here at Rent-A-Center. In late December of last year, we entered into an agreement to acquire Acima, a leading virtual platform. The closing of the acquisition earlier this month immediately transformed our retail partner business to a higher growth, higher profit, best-in-class virtual channel.

At the same time, Rent-A-Center reinforced its position as the leading omni-channel business in lease to own. We had a sharp acceleration in same-store sales growth during 2020 and our profit was well above our original expectations. We've made momentous progress during the year to optimize operations. We added significant talent and technology to drive our long-term strategy, and we ended 2020 a better company than we were at the beginning of the year.

So, looking at some of the additional highlights on Slide 3, total revenues increased 5.4% for the year with adjusted EBITDA up 30% and diluted EPS up 58%. Preferred lease invoice volume rose over 20% on the year despite closures and product shortages that affected many of our retail partners. And, of course, Acima will further improve our invoice fund growth going forward.

Rent-A-Center ended 2020 with its 12th consecutive quarter of positive same-store sales. E-commerce revenues increased 53% in the quarter, and we believe we can maintain positive comps over the long-term supported by that e-commerce growth in our digital expansion and the continued strong performance of our lease portfolio and the momentum in the business.

2020 also demonstrated the resiliency of our model. The pandemic impacted almost everything we do in stores around servicing and collections and across our supply chain, and our team acted quickly to adjust operations, add additional digital capabilities, and we've proved once again that our model can thrive in periods of economic uncertainty. And we think we're just getting started. Like I said earlier, we emerged from 2020 even stronger than before.

Slide 4 provides an overview of our financial goals, and we think we can achieve $6 billion in consolidated revenues with a mid-teen consolidated adjusted EBITDA margin by 2023. On a pro forma basis, that equates to total consolidated revenue growth of 50% and consolidated adjusted EBITDA growth of 60%.

We expect Acima to be approximately 30% accretive to non-GAAP EPS in 2021 with significant additional accretion in 2022. The acquisition dramatically increases our overall scale, profitability, and free cash flow generation. And at the same time, we're confident that our omni-channel strategy can maintain strong growth for the Rent-A-Center segment.

Digital is enhancing engagement with our customers and we have a strategic advantage compared to other virtual LTO firms due to our last mile capabilities. We got a strong balance sheet with about 2.4 times leverage following the acquisition and we intend to pay that down quickly and we'll maintain a conservative financial policy that prioritizes investment in the business as we drive shareholder return.

A big part of our excitement for the future is the Acima acquisition which we recap on Slide 5. As I mentioned, we completed the acquisition in February, just earlier this month, after announcing it in late December and we're fast at work on the integration. Acima is a profitable and rapidly growing virtual lease-to-own business which has nearly doubled revenue in EBITDA each year for the past five years. So, we're really bullish about the continued path for growth.

A couple of important highlights. Acima accelerates our growth with premier platforms across both traditional and virtual lease-to-own. Their scale enhances our ability to compete for high-value national retail accounts. Their underwriting is best-in-class with a high-performing decision engine that supports a wide range of verticals. They bring extensive data and digital expertise and a superior back-end infrastructure.

Importantly, we believe the purchase price and the mix of cash and equity consideration positions us to generate the kind of returns we expect. And probably more important than anything, we've retained the leadership team at Acima.

So, what does all that roll up to? Slide 6 puts our consolidated revenue, adjusted EBITDA, and adjusted EBITDA margin targets in a graphic form. We start with where the Acima business would have put 2020 on a pro forma basis at $4.1 billion in consolidated revenue and $561 million in consolidated adjusted EBITDA.

This acquisition is not a onetime bump. Our 2023 goal captures significant revenue and EBITDA growth as we integrate Acima and grow the Rent-A-Center Business. Acima tells revenues to the higher growth retail partner business which will obviously benefit earnings. We believe Acima can grow annual revenue by 25% with high-teen margins. And there are numerous synergies to drive our consolidated EBITDA margin to a mid-teens rate.

We also expect strong contribution from the Rent-A-Center Business to support those long-term goals. Slide 7 gives us a picture of our breadth following the Acima acquisition. We're starting 2021 with industry-leading platforms in both traditional and virtual. Rent-A-Center has about 2,400 locations with above 22% percent of its business in e-commerce.

Acima and preferred lease combined have approximately 19,000 active retail doors with 15% of that business in e-commerce. And both businesses have the potential increase e-commerce growth. Our scale will allow us to serve customers of multiple touch points as lease-to-own captures new product verticals and a younger generation of customers. And when you think about the number of young people who are averse to long-term debt obligations, you can see why leasing has such a high potential growth curve.

When you consider point-of-sale adoption with the likes of Affirm and Afterpay which require higher-credit scores, but are also potential gateways for us, that total addressable market becomes very exciting and very real.

The combined company will meet customers wherever they want to transact, whether it's an Acima retail partner location or the retail partner website, in a Rent-A-Center store, rentacenter.com, using our mobile app anywhere and ultimately via a virtual LTO marketplace.

So, before I turn the call over to Jason, I'd like to thank our co-workers, our franchisees, our retail partners, and our suppliers for their dedication to serving customers during a challenging time.

Our customers needed us this year more than ever, and we provided them access to household goods with flexible payment options without the burden of long-term debt obligations. And we rose to innumerable challenges this year. And I'd tell you, I'm constantly inspired by the service and the dedication our folks put towards putting our customers first. So, proud of everybody, been a great year, and we've only just begun.

So, with that, I'll turn it over to Jason.

Jason J. Hogg

Executive Vice President-Preferred Lease, Rent-A-Center, Inc.

Thanks, Mitch. I'll start with a brief review of the quarter before turning it to the Acima integration.

We ended up 2020 with solid momentum in the business. During the fourth quarter, invoice volume increased approximately 25% year-over-year, driven by the addition of virtual retail partner locations and organic growth in virtual and staff locations.

Total revenues rose 4.8% and were impacted by product constraints at our retail partners as well as higher early payout activity related to continued stimulus. We believe payout activity may remain elevated if there is additional government stimulus, but we're very pleased with the growth and makeup of the invoice volume we're generating.

Adjusted EBITDA was $18.3 million for the quarter. Skip/stolen losses were 11.6% versus 14.2% a year ago. The lease portfolio features a more attractive risk profile across our customer base that should allow us to drive revenue and yields as we grow the business.

Now turning to the main points on Slide 8. We're thrilled to be adding Acima after a fast and effective close in February. This combination will enable us to rapidly combine our proprietary digital and mobile technology with Acima's best-in-class decision engine, operating system, and integrated servicing platform.

Having performed a brand study as part of the due diligence process leading up to the acquisition, Preferred Dynamix will become Acima at the top of the house. Preferred Lease, Preferred Digital, and Preferred Marketplace will become Acima Lease, Acima Digital, and Acima Marketplace, respectively. This will enable us to gain an immediate benefit of the Acima brand at thousands of merchants, continue rapid growth within the e-commerce segment, and minimize any merchant or customer confusion in the marketplace.

We expect Acima to be accretive in year one and more accretive in year two. We believe there are $40 million to $70 million in potential synergies, and we expect $25 million of that to be realized in 2021. Once integrated, we believe Acima can grow revenues 25% on an annual basis with a mid-teens adjusted EBITDA margin.

As we rebrand to the Acima name, we're migrating Preferred Lease onto the Acima decision engine enabling us to take advantage of the integrated collections and services process. Our goal is to have all virtual locations converted to the Acima platform by mid-year, and all staff locations converted by the end of this year. We believe Acima's complementary technology, channels, retail partners, and product verticals can drive long-term margin expansion. And we also believe we can leverage benefits to Rent-A-Center stores in the area of product returns.

Turning to Slide 9, we've already begun our integration efforts to plug in Preferred Dynamix front-end customer-facing technology into the Acima operating system. Our goal is to provide ubiquitous access for customers while building a long-term relationship. The critical component is our ability to provide low friction solutions to help connect our customers with our merchant partners and facilitate seamless lease transactions.

As I mentioned in our last earnings call, we launched an innovation partner program with a number of national merchants for a new needed mobile platform which has been running for several months now. I'm pleased to report some encouraging metrics coming off these pilot programs.

We've succeeded in taking the origination process in both our virtual and staff locations down from an average of almost 20 minutes to under 1 minute. The most interesting finding coming from these pilots is the proprietary low friction mobile origination process requiring only three fields from customers has resulted in a pickup in incremental customers who would otherwise find it discouraging to seek approval from a traditional lease-to-own process.

During testing, we saw some partners see as high as an 18% increase in in-store approvals through implementation of the mobile app. The ability for customers and retail partners to present, review and execute a lease agreement all within the mobile app grew increasingly more important as a contactless option throughout the holiday shopping season with further momentum driven by ongoing concerns over COVID.

Innovations like this continue to help our retail partners to physically de-risk transactions and demonstrate appropriate safety protocols for customers. Development of both our proprietary browser and marketplace technologies is proceeding on schedule with the prototypes and pilot of our browser technology to launch during the first quarter. We'll have more to report out on that later in Q1. With some paradigm shift in strategic technology partnerships to announce as well.

Turning to Slide 10, we think there's a multiplier effect as we expand existing verticals, explore new verticals, and target national retail and e-commerce partners. Picking up on what Mitch said, we believe the total addressable market is in the $50 billion range as LTO becomes more widely adopted. Acima's tech platform and decision engine are really best-in-class and I can say that from the perspective of having been in the Fintech and payments industry for nearly 30 years.

The integrated approach should enable us to accelerate our growth through a frictionless experience that gives us repeat access to potentially tens of millions of customers and allows us to pursue our strategies within an overall market that we estimate is in the tens of billions of dollars. All while having a proprietary technology advantage to achieve our revenue and profit growth expectations.

Ultimately, we see our digital strategy as a platform where our customers can move fluidly between in-store, mobile and online transactions through a seamless interface to a curated network that expands choices for lease-to-own customers and create new opportunities for our partners.

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

Anthony Blasquez

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

Thanks, Jay. The Rent-A-Center Business had a strong end to 2020. Total revenues in the fourth quarter were up 5.8% with an impressive 13.7% increase in same-store sales. Revenue growth in the quarter was driven by continued strength in our portfolio, and we achieved the growth despite refranchising approximately 100 stores in California.

Fourth quarter adjusted EBITDA margin was up 580 basis points versus last year. The teams executed extremely well overall with an improvement in gross margin, favorable losses, and lower skips/stolens.

As we outlined on Slide 11, driven by e-commerce growth, we expect to maintain strong progress in 2021 and believe the Rent-A-Center business can sustain low to mid-single-digit comps over the long-term, and we plan to be on the higher end of that range in 2021. Additionally, expect to generate a 20% adjusted EBITDA margin overtime.

Our strategy to support long-term growth includes increasing omni-channel sales while leveraging existing store infrastructure and accelerating e-commerce growth. We believe there's a great opportunity to leverage a seamless decision engine for our business, and we'll continue to expand digital payment and emerging categories.

Mitch characterized 2020 as pivotal, and that is particularly true for our Rent-A-Center business. While the pandemic accelerated the shift in shopping patterns, we advanced operational and strategic work to support long-term growth for omni-channel. We launched a new website with service integration that better ties web orders with the stores. We give customers greater control over their own payment enrollments, and we worked hard to improve communication across the consumer experience.

Slide 12 shows the initial results of our efforts. We've seen a digital acceleration in the Rent-A-Center business segment, with e-commerce doubling over the last two years. Digital payments account for almost half our volume and they result in much stickier customer engagement. Our goal is to grow e-comm to over 30% of Rent-A-Center revenues over the next several years. And we are well on our way with over 50% growth in the fourth quarter.

The work we accomplished in 2020 supports the move to a full online transaction, with end-to-end shopping experience and self-service account management. That will obviously include a strong decision engine and fraud detection.

As e-commerce grows, we do not need to add infrastructure costs as our store locations handle the final mile delivery and the payment flow from the customer. We don't need to separate facilities to handle inventory or delivery, and it layers over our store business in a very seamless way for omni-channel growth. We're also working to improve the in-store experience with technology that enables better service, deeper ties with mobile and web management, and a smoother point-of-sale transaction.

I'll now turn it over to Maureen to discuss the fourth quarter financials and our 2021 outlook.

Maureen B. Short

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

Thanks, Anthony. I'll be covering the financial highlights for the fourth quarter, 2021 guidance, our new debt structure following the Acima acquisition, and corporate allocation priorities.

Looking at highlights for the quarter on Slide 13, on a consolidated basis, total revenues were $716.5 million, a 7.3% increase versus the prior year. Adjusted EBITDA rose 52.2% to $97 million and rose 400 basis points as a percent of revenues to 13.5%. Revenue growth and an increase in profitability combined to drive a 77.2% increase in non-GAAP diluted EPS which was a $1.3 for the quarter.

Preferred lease revenue increased 4.8% and inward volume increased approximately 25% driven by growth and new virtual retail partner additions and organic growth in existing locations. The difference in revenue growth and invoice volume growth was influenced by higher early payouts as well as challenges with the availability of inventory at many retail partners.

Overall, increases in invoice volume support a strong lease portfolio. Preferred lease skip/stolen losses were 11.6%. This skip/stolen rate was positively influenced by 130 basis points, as a result of reversing our remaining incremental merchandise loss reserves, created earlier in the year to address potential COVID-19 losses.

Adjusted EBITDA for preferred lease was $18.3 million, a slight increase versus the prior year and came in at 9.1% of revenue. Without the inventory shortages at our retail partners, we estimate the adjusted EBITDA margin would have been approximately 10.5%. Higher revenue and lower operating expenses were partially offset by lower gross profit margin from a higher mix of virtual.

Turning to Rent-A-Center. Revenue was up 5.8%, driven by a 13.7% t increase in same-store sales. And the performance was achieved despite of the refranchising of approximately 100 stores in California. The lease portfolio ended fourth quarter up 10% versus last year and is a good leading indicator for near-term same-store sales performance. Skip/stolen losses were 2.6% of revenue in the Rent-A-Center business. The 150-basis point improvement over the prior year was partially driven by increased digital payment adoption.

Adjusted EBITDA was $102.9 million, representing an increase of $30.8 million versus the prior year. Adjusted EBITDA margin was 22.2% for the quarter, up 580 basis points versus the prior year, driven by increased operating leverage from higher revenues and lower operating expenses, partially due to a lower store count.

Our balance sheet improved over the last year, with $236.5 million generated in cash from operations in 2020 and a cash balance at the end of the quarter of $159.4 million. We believe our strong balance sheet made us well-positioned for the Acima acquisition.

Turning to our 2021 guidance on Slide 14. Consolidated revenues are expected to be between $4.305 billion and $4.455 billion for 2021. We expect consolidated adjusted EBITDA of $570 million to $620 million, and non-GAAP diluted earnings per share of $5 to $5.55. We also expect to generate free cash flow of $145 million to $195 million for the year.

Turning to our segment projections. We expect our new Acima segment which includes preferred lease for 12 months and Acima for 10.5 months of the year post-acquisition to generate revenues of $2.29 billion to $2.39 billion. Adjusted EBITDA of $320 million to $350 million is expected with adjusted EBITDA margin of 14% to 14.7% of segment revenues. We expect the Rent-A-Center Business segment to achieve revenues of $1.83 billion to $1.88 billion and adjusted EBITDA at $375 million to $395 million or 20.5% to 21% of segment revenues.

There are a few additional things I'd like to point out regarding our guidance. Our adjusted EBITDA guidance is positively impacted by the Acima acquisition, growth in the business, and synergies and negatively impacted year-over-year by COVID-related benefits in 2020. As we shift to more of our business coming from the retail partner channel, our gross margins will decline due to paying retail costs for products versus wholesale costs in the Rent-A-Center business, but our operating expenses will decrease as a percentage of revenue given the asset-light business and scalability of the virtual model.

Integration costs of approximately $5 million to $10 million are expected, and along with the intangibles, amortization impact from the acquisition will result in differences in GAAP and non-GAAP earnings for 2021.

As is our practice, our 2021 projection does not incorporate any share repurchase activity and assumes approximately 69 million diluted shares outstanding which has increased due to the recent acquisition.

Given the impact of the pandemic and stimulus on our 2020 results and the Acima acquisition, there are also some things to point out regarding the expected cadence of earnings in 2021.

Looking at the first quarter, we expect revenue to increase 30% to 35% year-over-year with approximately 65% increase in non-GAAP diluted earnings per share assuming a tax refund season similar to prior years.

Looking at the balance of the year, we expect revenue to increase in the 60% to 65% range for each quarter with non-GAAP diluted EPS fairly evenly distributed by quarter and reflecting normal seasonal pattern. We expect Rent-A-Center same-store sales to decelerate in the second half given the tough comps in the back half of 2020 but remained fairly flat versus last year given portfolio growth.

Turning to Slide 15, we provide a free cash flow walk which calculates our expected free cash flow guidance range starting with the midpoint of our adjusted EBITDA guidance. This includes cash taxes of $30 to $40 million which reflects the benefits of the tax step-up associated with the acquisition and approximate tax rate of 24%.

Interest expenses are expected to be approximately $70 million to $75 million, based on our new debt structure post-acquisition and a weighted average interest rate of approximately 5.5%.

Capital expenditures are expected to be $65 million to $70 million which includes higher investments in technology and store refurbishment costs. Over the long term, we would expect to reduce CapEx to $50 million to $60 million per year.

Working capital investments will also be required for funding new leases, bringing our free cash flow estimate to between $145 million and $195 million.

Looking at our debt structure on Slide 16 post-acquisition, we now have a $550 million asset-based loan, with $165 million drawn at the time of the acquisition, and $875 million term loan B, and $450 million in unsecured senior notes. Our debt to EBITDA leverage was 2.4 times at the time of the acquisition, and we have ample flexibility and liquidity to invest in growth.

Lastly, on Slide 17, our capital allocation priorities are to fuel organic growth of the largely untapped virtual lease-to-own business. Both through strong adjusted EBITDA growth and debt paydown, our goal is to reduce net leverage to below two times in 18 months, with the long-term leverage target of 1.5 times, while maintaining robust liquidity.

We also plan to continue to provide attractive total shareholder returns, and our capital allocation strategy continues to include returning capital to our shareholders in the form of dividends. As always, detailed income statements by segment are posted to our website. And the 10-K will be filed tomorrow, Friday, February 26th.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'd like to take any questions you may have for today. [Operator Instructions] Our first question is from Vincent Caintic with Stephens. Your line is open.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Hey. Thanks. Good morning. Thanks for taking my question. So, I appreciate the strong guidance for 2023, that $6 billion of revenues, is pretty significant. I was wondering if you could maybe separate it out between the Rent-A-Center business and Acima and sort of discuss what needs to happen to get there like for Acima, do you need to have significantly more stores opening from the current, I think, 19,000 – sorry, 17,000 you have now? And maybe if you can go into how you get to that growth in more detail.

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

A

Sure. Hi, Vincent. This is Maureen. I'll talk through some of the key assumptions that go into our 2023 projections that we provided. We're assuming 20% to 25% annual revenue growth within the Acima segment. We're assuming low-to mid-single digit same-store sales in the Rent-A-Center business driven by e-commerce. We believe we can get the e-commerce penetration rate up to about 30% of revenue in Rent-A-Center. We believe we'll get to mid-teens consolidated EBITDA margin. We're assuming $40 million to $70 million of synergies, and loss rates fairly consistent with historical averages.

And the way that we get to the 20% to 25% growth within the Acima business and I can let Jay go into more detail on that, but it's a combination of organic growth as well as adding additional retail partners. And if we look at the makeup of overall the distribution between Rent-A-Center versus Acima, we'll get to more than about two-thirds of the business as Acima versus Rent-A-Center over that three-year period.

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

A

Yeah. This is Jason. Thanks, Maureen. I would just add three quick points. Point number one is that we have now a very strong combined national sales organization where they've had tremendous success and we've been able to keep the best of both of those teams. And we have a very aggressive plan to continue to grow new doors in the space and they've continued to gain traction there.

The second thing is that Maureen was talking about with regard to being positioned for large national partners, kind of, both on the fiscal retail side as well as on the e-commerce side. And kind of one of the key factors that is coming to play with the Acima acquisition is that they have an optimized front-end for integration with e-commerce partners as well as in large retailers. And their decision engine enables us to move very quickly because they're able to teach the decision engine much faster and they're bringing a wealth of their own data. And we're combining that data with our own historic performance data which is going to enable us to ramp partners faster.

And then the third quick point is that we have a very specific strategy with regard to mobile browser and marketplace. And that enables us to take our combined customer universe and pointed at new means and expands the ability for our customers to lease-to-own. So, the combination of those three things positions us. That third and final factor also is proprietary. So, it gives us an advantage and we're going to obviously rigorously defend our intellectual property.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. I appreciate that. Thank you. And Jay, a follow-up. So, I appreciate the disclosure on the e-comm percentage. And if I take the overall 15% minus the Rent-A-Center Business, the 25%, I guess, Acima is currently and maybe the high-single-digit percentage now coming from e-comm.

I'm just sort of wondering when you think about this on a – maybe not a fully mature but as you grow the business, where can you get in terms of the percentage coming from e-comm. Actually, Wayfair from your slide deck. So, that's all e-comm. But where do you think that can grow over time? Thank you.

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

A

Hello, Vincent. This is Mitch. Good morning. Now the 15% is just Acima and the 25% is just Rent-A-Center on the e-comm side or roughly 25% on Rent-A-Center. So, I guess, blended they're about even right now from a revenue standpoint. Right? Well maybe that the Acima segment's a little bigger, so I don't know if it would blend the 19% or 20%, or something like that. But as far as what the e-comm can get to, Jay, I'll let you take that one.

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

A

Yeah. No. We're going to see an acceleration there because we end up getting like a force multiplier effect. So, now that – if you look at an account like a Wayfair, you start to expand that into other verticals. We have a number of partners that we're in the process of partnership discussions with. So, I think similarly you'll see that become overweighted sort of in the back half of 2022 and then throughout 2023 where that becomes actually a very significant portion of our revenue.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. Great. Thank you. And sorry last one, to the extent you can comment, it looks like some of your peers have received an inquiry from California, and I was wondering if Rent-A-Center received the same. And anything you can say about that. Thank you. Last one from me.

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

A

Thanks, Vincent. No, we have not received that at Rent-A-Center or at Acima. We did not get the anything from California that you're referring to. I would only add to that that we follow the laws in every state, California has a lease-to-own law, the current act and we follow it. But I guess the short answer is no, we didn't get that letter. And I'd also remind everyone that we franchised on a Rent-A-Center side, franchised in California last fall, so we don't have any corporate stores in California on the Rent-A-Center side, so that's a little more color.

Vincent Caintic
Analyst, Stephens, Inc.

Q

Okay. Great. Very helpful. Thanks so much, guys.

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

A

Thanks, Vincent.

Operator: Your next question is from Anthony Chukumba with Loop Capital. Your line is open.

Anthony Chukumba
Analyst, Loop Capital Markets LLC

Q

And thanks for all the great information on this call. And I'd just like to extend my congratulations to the team. I mean, what you guys have done over the last couple of years has been nothing short of remarkable. And as you know, there were times I was pretty down in your business, but you guys has just really done a yeoman's work. So, I just wanted to congratulate you on that.

Onto my question, so a lot of great information on Acima and Rent-A-Center and what your plans are going forward. I just had a question. I was having problems – some problems following all the numbers that you guys were kind of throwing out. I mean, a lot of information and I will go back to it. But what would – I guess on a pro-forma basis for 2021, assuming you owned Acima for the full year, what would Acima I guess revenues and EBITDA be on a pro-forma basis?

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

A

Well, on a pro-forma basis, we're assuming 20% to 25% revenue growth over 2020. And then our $335 million, EBITDA on a pro-forma basis would be about $25 million higher than that.

Anthony Chukumba
Analyst, Loop Capital Markets LLC

Q

Got it. Okay. No, that's really helpful. Actually, that's the only question I have. I'll turn it over to someone else. Thank you.

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

A

And thank you, Anthony, for your kind words at the beginning of that. We appreciate those words.

Anthony Chukumba
Analyst, Loop Capital Markets LLC

Q

No problem. Keep up the good work.

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

A

Thank you. We will. We will.

Operator: Your next question is from Bobby Griffin with Raymond James. Your line is open.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Good morning, everybody. I appreciate you taking my questions. And congrats on managing a challenging year and an exciting start to 2021.

I guess, first, Mitch, I wanted to maybe circle to the high-level question here first. But the 2023 outlook is impressive for both sides of the business. Maybe can you just talk a little bit about your view on how the virtual channel can coexist with the traditional store channel? And to put it into context, some of the pushback we occasionally get on the space is that virtual will take share from the store. And I understand the customer profiles are a little different stuff like that. But any additional color about how you see them both growing together over the next three years would be helpful.

And then maybe as a second part of that, what type of credit environment do you need over the next three years to hit those targets? And I'll go from there. Thank you.

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

A

Sure, Bobby. Good question. As far as coexisting, of course, the virtual business has grown – there's an awful lot of wide space still out there. But it's grown pretty good and we've heard that for years, right? How it's going to cannibalize the Rent-A-Center side.

And you would not have seen that, and neither wouldn't expect to see it going forward either because think as virtual lease-to-own, whether it's in a retail partner store or e-comm that Jay was talking about, it just brings lease-to-own more mainstream. And all the buy now, pay later groups out there like Shopify and Affirm and so forth. It just takes – it just brings -- right now you're getting into small payments more mainstream.

And I think as people learn more about leasing, it helps the whole industry. And when people hear about leasing in a retail store, it's not like every single person hears about it in a retail store signs up that day. In fact, it's probably somewhere 50% or less that actually do a transaction that we have – that have an opportunity to do a transaction every day. In fact, it is in the virtual world, it's in the 40% to 50% range.

So – that means 50% of people are walking out having in many cases heard about leasing for the first time in their life decided not to do it that day. But now they know about leasing. So, I think what we've seen over the years and this isn't me speculating, I'm talking about what's happened over the years. I mean we bought Acima and the numbers are out there, 1.2 billion whatever they did last year. You know what other companies have done in the space. Yet, Rent-A-Center grew it – it had positive same-store sales for 12 consecutive quarters.

So, I'm not speculating going forward, I'm speculating in giving history that I think as it becomes more mainstream, it just helps, it helps us on the Rent-A-Center side too. As far as the credit side – as you know Bobby we've done well in multiple economic environments. As credit tightens up, we tend to outperform. We didn't – if you look at 2018 and 2019 on the Rent-A-Center side we didn't necessarily – we didn't need tight credit to perform well there either because the model is so resilient as credit tightens up, it pushes people from one side of the funnel into the funnel.

And as it loosens up, it pushes other people and the economy gets better, it pulls people into the transaction from the other side. So, it's a little bit of a swing of customer depending on the credit environment. But obviously, the numbers in our history proved the resiliency either way. And I wouldn't say that we have to have any one particular credit environment over the next three years to get the $6 billion.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. That's helpful. I appreciate. And, I guess, secondly for me, maybe I want to just dive into the synergy potential a little bit more and in particular the potential synergies of Acima helping out the core Rent-A-Center business. Are those more 2022 aspect? And if so, what's some of the big building blocks or moving parts that you and the team will be working on integrating here in 2021 to get it set up for those synergies to accelerate in 2022?

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

A

Yeah. Thanks. Thanks for the question. We're already hard at work. First thing is that, as you know, we closed the transaction last Wednesday, and we've already worked to integrate our national sales teams, and we've rationalized our field force. So, we're getting after the synergies, and we have addressed about our confidence in the synergy number they were putting up from a 2021 perspective.

On the go-forward aspect and then to answer your Rent-A-Center questions, we've got a couple of things. In addition to what we would think the natural synergies are, the decision engine itself has tremendous potential on both sides of the business because we're, don't forget, bringing a significant business with our preferred lease over from origination perspective in the Acima engine has fantastic yields in the space.

And also, Anthony, on the Rent-A-Center side has been working through testing and implementation of the decision engine, and we'll be able to further leverage that. So, you get a yield impact that's a positive yield impact.

And then the third is – and those are things that are more immediate. And then the third is that like I referred to earlier with e-commerce, you end up with a situation where if you're able to move in more quickly with better yield capacity through better decisioning and you have an integrated service platform, like I said in my opening comments, then the performance of that portfolio also is going to improve because you have better collections activities.

And then the final thing I would end up saying is we already have an integrated approach with regard to working, Anthony and I partnering on things like collections of goods. And we are actually working on an automated version of that to make that more seamless process as we continue to scale the business.

So that's – those are all things that are – that have already started and will continue to go, and we see the impact both of this year and then, like I alluded to in my comments, to really be at a full run rate next year.

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

A

Yeah. And I would echo the sentiments about the decision engine. On the Rent-A-Center business, we're excited with synergies associated with that is. Our loss rates are well within our range right now. We feel very, very confident. But the opportunity for us to go ahead and just improve the customer experience with the Acima decision engine and really continue to reduce the friction and speed up then transactions, I mean, we're focused on it as an opportunity to convert our customers quicker and faster. So that's just going to improve our performance as well. So, these synergies are very exciting as we move forward.

Robert Griffin
Analyst, Raymond James & Associates, Inc.

Q

Okay. And then – that's very helpful. I guess lastly from me, Jason, I might have missed it. You gave some good detail about the building blocks for Acima's growth. And I guess what I was curious is, do you see the opportunity to partner with some of the second tier offering credit people as some of your competitors have? Is that in the cards or is it more for you guys to focus on growing the doors and then the ultimate opportunity of further monetizing your existing customer base to additional categories and things like that.

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

Yeah. The good news there is that they already have a dual pronged approach. When you look at obviously the e-commerce integration into waterfalls that are some of the logos that we had up on the slide both in the fiscal and the e-comm side, sorry, that ends up being something that we can continue to build off of, so it's not an either or. Those capabilities are actually already generating significant amounts of revenue and the goal is to continue to increase.

And so, I think the other two factors that you'll see, we're going to continue to do further integrations from waterfall perspective, partnering with the types of partners that you mentioned. And then in addition to that, we are on target with our own browser and marketplace technology which enables us to take a very large multi, multi-million universe of customers and provide them with a seamless experience to be able to do LTO online.

So, the good news is the foundation is not only already there. It's in use. And now, we're looking to accelerate upon it.

Robert Griffin
Analyst, Raymond James & Associates, Inc.
Q

Great. I appreciate the detail. Best of luck here in 1Q and congrats again.

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

Thank you.

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

Thanks, Bobby.

Operator: Your next question is from Brad Thomas with KeyBanc Capital Markets. Your line is open.

Bradley Thomas
Analyst, KeyBanc Capital Markets, Inc.
Q

Hi. Good morning. Let me add my congratulations as well on a great year and a very exciting outlook here with Acima. I want to follow-up on the last line of questioning a bit to talk about how much you may need to adjust and refine the Acima's product offering. When I think of the legacy offering of Rent-A-Center's digital B2C operations which have gone a number of names over the years.

I think of it as it has been very strong on demand side with obviously some very important national partners. And then when I think of Acima's legacy business, it tends to skew I think a bit more towards smaller independent retailers. I guess, Jason and Mitch, as you look at the product offering, how much do you think you have to evolve it to grow the addressable market and to improve your ability to compete with the field?

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

A

Yes. Thank you very much for the question. So, what you're looking at is a very, very sophisticated, vertically-integrated system from origination, online, mobile, and through what they portal which is their retail – which is what their retail origination system is. And that's tied to the decision engine, the servicing platform, and collections.

Other than some additions of things that we have such as our Benefits Plus program and our lost damage waiver program, things that were incremental in bringing to the table, the system itself is very much ready to handle what we do, both in the virtual side and on the staff side. So, it really becomes a matter of making sure in that we're rolling at.

So, what we have is a sequential integration plan where when I said by the mid-half of the year, we're right on target with that, trying to get to – pull it into the second quarter to have it kind of up and running and scale at virtual. And we've already begun to test the Acima platform within our staff location on a limited basis. That's how pliable it is. We could close on a Wednesday, and this Monday, we were able to stand up a store. So, I think that it's for us, sort of nirvana, because we have the ability to fold our origination business and our partnerships into this best-in-class platform.

Bradley Thomas
Analyst, KeyBanc Capital Markets, Inc.

Q

That's very helpful. Thank you, Jason. And a follow-up on the synergy commentary, when we think about that range of $40 million to $70 million, is there a way to think of what sort of maybe the minimum might be that you can feel confident when you look at the expenses that you know you're going to get those dollars versus what might be a little bit more speculative, if it's something along the lines of potential revenues, for example. Just how to think about quantifying that range.

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

A

Yeah. This is Mitch, Brad. Good morning. I would say this year, we've talked about $25 million. We're very confident in that or we held onto some of it. Then the $40 million to $70 million, you were very confident obviously on the low end. But we're also confident on the high-end honestly.

If you will recall going back to 2018 when we talked about what we could do as far as when I came back to the company, it just kept growing as we looked more and more. So as Jay said, we've only had this – we've only closed eight days ago.

So, as time goes by, when we find more synergies, will the yield produce some more top line as you just pointed out? Jay mentioned the Benefits Plus and LDW that we used on the preferred lease side of the business that putting that into Acima because they haven't had it.

So, there's – quite honestly, we're very confident in the $40 million and the whole range maybe conservative at the end of the day.

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

A

And just to add to that, Brad, most of what we've built in from a synergies perspective are around a higher gross margin and cost savings. So, about $15 million of the $25 million in synergies for 2021 will be margin improvement within the Acima preferred lease business and about $10 million will be corporate-related expense reductions. So, those are more tangible, less estimates as far as revenue, they're more concrete and predictable.

Bradley Thomas
Analyst, KeyBanc Capital Markets, Inc.

Q

That's very helpful. And then recognizing that you only closed a week ago, so you still have a lot of work ahead of you here, I know a question that you're going to get is, have you had a chance to review what the customer overlap is between Acima and the Rent-A-Center business and how you're thinking about serving those customers to work through both channels?

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

A

Yeah. There's actually, we during due diligence and since have obviously gotten much more granular with regard to that, it's actually a very complementary set and I think that gets to the point that Mitch made earlier with regard to there's still such a large addressable market here and so we're not bumping into each other and fighting over only the same customers. So, very small overlap perspective which is great because we're going to be able to get much more leverage.

Bradley Thomas
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks so much. Good luck.

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

A

Thank you. Thanks, Brad.

Operator: Your next question is from Kyle Joseph with Jefferies. Your line is open.

Kyle Joseph
Analyst, Jefferies LLC

Q

Hey, good morning. Let me echo the sentiments on very strong 2020 and exciting acquisition. I'll focus on the Acima segment, what will be the Acima segment first in terms of credit performance? Can you give us a sense for what Acima's historical losses were as an independent, and then potentially where you see that heading given the combination with Rent-A-Center?

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

A

Sure. So, the Acima business, their loss rates are in the range of 7% to 8% of revenue. There is a slight accounting difference between how we do the accounting treatment on losses in the preferred lease in Rent-A-Center businesses, but this is more in line with other virtual competitors.

As we integrate with Acima, the expectation is that will be – for 2021, will be high – I'm sorry, will be double digits, low-double digits in 2021. And then, as we blend the two businesses over time, it will be high-single digits. So, it'll be closer to that 7% to 8% that we see in Acima. Because as Jay mentioned, we'll be migrating our preferred lease and virtual businesses onto the Acima platform and expect to see improvements from the decision engine.

Kyle Joseph
Analyst, Jefferies LLC

Q

Got it. Very helpful. And then, Maureen, probably another one for you as we work on building our consolidated models here. What sort of disclosures can we expect for the Acima segment? Would you guess it's similar to what we are getting in terms of invoice volumes or active doors, or just how we should think about modeling that segment going forward?

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

A

Yeah. Kyle, it'll be very similar to what we do today for preferred lease. We'll be disclosing the combined Acima and preferred lease business together. We don't plan on separating the two since, again, we'll be fully integrated businesses. And then we'll be providing invoice volumes. As we grow the e-commerce business and the marketplace, the number of doors becomes less relevant, so we'll be focused around invoice volume.

Kyle Joseph
Analyst, Jefferies LLC

Q

Okay. Understood. And then last one from me on the 2021 guidance. I think you mentioned earlier it incorporates kind of a normalized tax refund season. Can you walk us through what sort of stimulus assumptions are incorporated in that guidance?

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

A

In our guidance, we're not assuming any additional stimulus, and so we're assuming that the business kind of reverts to more historical trends throughout the year with the economy and everything kind of going back to normal towards the back half of the year. But no incremental stimulus is assumed in our 2021 guidance.

Kyle Joseph
Analyst, Jefferies LLC

Q

Great. Thanks very much for answering all my questions.

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

A

Thanks, Kyle.

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

A

Thanks, Kyle.

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

A

Thank you.

Operator: Your next question is from Tim Vierengel with Northcoast Research. Your line is open.

Tim Vierengel
Analyst, Northcoast Research Partners LLC

Q

Thank you for taking my questions. Most of them actually just got answered, but I do have a clarification question for Jason. Just wondering how you guys define e-commerce sales at Acima. Are these sales that were fully processed online on the website, or do you include like your originations online and closing somewhere else?

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

A

No. This is an end-to-end e-commerce so origination through to funding and purchase, right? So, there's – it is its own segment essentially. And then anything that we're doing within a store is specific to that the actual retail purchase takes place there.

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

A

Yeah. I wanted to add that with the retail partners that it originated at their website and then got closed in the store that would be much higher than 15, that's right.

Tim Vierengel
Analyst, Northcoast Research Partners LLC

Q

Yeah. That's right. Thank you. And then Maureen or Mitch, I was wondering if you guys get out of line, how you guys feel about your store footprint moving forward? Do you guys feel like you're right-sized right now or do you think there's some opportunity to move in to new locations just to give some color there as well. Thanks.

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

A

Yeah. This is Anthony. I'll take that. Obviously, as part of our strategy, we know the opportunities that are present for us on the web, but equally we still see tremendous upside on our brick-and-mortar locations as well to not only serve that omni-channel experience for the customer but also to be the final mile for the growing e-comm business as well. And when we just go forward for 2021, our forecast is at least net neutral on store locations flat where we're at and potentially some upside opportunities as well.

Tim Vierengel
Analyst, Northcoast Research Partners LLC

Q

Excellent. Thank you.

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

A

Thanks, Tim.

Operator: And your next question is from John Rowan with Janney. Your line is open.

John Rowan
Analyst, Janney Montgomery Scott LLC

Q

Good morning, everyone.

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

A

Hey, John. Good morning.

John Rowan
Analyst, Janney Montgomery Scott LLC

Q

Just had some modeling questions. Maureen, I know you, you went through kind of 1Q guidance. I didn't get everything written down. Can you just repeat what you said on revenue and earnings?

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

A

Repeat what I said for?

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

A

Q1.

John Rowan
Analyst, Janney Montgomery Scott LLC

Q

1Q revenue and earnings. I didn't get everything written down.

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

A

Sure. No problem. So, for Q1 we assumed that revenue is going to be up 30% to 35%. And that EPS will be up around 65%. And that takes into account kind of that stub period or the month and a half where we did not have Acima before the transaction.

John Rowan
Analyst, Janney Montgomery Scott LLC

Q

And that's year-over-year, correct?

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

A

Correct.

John Rowan
Analyst, Janney Montgomery Scott LLC

Q

Okay. And year-over-year operating or GAAP because you had a charge in – was it 1Q of this year? I'm trying to – hang on a second. Actually, I'm not – 00:59:27much rather not saying it. I assume that's on the adjusted figure. Correct?

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

A

Exactly. The adjustment figures.

John Rowan
Analyst, Janney Montgomery Scott LLC

Q

Okay. And then as far as interest expense goes, I'm kind of having trouble getting to $75 million. You have 1.49 at 5.5%. You're generating the – you're generating, I don't know, $170 million at the midpoint of free cash flow. And you're paying out $0.31 dividend. So that's $80-somewhat-million in dividends. How – I mean I'm just trying to imagine, is that cash flow all front-end loaded?

I can get that $75 million if we are very aggressive in reducing cash and that debt number in the beginning part of the year at 5.5% versus taking a more measured approach through the year. So, I'm trying to balance out where that debt number goes and how fast it goes through the year.

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

A

You're right, John. We do have most of the paydown in debt in the first half of the year. And so that's how you would get to the numbers. It's higher in the first quarter due to the tax refund season. We see more cash payments. And so, the cash flow is higher. A pretty significant amount in Q2 as well and then it's fairly small payments in the back half.

John Rowan
Analyst, Janney Montgomery Scott LLC

Q

Okay. Very good. Thank you.

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

A

Thank you.

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

A

Thanks, John.

Operator: Your last question is from Carla Casella with JPMorgan. Your line is open.

Carla Casella
Analyst, JPMorgan Securities LLC

Q

Hi. Just another question, a follow-up on Acima. On your guidance for the full year, does that include revenue synergies, or, I guess, now that you've gotten under the hood and own the business, do you have a sense for the revenue synergies you could see from the combined two businesses over the next few years?

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

A

The guidance...

Carla Casella
Analyst, JPMorgan Securities LLC

Q

Or cost synergies.

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

A

Sure. The guidance itself doesn't include any revenue synergies. Not to say that there isn't potential opportunities, I mean, adding the decision engine speeds up the process in our preferred lease business. And so, there's – that's an example of an opportunity to potentially have revenue synergies.

Carla Casella
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you.

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

A

Thanks, Carla.

Operator: We have no further questions at this time. I turn the call back to Mitch Fadel for closing remarks.

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

Thank you, Megan. And thank you, everyone, for your time this morning. Thanks to everyone out there, our 15,000-or-so employees out there that have really knocked it out of the park in 2020 as you've heard. And I'm confident that if they can do the same thing, we can do the same thing in 2021. I want to welcome the great team out in Salt Lake City. Acima officially welcome them – certainly have welcomed them. But I'll do it publicly now.

To Aaron, and Tyler, and Rob, and Nate, and Jared, the whole team out there. I could keep going. Not that I've met everybody yet, but great team out there. Really glad to have them on board. They've knocked it out of the park the last seven or eight years and hope they'll continue to do that there. We're so, so fortunate have been able to keep the whole leadership team there. So, welcome guys and ladies.

And thank you again, everybody, for your time this morning. Thanks everyone for the hard work in our great company. Thank you.

Operator: This concludes today's conference call. You may now disconnect.