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Rent-A-Center, Inc. (RCII)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for holding. Welcome to Rent-A-Center's Second Quarter Earnings Conference Call. As a reminder, this conference is being recorded, Thursday, August 5, 2021. Your speakers for today are Mr. Mitch Fadel, Chief Executive Officer of Rent-A-Center; Maureen Short, Chief Financial Officer; Jason Hogg, Executive Vice President of Acima; Anthony Blasquez, Executive Vice President of Rent-A-Center Business; and Brendan Metrano, Vice President of Investor Relations.

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

Unverified Participant

Thank you, Tamaria. Good morning and thank you all for joining the Rent-A-Center team to discuss our results for the second quarter of 2021. Hopefully you've had an opportunity to review our earnings release which was distributed after the market closed yesterday. The release and 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 second 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.

With that, I'll turn the call over to Mitch.

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

Thank you, Brendan. For starters I'd like to introduce Brendan Metrano, who recently joined us as the Head Investor Relations. Brendan comes to us from Western Union where he also headed Investor Relations.

he also headed Investor Relations, and prior to that, he was the sell-side analyst for over a decade. So he brings a strong understanding of equity markets and the investment community especially in payments and fintech.

So welcome Brendan.

And thank you and good morning everyone and thank you again for joining us this morning to discuss our second quarter results. As you've hopefully seen in our press release yesterday afternoon our business continues to deliver outstanding results with over 20% pro forma organic top line growth and over 200 basis points of pro forma margin expansion in the quarter. A strong momentum heading into the second half of the year and is on the path of major transformation with the Acima acquisition. – that position positions us to significantly benefit from secular changes in the market. So very exciting time for our team our customers retail partners and investors.

Before jump – jumping into the quarter – let's take a minute to explore this favorable fundamental backdrop behind our story. Essentially it boils down to our business being well-positioned to benefit from some prevailing trends that seem to have a long runway including shifts in consumer behavior a need for more demographic inclusivity and technological disruption.

As I think we're all familiar with today many aspects of consumer behavior are evolving quite rapidly much of it enabled by technology and recently accelerated by the COVID-19 pandemic. One change to pertain to us is the adoption of all types of payment plans. It's becoming increasingly acceptable if not preferable to pay for goods and services with a stream of small payments rather than running up credit card balances or depleting savings.

We're also benefiting from consumer preferences for a seamless flexible and convenient experiences. Rent-A-Center differentiated omni-channel model allows consumers to conveniently shop for pay for and get access to.

durable goods through the channel of their choice, digital, physical or hybrid, hassle free without long-term debt obligations or other long-term commitments.

Another trend that benefits us is growing demand for solutions that promote inclusivity rather than lockout underprivileged groups. Many traditional payment services and retailers are effectively closed off for under banked or cash constrained consumers. And those services there available are often lower quality experiences that can make people feel like second class citizens. Our business strives to provide the financially underserved with access to top quality products and first class experiences. And finally technology is transforming almost every aspect of business, especially with respect to data and analytics and Acima acquisition has given us industry leading capabilities in those areas. When you think about our business today with Acima, roughly half of our business is digital, whether that's e-commerce or virtual half of our business is digital. An incredible transformation when you think about that over just the last two years. We think that leasing is still in its infancy as a form of consumer payment and then our omni-channel model and industry leading technology platform provide us with a strong foundation for growth.

Moreover we are breaking new ground in the payments industry with the recent launch of our proprietary LeasePay card powered by MasterCard, which revolutionizes the LPO shopping experience for durable goods for financially underserved consumers and dramatically expands the market opportunity for retailers. Jason will expand on this new product another fintech developments in a few minutes. And given this transformation of our business you'll hear us increasingly discuss it in the payments in fintech's context, pivoting to concepts like gross merchandise volume as we did this quarter.

So now let's review the highlights and progress we made during the second quarter. Total revenue was $1.2 billion and increased approximately 75% year over year which was largely driven by significant incremental gross merchandise volume or GMV resulting from the Acima acquisition. And on a pro-forma basis organic total company revenue grew 21.6% led by the 43% of organic growth in GMV for our virtual lease-to-own business at that being of course Acima as well as 10% organic revenue growth for the Rent-A-Center business. And we continue to get a lot of macro questions especially on effects of stimulus payments over the past year. And as we've said in the past, we certainly have benefited from some aspects of the recent uncommon macro environment including stimulus payments. But we believe the primary factors behind our performance include strong underlying fundamentals, technological advancements and execution. The team has just done a fantastic job of driving transactions and portfolio growth with a range of initiatives like product offerings and procurement under challenging conditions implementing e-commerce and marketing strategies and adding new merchants. On top of this our lease-to-own business is durable and anti-cyclical as it actually benefits from a tighter credit environment. When the economy is booming and credits lose, our core customers tend to lease more. During more challenging economic periods when credit tightens, we gain new customers who previously didn't need or choose to use our solutions. We do not believe the performance we've delivered as a result of the pandemic in stimulus or our story that is as good as it gets not at all. In fact, we believe our best results remain ahead of us. We delivered over 400 basis points of EBITDA margin expansion in the second quarter to 15.2% benefiting from a very strong profitability in the Rent-A-Center, business and solid margins of Acima. As a company we remain highly committed to efficiency investments in our customer relationships and they're paying off a lower loss rates and improve collections.

Adjusted earnings per share was a $1.63 in the second quarter compared to pro forma earnings per share of $0.80 in the prior year. Given our strong performance year-to-date and favorable underlying fundamental trends we increase our 2021 guidance across pretty much every key metric. In addition concerning the compelling long-term value creation potential of our company's strong financial position and significant cash flow generation the board has authorized has new $250 million share repurchase program.

I'm pleased to say the integration of Acima is well on track – and moreover the additional insights we've gained about Acima over the past months makes us even more optimistic about the technological and strategic value of the acquisition, and the tremendous long-term growth prospects for our company.

With all that I'll turn the call over to Jason to update us more specifically on the Acima business.

Unverified Participant

Thanks, Mitch. To start I would reemphasize your comments on Acima after a full quarter of getting deeper into the business we continue to be impressed with its quality especially on the technology side. The decision engine – data and analytics and tech talent are all best-in-class. Acima has been a leap-forward for our virtual LTO capabilities and has been complementary with initiatives we were already working on. So we are very enthusiastic about our position in the virtual LTO industry and the expansive possibilities we see for this business. As Mitch noted earlier this week we issued a press release outlining some of the key solutions As mentioned earlier, earlier this week we issued a press release outlining some of the key solutions will continue to rollout and launch over the next few quarters. It will make up the Acima ecosystem, which we believe can double the estimated total addressable market for Acima to something approaching $100 billion. We are excited about the growth opportunities for the Acima ecosystem and the proprietary pending elements of our solutions. I'll spend on some of the highlights of this week's press release in a few minutes. But first I'd like to take an opportunity to step back and provide a big picture or perspective on how we think about the Acima opportunity.

The traditional retail of shopping payment system primarily comprised of cash, credit cards and debit cards essentially excludes a large segment of the population the financially underserved from securing the use of durable goods, because these consumers have insufficient cash or credit profiles to meet the standards of most payment solution providers. On top of this most options that are available today offer an undesirable experience that can treat financially underserved customers as second class citizens. This system is also suboptimal for retailers who would certainly offer durable goods to this large segment of customers, but lack the transaction solutions to do so.

Acima addresses challenges for both groups through its mission to create a consumer lease ecosystem that reduces transaction frictions and barriers for consumers and businesses and creates a shopping experience that is more inclusive of all demographics by unlocking opportunities for consumers regardless of income level or financial history. Interestingly we're even seeing some success with Acima for non-retail applications with very strong adoption rates for benefits plus solution among Acima customers.

We'll achieve this mission by adhering to four core principles for all of our solutions, ease choice, mobility and transparency.

The fintech innovations we highlighted in the media earlier this week are great examples of this in practice. Acima marketplace is a single-destination accessible on both the Acima mobile app and website where consumers can acquire the eligible retail products they need through an LTO transaction with Acima.

The marketplace is a gateway that gives consumers an entry point to the Acima ecosystem providing choices beyond the brick-and-mortar retail network to include a growing network of e-commerce retailers. The Acima mobile app puts the power of the Acima ecosystem at the fingertips of customers by providing them greater mobility and choice when shopping.

Customers can apply for a new lease with Acima find retail locations to shop directly access the Acima marketplace manage their lease accounts and stay up-to-date with retailer promotions and offers.

The Acima browser extension lets consumers extend their LTO shopping experience beyond the marketplace directly and on select retailers websites through proprietary technology that does not require retailers to be integrated with Acima's e-commerce solution.

The browser extension allows customers to carry the shopping power provided to them by Acima on their own individual journeys within untethered LTO shopping experience. No longer will LTO customers be limited to only shopping on sites and locations with pre-negotiated or exclusive e-commerce arrangements. The Acima LeasePay card is a groundbreaking innovation that can unlock substantial transaction opportunities for financially underserved consumers and retailers. It will begin as a virtual card that enables approved customers to enjoy a flexible payment experience backed by Acima to complete LTO shopping transactions across multiple retailers. After reviewing and executing an LTO agreement with Acima, customers can use the Acima lease pay card to complete their shopping experience in the marketplace or on the retailer's website via the browser extension. By year end, we plan to begin piloting of physical lease pay card also issued through the market of platform giving customers access to the millions of durable goods retail merchants that accept MasterCard. This is a paradigm shift in the market that opens up shopping opportunities for consumers from what we estimate is 40,000 to 50,000 retail stores today to literally millions of merchant doors and is a key factor in driving what could roughly amount to $50 billion increase of incremental 10. Importantly, the proprietary nature of the lease pay card should provide Acima with a favorable competitive position as we pursue these growth opportunities.

Moving onto the second quarter results and operational progress, my comments reflected pro-forma performance as if Acima was included in the prior year. The retail part of business came in a bit ahead of our expectations on strong merchandise sales and 43% GMV growth. Despite some ongoing macro-related supply chain disruptions and some are greater than anticipated retail partner churn resulting from store conversions. Adjusted EBITDA margin was 13.7% in the quarter versus 12.3% in the prior year with skip stolen losses of 8.7% down 970 basis points year over year. Integration is going as smoothly as we would hope. And we remain on track to realize the estimated $25 million of synergies in 2021. We completed the conversion of all virtual locations the Acima platform during the second quarter and staff location conversions are progressing on plan. We continue to optimize the organization and are pleased with the results we see from blending the fast and nimble approach of a startup with the structure of a more established operation. We are getting the right structural framework in place to support our product and business development roadmap as well. For example, we have aligned our staff multiunit leadership team with our retailer base allowing for more streamlined communication and execution effectiveness. We expect this change to further maximize our already strong relationship with retail partners. The retail partner pipeline continues to develop and we are in ongoing discussions with multiple national and large regional accounts.

In addition, we are also exploring some alternative channel partners that could prove to be meaningful. Marketing automation from web, app marketplace and browser expansion continue to evolve and through analytics personalization and multivariate tests we are attracting more customers and lowering our cost per acquisition. We are optimizing customer journey management tools to build utilization of our leased lines and lifetime value of our customers. We developed a number of assets inclusive of videos to demonstrate the value of our offerings. Finally, I'd like to thank the entire team both Legacy Rent-A-Center and Acima for the tremendous effort over the past six months. Integrations are never easy and I think we've really exceeded expectations.

With that, I'll turn it over to Anthony.

Unverified Participant

Thanks, Jay. The Rent-A-Center business segment had another strong quarter with revenue growth of 10.2% on same-store sales growth of 16.6% which marks 14 consecutive quarters of positive same-store growth. Underlying fundamentals remain strong with our lease portfolio up close to 17% at the end of the second quarter – similar to where it was at the end of the first quarter.

As Mitch noted earlier – I'm really pleased with the team's performance this quarter and with our position heading into the back half of the year as we're maintaining that strong year-over-year portfolio increase. One area where we've had a lot of success is introducing new categories to our platform that have expanded our addressable market things such as tools handbags e-bikes and tires.

Tires are a great example of how we see opportunities that can continue to drive incremental growth. E-commerce continues to be a key growth driver with revenues up 19% in the quarter. Even with us comping against 58% growth last year during peak pandemic disruption traffic and conversion trends remain strong running well above pre-pandemic 2019 levels. Importantly e-commerce is transforming Rent-A-Center. This has made us a more nimble and dynamic company and changed how we interact with our customers resulting in faster decisioning and enhanced engagement that helps our customers make better decisions.

In combination with our leading retail outlets we believe we're well-positioned to deliver a true seamless omni-channel experience for our customers. Our retail outlets continue to be a key element of our competitive advantage. Rent-A-Center remains committed to our heritage of serving the local communities where our customers live and building lasting relationships. In fact we just opened the first new store in a few years in Oklahoma and we plan to launch at least a handful more locations this year.

Moving on to profitability adjusted EBITDA our margin was 25.9% in the second quarter compared to 20% in the prior year with improved decisioning, low loss rates and strong collection activities.

I'll close out with some comments on our outlook for the second half of this year. On top of strong execution tailwinds have probably been a more beneficial factor than normal for the first half of this year with stable economic activity and ongoing government support for many of our customers. We think the favorable tailwinds will start to normalize over the second half of the year, which will likely translate into some slight moderation in sales growth with same-store sales in the second half still estimated to be very strong in the low-double digit range. Similarly, we think some of the factors that have benefited margins will also begin to moderate as we expect our EBITDA margins to level out in the low 20s in the second half of the year.

With that, I'll now turn it over to Maureen.

Maureen B. Short

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

Thanks, Anthony. Second quarter consolidated revenues were $1.2 billion and 75% increase versus the prior year period primarily due to the acquisition of Acima which closed in mid-February. On a pro forma basis revenues grew 22%. Consolidated adjusted EBITDA of $182 million more than doubled year-over-year and on a pro forma basis grew 41%. Adjusted EBITDA a margin was 15.2% in the second quarter compared to the pro forma margin of 13.1% in the prior year with solid margin expansion for both the Rent-A-Center business and Acima segments led by revenue growth lower loss rates and operating efficiency. GAAP EPS was $0.90 in the second quarter compared to $0.70 in the prior year period and included onetime costs related to the Acima transaction and integration. After adjusting for special items that we believe did not reflect the underlying performance of our business, non-GAAP EPS was $1.63 in the second quarter of 2021 compared to $0.80 in the prior year period. We generated $101 million of free cash flow in the second quarter which is a percentage of net income was in line with historical trends. We ended the quarter with a $145 million cash balance and gross debt of $1.3 billion. During the quarter, we paid down $55 million or our ABL revolving credit facility and have fully paid down the outstanding balance. As a result of our continued strong operational performance and debt reduction, our leverage ratio at the end of Q2 was 1.7 times and we had over $600 million of available liquidity. During the quarter, we paid a cash dividend of $0.31 per share which was approximately 7% higher year over year.

Turning to our 2021 guidance given our better-than-expected portfolio performance and favorable underlying fundamental trends, we have increased 2021 guidance and tightened ranges. Our guidance assumes no additional government stimulus payments or material change in the macroeconomic environment but some normalization of key profit drivers in the back half of the year from recent levels that may have benefited from the combined effects of the macro environment and policy responses to the pandemic. We now expect consolidated 2021 revenues to be between $4.55 and $4.67 billion for 2021 which is an $85 million increase at the midpoint versus our previous guidance from May. This reflects better-than-expected revenues in the first half of the year and continued benefits from our strong second quarter portfolio balance in the Rent-A-Center business segment for the second half of the year. Consolidated adjusted EBITDA is expected to be between $660 million and $700 million, a $55 million increase at the midpoint versus previous guidance, and translating to adjusted EBITDA a margin of approximately 14.5% to 15%. The new guidance takes into account the strong portfolio performance Anthony referred to and assumes a more gradual increase in the loss rates in the back half of the year towards historical levels than previously expected partially offset by continued investments in talent and capabilities to support our technology and growth initiatives.

Regarding the cadence of margins over the back half of the year, we expect a modest sequential decrease in the third quarter reflecting typical seasonality followed by a notable sequential uptick in the fourth quarter. Non-GAAP diluted earnings per share is expected to be between $5.90 and $6.40, which is an increase of $0.58 at the midpoint. We now expect to generate free cash flow of $300 million to $350 million for the year.

Turning to our segment projections, we expect our Acima segment to generate revenues of $2.34 billion to $2.42 billion for the full year and for Q4 to grow at a higher rate than Q3 given seasonality. Adjusted EBITDA for the Acima segment is expected to be $330 million to $350 million, which translates to adjusted EBITDA margin of approximately 14.1% to 14.5%. Gross margins and adjusted EBITDA margins are expected to increase progressively in the second half as we realized synergies which should increase yield and offset the impact of some reversion towards historical levels for key profit drivers such as skip stolen losses and customer payment trends. We expect the Rent-A-Center business segment to achieve revenues of $2.02 to $2.06 billion with low double-digit same-store sales growth in the back half of the year. Third quarter revenue growth is expected to be in the mid-single digit range with fourth quarter in the high-single digit range. Operating expenses should see a step up in the third and fourth quarters reflecting recent wage increases and more normalized get stolen lost rates. We expect these trends will result in 2021 adjusted EBITDA, a $480 to $500 million for the Rent-A-Center business segment translating to margins of approximately 23.8% to 24.3% for the full year and the low 20s in the back half of the year. Our capital allocation priorities remain focused on driving long-term value creation for shareholders. The top priority is appropriately funding our current business and investing in value enhancing growth initiatives. Next, we will opportunistically look at M&A transactions that can generate favorable returns. After satisfying investment needs, we return capital to shareholders through a combination of dividends and share repurchases with share repurchases employed opportunistically. Underlying all capital allocation decisions is a commitment to a sound financial structure with appropriate levels of leverage. With $300 to $350 million of expected free cash flow for 2021 and strong underlying fundamental momentum, we believe the company has more than adequate cash flow to fund investments, make significant progress towards our leverage target of 1.5 times and pay our quarterly dividend. Accordingly, our Board of Directors approved a $250 million share repurchase authorization that replaces our previous authorization and represents approximately 7% of our market cap at current share prices.

In closing, as Mitch noted earlier, it's a very exciting time for all of our stakeholders as our company is in the process of transforming into a more dynamic fintech oriented business with a highly compelling total return algorithm that includes projected strong top line growth with targeted revenues of $6 billion in 2023, margin expansion, substantial free cash flow generation, capital returns to shareholders and solid double digit EPS growth.

Detailed income statements by segment are posted to our website and the 10-Q will be filed later today. Thank you for your time. I'll now turn the call over for your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin our Q&A session. [Operator Instructions] Your first question will come from Kyle Joseph with Jefferies. Please proceed.

Q

Hey good morning. Thanks for taking my questions and congratulations on a really, really strong quarter. And I appreciate all the commentary you gave across all of the segments. From a high level as we're thinking about 2022 here, and I'm not asking for guidance specifically but can you walk us through and maybe it might be helpful to do it by segment but how you're thinking about a normalization of revenues obviously it seems may be different than the Rent-A-Center segment. And then as we think about losses and margins and then Mitch I think you did a job good of kind of addressing some of the offsetting factors whether it's maybe less bioed activity or a normalization of credit demand if losses do in fact normalize in 2022. But just walk us through kind of some of the offsetting impact as we look out longer term on the business segments.

A

Sure, Kyle. This is Maureen. I can answer that and then see if Mitch has any additional comments. But our longer term guidance is as we've talked about hasn't really changed. The $6 billion target is still our 2023 target. Some of the assumptions that go into that growth projection are that Acima will grow 20% to 25% in GMV as well as revenue over the next three years. We assume low-to-mid single digit comps in the Rent-A-Center business. We are seeing some of the benefits of the portfolio carry forward into the second half of 2021. And there could be some upside if that portfolio growth continues to play out throughout the year. But our current projections for 2022 and 2023 still assume that low-to-mid single digit comps. We also assume $40 to $70 million of annualized run rate synergies with the Acima transaction and integration. And it does not include as we've mentioned in the past the benefits of any national accounts – any large national accounts that we had or incremental revenue associated with the MasterCard agreement.

Q

Got it. That's very helpful and then quick one-off here, obviously child tax credit payments started going out last month. Did you see any sort of impacts on either segment?

A

No, really. Nothing. Good morning, Kyle. This is Mitch. Really nothing to speak of. I think our customer – the payments are still strong. I mean our customers are in pretty good shape still. But it's not like our payouts went up like when bigger stimulus checks hit and things like that. So demand remains strong collections remains good but no big -- no big pop on payouts or anything that would actually drop the portfolio.

Q

Got it. Thanks Mitch. And then one last one from me probably either Maureen or Jason just on Acima obviously we saw really good EBITDA margin expansion quarter-on-quarter recognizing there's some moving parts there and you only have roughly six weeks of contribution from Acima in the first quarter. But can you walk us through the drivers of that? It seems like losses were stable. Was it less buy-out activity obviously you benefited from the full quarter of Acima, but just walk us through the drivers between the big uptick in EBITDA margin there.

A

Sure, Kyle. Most of the improvement in EBITDA margin was through gross margins. You can see it sequentially increased couple hundred basis points or 150-or-so basis points which is most of the improvement in EBITDA margin. There were also some benefits of higher revenue, less payouts as you mentioned translates to higher margin. And also converting some of our preferred lead stores to Acima to their technology it results in a higher yield. So those are the main growth drivers. We do expect margins to increase progressively throughout the year as we mentioned last quarter mainly due to the synergies really taking hold and increasing throughout the year.

Q

Got it. Very helpful. Thank for answering all my questions.

A

Thanks, Kyle.

A

Thanks, Kyle.

Operator: Your next question will come from Vincent Caintic with Stephens. Please proceed.

Q

Hey, thanks. Good morning. Thanks for taking my question. I think the first question is for Jay. So on the GMV volume growth that 43%. That's really impressive year-over-year. I guess, first if you think that's a sustainable number. And then second perhaps if you could break it up between what you're seeing in organic growth from your existing merchants versus your new account wins. I'm guessing with a 43% number it's going to be a mixture of both, but I guess it would be impressive if that was all organic or mostly organic from existing margins. So perhaps if you could kind of separate those two that would be very helpful? Thank you.

A

Yeah. Good morning, Vincent. It's good to hear your voice. We – if you look at the GMV trends for the balance of the year I think what we're expecting is to grow around 20% and growth decelerates because we're comping high growth rates from last year, obviously with the pandemic and everything else that's happening. One of the other things that we think is going to be a tailwind from a forecast in GMV includes the online traffic and the activity metrics, the customer accounts. So we're actually doing a really good job with regard to our opening new doors and then most importantly as we're bringing on some of the new technologies I mentioned in my comments, the ability to increase the returns for customer a number of leases and that will have a direct effect. And then like I also mentioned we have a number of both e-commerce you know which currently represents about 15% of the segment and is going to continue to grow as we're bringing on more and more both partners there – and also bringing the digital channels online with the assets that we announced earlier this week.

Q

Yeah I'd add to that Jay – that – you know that the 15% that e-com was on the low-single digits a year ago ...

A

That's right.

A

So I mean ...

A

.. and it's going to continue to grow as a portion of the business as we continue to turn up the volume on all of these efforts and our omni-channel approach.

Q

Okay. great. Thank you. Then second question I think this is for Mitch. So you mentioned M&A and in prepared remarks. I was kind of curious what you're – what you might be thinking of when we look at the competitive landscape. It seems like up and down to the point-of-sale financing spectrum and in like – buy now pay later and lease-to-own. You've seen a competitor buy now pay later company to be – kind of fully in the ecosystem and then another competitors kind of focus – or doing more on partnerships with other other – guys. I'm just wondering when you think about M&A or partnerships or the kind of the broad spectrum. What are you thinking there. Thank you.

Q

Sure Vincent. I think we're – we're open to looking at anything that's you know – good at the right. The right multiple in – adds our ecosystem – and like it says – it's the right multiple for us to get a good return on. So I wouldn't net – I won't cut off any category were open to that. Obviously right now we're pretty focused on the integration of Acima. But it's gone smooth – as Steve was talking about we're six months into it.

So and – and you know cash is building. You saw the share repurchase because that the – as part of the capital allocation is cash flow is better than we anticipated at this point, so we will obviously continue to fund new accounts and national accounts will take up some of the cash flow work. We will be – look – we will look at anything from an M&A standpoint. I wouldn't – I wouldn't not look at anything in any of those categories that you mentioned.

Q

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

A

Thanks, Vincent.

Operator: Your next question will come from Brad Thomas with KeyBanc Capital Markets. Please proceed.

Q

Hi. Good morning. And let me add my congratulations on a great quarter and on the momentum in the business. I was hoping we could talk a little bit more about the loss rates to Skip/Stolen that that continue to track it really favorable levels. Can you talk a little bit more about the changes you're making in the decisioning and how much that is benefiting the loss rates and how sticky you think that maybe some of these more favorable trends might be.

A

Yeah. Brad. Thanks. This is Jay. Thanks for the question, and good morning. And I will – I will kick off the answer and then hand it over to Anthony as well. So, you know one of the things that we have been sort of most impressed about with the acquisition is the decision engine and the advantage that that gives us as well as our data sciences group. And so what we're finding is that the combination of the dataset that we're able to use from our legacy business in combination with a seamless technology is enabling us to underwrite better from two components. The first component is from a fraud perspective and being able to dial in and reduce down our fraud losses and Skip/Stolen's resulting from that. And then the second thing is actually we're – we're – we're able to provide a better underwriting decision with regard to line and customer.

and so that results in a materially – kind of better ticket for us overall. So the combination of the two things is giving us an opportunity. Anthony?

A

Yeah I would – I would echo those sentiments on the Rent-A-Center business as more of the portfolio transitions to eCom – one of the things that we're always concerned with is how do we reduce fraud and the centralized decisioning has really given us an opportunity to reduce that substantially as it continues to be a larger part of the portfolio. And that's really the most important thing for us is – is reduce the fraud and go ahead and convert more of the customers. And another thing that we've introduced recently as well is approval amounts for our customers. So now not only can we go ahead and approve more customers we can go ahead and throttle the potential for loss by going ahead and making a determination on the approval amount.

So it's benefited to the Rent-A-Center business. And also the increase in digital payments has benefited as well with more than half of the of our payments coming digitally. That's helping as well.

A

Well just real quick one last thing – to attack on the Acima segment – you know the data services capability now is bolted into our collections activities. So it enables us to anticipate in advance and make sure that we're being more targeted with regard to doing preventative activities on the loss side.

A

And the other thing to add to that – Brad you know you think about the Acima side in a virtual business like that decision is always going to be a main component of it and you always trying to improve it. And obviously we – we think it's working really really well right now. And one of the best parts of Acima is the decisioning. And it continues to get better every – basically every week when the underwriting committee meets and reviews things.

So that's a core element of the Acima business and getting better every week On the Rent-A-Center side it's relatively new in the last year. And we never had much of a loss problem at Rent-A-Center as you know Brad. Yeah. Okay. So we've gone from the mid-3s to the mid-2s. That's fantastic that 1% important. And you can point to decision engine for the majority of that. Like I said 1% is important but beyond that the customer experience in the Rent-A-Center show and the efficiency of using a decision engine versus manual verification is you could almost call it a game changer a 45-minute transaction for a customer inside of brick-and-mortar store that now takes 10 minutes. And the efficiency the labor savings on our end the customer experience you don't hear us talking a whole lot about labor costs because of the efficiencies we found with decisioning and the digital payments and as we've mentioned even though wages are up. I mean at the entry level hourly wages what Anthony in that like 15%, 20% range. You don't hear us talking a lot about it because there's a lot of offset with efficiency and using less hours to make up for that higher pay. So in the technology in the e-comm advancements technological advancements overall are the reason for that and much more efficient business. And then, you add on to that it's a better customer experience for a repeat business and all that. And it's much more of a game changer at Rent-A-Center than just the 1% difference probably in the lost margin.

Q

That's great. Yeah. All very, very encouraging. Just to follow up on that last point you made Mitch on the inflation front. Could you talk a little bit about how an inflationary backdrop in merchandise affects the business. I think of many years where we were seeing deflation in areas like consumer electronics and even furniture. And how does that – how does the outlook for the business change with the merchandise cost inflation that we're seeing?

A

Actually, it's very odd and the impact on a lot of businesses is pretty negative. On our business, inflation actually can be a positive has been in the past. And I think we are seeing some of that right now. And it's a positive even when you pay more for product in that. If product gets more expensive at retail, that's good for lease to own. All right. I think everybody, it's easy to understand that if it's more expensive at retail, it's good for Acima because if products are 20% higher. I think we're seeing furniture prices maybe even at retail 30% higher. But if it's not like they're going to get approved by prime lenders for 30% more just because of inflation if anything it's going to get tighter with lenders, right. So more – more customers should start flowing into the Acima through the waterfall. So, it's good there when things get expensive at retail and it's also good for the Rent-A-Center segment. And when you can pass on the inflation that we're seeing in the cost of goods in small payments at an average $2 a week, it doesn't have much impact on demand at $2 a week and – $2 or $3 a week, $10 a month however you want to look at it doesn't affect demand there. But yeah actually drives more gross margin dollars overall because we're more than covering the inflationary cost of the product. It's more gross margin dollars which actually helps the EBITDA margins, right as it flows – if you have more gross margin dollar. So it can be very positive in the lease-to-own business for all those reasons as bad as inflation can be for the whole country in general for our business where it's really an anti-inflation play.

Q

Really helpful perspective. Thanks Mitch. Thanks, everyone.

A

Thank you, Brad.

A

Thank you.

Operator: [Operator Instructions] Your next question will come from Anthony Chukumba with Lopp Capital Markets. Please proceed.

Q

Good morning. And allow me to offer my congratulations on a really strong quarter as well. And so first question a very encouraging to see the share repurchase authorization. Obviously buying back stock at these levels would be highly accretive to your earnings per share now – is that that share repurchased program is going to be 10b5-1 or is it going to be you know – are you going to buy back stock opportunistically.

A

Yeah that – we're going to think about share repurchases as a flexible way to return capital to shareholders with a preference for executing in a manner that generates value meaning when the stocks are better value we'll buy at a greater amount. And if the stock moves down towards fair value we'll buy less. Now we want to be able to continue to buy even within blackout periods and we'll likely use a 10b5-1 plan. And we've used it at times in the past but we're – we really want to balance more between dividends and share repurchases going forward with this new authorization.

Q

Got it. okay that's helpful. And then just one clarification so you mentioned that your increased guidance does not assume any additional government stimulus payments. Are you counting the – are you considering the expanded child tax credit additional government stimulus payments – it seems to me like that is an additional government stimulus payments – just that you know people can be getting every single month as opposed to getting a $1,400 check. So I just want to kind of clarify that.

A

Yeah I think, I think you know we saw such little impact in July with the first check come out. As we model up you know the rest of the year. Certainly it's in there so I'd say no additional stimulus. Not true there's going to be a big impact and shall fix your credit they haven't seen much either. I believe if there is an impact, it's positive. But it's not like we've put a whole bunch of you know positive momentum in our model because of it because we saw little impact in July. So it's really not in our model. It's obviously out there. And if anything it will be a positive for the model Anthony.

Q

Got it that's helpful. Thank you.

A

Thank you.

Operator: Your next question will come from John Rowan with Janney. Please proceed.

Q

Good morning everyone.

A

Hi, John, good morning.

Q

You know Mitch you talked about national partners a little bit. Can you maybe give us an idea, I know you are not think anything specific. But what the pipeline is people who are testing or that your sales group is talking to, just give us an idea of how you know we're moving toward the progress of getting a national partner.

A

Hey John, this is Jay actually thanks for the question. So you know we are now actually seeing our national count team get into what I would call full swing as I mentioned in the previous earnings call. You know we are in we have a robust pipeline. So we kind of break it into two areas the big national retailers and then com. So you know we have several hundred big fish in the process with regard to the national outside and over a 1,000 an eCom target which includes obviously large regionals. Then specifically Obviously, we are not going to comment on the partnerships themselves. Well, I can tell you that we are in mid-to-late stage discussions with roughly a dozen of the national partners and probably double that with regard to the e-com nationals and retailers. So really nice progress. We track this now. And the good news is we picked up a significant amount of talent as part of the acquisition with Acima. We've consolidated it with our existing national account team and our development office and we're making really nice progress there.

Q

All right. Thanks guys.

A

Thanks, John.

A

Thanks, John.

Operator: Your next question will come from Bobby Griffin with Raymond James. Please proceed.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

Good morning, buddy. Thanks for taking my questions. I hope everyone is doing well.

A

Good morning.

Bobby Griffin
Analyst, Raymond James & Associates, Inc.

Q

I want to touch on the Rent-A-Center segment. And maybe you talked a little bit about margins coming back down to maybe the low 20s range which is still an incredible level when you look at where these margins – EBITDA margins were in 2019. So Mitch or Andy or Maureen whoever, can you maybe unpack some of the drivers there that's structurally changing the business and the confidence you have that these are not temporary stimulus changes and they're more structural changes and you can maintain this low 20ish EBITDA margin going forward?

A

Yeah, good question, Bobby. I think the primary reason is its pretty cold so fixed cost business. So when you're grown like we're growing and demand is strong, you get EBITDA margins, but a lot of it flows to bottom line. Think about the gross margins in the 70% range and not much cost below that as you bring on more customers, you get pretty good flow through, right 50% anyhow flow-through on every dollar. So it's primarily growth Now the eCom helps from an efficiency standpoint certainly you know – even the – even the inflation – I mentioned earlier given us more gross margin but the loss has been lower with the decisioning – and you know all those things working together – but – I'd say Anthony the primary reason is just – is the demand driving that – drives the top line and of course in a portfolio business there's a long runway in that demand we can see quite a ways out.

And that's why you know our quote unquote slowdown in the back half of the year to low-double digit same-store sales. So I say that with a – with a little bit of a giggle when you call it a slowdown low-double digits. And so all these extra drive quite a bit of – quite a bit of flow through and that's the – that's going to be the biggest part of it.

Q

Okay. And then maybe to follow-up on Brad's question – and understanding how inflation – if inflation is coming – and it is coming on – is how it drives the impact there – but are you starting to see it so already in the numbers. When we look at the 16.6% comp in Rent-A-Center, business is that are already benefiting from some merchandise inflation or is that more kind of a go-forward type comment.

A

I'd say it's more go-forward. I think we're just starting to see some price increases because of course – at our volume of purchases our orders are you know – we're buying quite a ways out. So I think that's a forward looking benefit honestly that we don't have modeled. But it's really not in the numbers to-date.

Q

Yeah we're just – we're just starting to see it now and kick it – as inventory flows through the ...

A

Yeah.

A

... through the system. So – but it's early on.

A

Okay. Thank you. I appreciate all the details and both the questions and best of luck here in the second half.

A

Thanks Bobby.

A

Thank you.

A

Thank you.

Operator: And at this time there are no further questions.

I would now like to turn the call back over to Mitch Fadel for closing remarks at this time.

Mitchell E. Fadel

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

Thank you, Jumeirah. And thank you everyone for joining us this morning. Obviously, we're really excited about how things are going. And we believe the best is yet to come a lot of people out there think this is the peak. We do not. We see ongoing growth on the Rent-A-Center side as we've talked about we didn't spend much time talking about things like new product categories, Anthony I think you mentioned in your prepared comments, but new product categories driving the business, e-comm just flying off -- almost 20% growth in the e-comm on the Rent-A-Center side comping over almost 50% last year during the shutdown so fantastic stuff there. Acima obviously knocked it out of the park with their GMV. And we're so excited about some of the proprietary stuff we announced this week that we really think increases the TAM. Jay's plan of attack with those products like the LeasePay card and so forth. When you add that to Acima and we really think we've got a one plus one equaling three here. The great plan the great ecosystem plan that Jay's had since he started last year is coming to fruition and you add that to the Acima and like I said one plus one equals three. So I can go on all day about how excited we are. Most of you probably already hung up. But I'll just stop there and say everybody have a great day and we appreciate your support. Thank you.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.