Rent-A-Center (Q4 2021 Earnings)

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Corporate Speakers:

- Brendan Metrano; Rent-A-Center, Inc.; VP of IR
- Mitch Fadel; Rent-A-Center, Inc.; CEO & Director
- Jason Hogg; Rent-A-Center, Inc.; EVP of Acima
- Anthony Blasquez; Rent-A-Center, Inc.; EVP of Rent-A-Center Business
- Maureen Short; Rent-A-Center, Inc.; Executive VP & CFO

Participants:

- Anthony Chukumba; BB&T Capital Markets; Former MD and Senior Equity Research Analyst of Retail & Consumer Group
- Kyle Joseph; Jefferies LLC; Equity Analyst
- John Rowan; Janney Montgomery Scott LLC; Director of Specialty Finance
- Jason Haas; BofA Securities; VP
- Bobby Griffin; Raymond James & Associates, Inc.; Senior Research Associate
- Brad Thomas; KeyBanc Capital Markets Inc.; Director & Equity Research Analyst
- Vincent Caintic; Stephens Inc.; MD & Senior Specialty Finance Analyst

PRESENTATION

Operator: Thank you for standing by, and welcome to the Q4 2021 Rent-A-Center Earnings Conference call. At this time, all participants are in listen-only mode. After the speakers? presentation, there will be a question-and-answer session. (Operator Instructions). Please be advised that today's conference is being recorded. (Operator Instructions). I would now like to hand the conference over to your host, Brendan Metrano, Vice President of Investor Relations. Please go ahead.

Brendan Metrano: Good morning, and thank you all for joining the Rent-A-Center team to discuss our results for the Fourth Quarter of 2021. We issued our earnings release 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.

On the call today from Recent we have Mitch Fadel, our CEO, Jason Hogg, Executive Vice President of Acima, Anthony Blasquez, Executive Vice President of the Rent-A-Center Business segment and Maureen Short, CFO. 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 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 reconciliations to the most comparable GAAP financial measures. With that, I'll turn the call over to Mitch.

Mitch Fadel: Thank you, Brendan, and good morning, everyone, and thank you for joining the call today to review our fourth quarter results and our plans for 2022. 2021 was an important and transformational year for the company. We completed the largest acquisition in our history, which has greatly enhanced our commercial and technology capabilities, growth opportunities and potential for value creation. We also generated strong financial results with revenues of about $4.6 billion, up 17% on a pro forma basis on solid organic growth from both the Rent-A-Center business segment and the Acima business that we acquired last February.

Non-GAAP EPS was $5.57, up from $3.53 in 2020 and we also paid out a healthy dividend of approximately $1.24 per share. From an operational standpoint, we made great progress on numerous initiatives that should position the company better for the future. Within the Rent-A-Center segment, we made great strides in our e-commerce business, which increased to 23% of revenue in 2021 from 13% just two years ago. We executed initiatives to lower delinquency and loss rates, including centralized decisioning, increased auto pay penetration and digital payment capabilities. We also added new products and sourcing capabilities to drive incremental transaction growth.

At Acima, we continue to grow the merchant base, including new relationships with strategic partners like P.C. Richard & Son and Whirlpool. We consolidated collection operations and completed the conversion of most of our preferred lease locations, which contributed to achieving the 2021 synergy target of at least $25 million.

We also launched our proprietary digital ecosystem test that leverages the Acima scale and technology, including a direct-to-consumer model, which we believe could be a significant competitive advantage in growth vehicle long into the future. The more challenging aspects of the year primarily stem from operating in a dynamic macro environment that resulted from the lingering effects of the pandemic. This caused dramatic swings in customer behavior, especially around delinquencies and early payouts and renewal rates. For the first half of the year, the macro environment was a tailwind with government relief programs pushing expenditures on consumer durables and favorable payment behavior to levels that were above historical averages.

In the latter portion of the year, the macro environment shifted to a headwind. Government pandemic relief programs that have supported higher rates of consumer spending ended, and in addition, supply chain disruptions and a significant uptick in inflation, diminish consumers? ability to access and afford products. We have anticipated some effect from the end of pandemic relief and implemented new tactics for decisioning and collections. However, we underestimated the speed and the magnitude of the changes in delinquencies and loss rates, especially for Acima. The combined effect of those factors had a large impact in the fourth quarter, which generated adjusted EBITDA and

EPS below the expectations implied in our most recent annual guidance for 2021. And Maureen will explain on our fourth quarter results and our 2022 outlook in a few minutes.

Over the past few years, we've built the foundation for the company's growth strategy to evolve into a leasing and payment solutions platform. We returned the legacy RTO operations to a resilient, profitable and strong cash flow generation business. In 2021, we took a major step forward in expanding our digital growth engine by acquiring Acima and then launching the digital ecosystem test. So today, we have a compelling formula for value creation. Strong current profitability and cash flow plus the potential for robust top line growth and incremental earnings power.

From a strategic standpoint, we now have the right pieces with the leading omnichannel business in LTO, one of the top virtual LTO franchises in the space and a proprietary direct-to-consumer business that we believe could provide a competitive advantage. While we are well positioned to move forward with the growth strategy and the agenda that we've previously outlined in our long-term plans, it's unclear if the external environment will allow us to generate the desired results and returns on our investments this year. When you factor in the effect of ongoing macro headwinds and the material pull forward of consumer durable spending that occurred over the past 20 months, we think our core customers? ability to access and afford durable goods may be limited in 2020, especially in the first half of the year.

So rather than push forward with significant investments in growth initiatives in an unfavorable environment, we are taking a more measured approach to execute in areas where we can influence outcomes and still enhance our position for long-term growth. For example, at Acima, where delinquencies and losses have exceeded historical averages, the near-term plan is to focus on underwriting for yield and loss improvements, including shifting technology resources to that effort, which should also benefit our future underwriting. When the environment becomes more conducive for growth, we'll be prepared to pivot and ramp up investments in our growth initiatives, taking advantage of our strong cash flow generation.

Now regarding our 2022 financial performance, we expect to generate revenue for the year of $4.45 billion to $4.6 billion, adjusted EBITDA of $515 million to $565 million, which excludes stock-based compensation of approximately $25 million, fully diluted adjusted earnings per share of $4.50 to $5.00 and $390 million to $440 million of free cash flow. While this revised outlook impacts the three-year targets we announced last year, I think it does demonstrate our resiliency and ability to generate solid financial results in more challenging business environments.

Along those lines, given the extent to which late 2021 results and 2022 projections have been negatively affected by changes in the external environment, we will not reach our $6 billion revenue target by 2023. If you recall, on the third quarter call, we discussed potentially hosting an Investor Day sometime towards the end of the first quarter. We think it's important to host an in-person event to most effectively communicate our story.

So given the ongoing challenges for in-person events due to COVID variants, we've decided to push out the Investor Day infill later this year.

In closing, I want to thank the entire team for their continued effort and dedication. It's been quite a journey over the past few years, and I've been impressed with the progress we've made in the tremendous opportunity I see in the future. With that, I'll turn the call over to Jason for updates on the Acima business.

Jason Hogg: Thanks, Mitch. Echoing your comments, 2021 was a transformative year for us. With the Acima acquisition, we essentially doubled the size of the company and took a big leap forward in our virtual LTO business. Over the course of the year, we made good progress integrating the two businesses and launched our proprietary digital ecosystem test that we believe could effectively double our addressable market to almost $100 billion of open to lease capacity.

Today, the company has established a solid foundation for the future with significant opportunities for growth and expansion as the external environment improves. The Acima segment grew GMV 23% and revenues 22% on a pro forma basis in 2021. Segment adjusted EBITDA margin was 12.2% in 2021. Those results would have been even better without the disruptive external environment that occurred in the latter portion of the year that negatively impacted customer spending on consumer durable goods and payment behavior.

In the fourth quarter, those external factors negatively impacted GMV growth, delinquencies and losses. We started adjusting underwriting and collections back in the third quarter to mitigate deteriorating delinquency rates and loss rates. However, as the external headwinds worsened through November and December, the deterioration in delinquencies and losses accelerated despite the additional tightening. Bottom line, despite tightening, we can now see it was not fast enough to keep up with the changes in customer payment behavior. Attempting to get ahead of declining macroeconomic trends in January, we tightened further.

In addition, we've implemented new augmentative fraud measures to further prevent losses as e-com continues to grow as a portion of our origination, and we will continue to implement additional augmentative fraud prevention technologies. Early first payments missed trends are encouraging. However, it will take a while for the improvement to show up in the P&L as leases that were booked prior to these changes in underwriting make their way through the performance life cycle.

Fourth quarter GMV grew 5% year-over-year on a pro forma basis, driven primarily by increases in merchant locations. On a pro forma basis, revenues grew 12%, skip/stolen losses increased approximately 100 basis points year-over-year to 11.8%. And adjusted EBITDA margin declined 540 basis points to 9.6%, largely due to higher delinquencies and higher loss rates.

Initial results from the ecosystem testing have been encouraging. By the end of this month, we expect the mobile app will have approximately half a million activated downloads with open to lease capacity, roughly double the number from our third quarter earnings call. We still believe we are on pace to reach one million activated downloads with open lease capacity around midyear 2022. Optimizing the product and better understanding risk and performance is still the primary objective. So we will continue to operate methodically with targeted activation on previous Acima customers.

Importantly, we still haven't leveraged the lease pay Mastercard card. The physical card was just piloted on schedule in December with 1,000 cards issued and a larger scale launch is planned for some time in 2022. The strategic aspects of the ecosystem are also beginning to play out. Merchants have noticed how much volume our proprietary marketplace is driving and have approached us to learn more about the platform and how they can work with Acima to generate more business. It's been very exciting to see the ecosystem coming together and building momentum, and we look forward to having all the pieces up and running this year. As Mitch highlighted, we expect the macro headwinds that impacted the fourth quarter of 2021 to persist through much of 2022. Based on what we learned from the second half of 2021, we think it is unlikely that heavy investment in GMV growth will generate appropriate returns in this environment. So while our product development initiatives are on track, we plan to take a more measured approach with the launch and ramp-up of the products than we previously envisioned. And when the environment and consumer behavior improve, we will be ready to scale.

In closing, reflecting back over the past year, the team accomplished a lot and laid the foundation for what we believe can be a dynamic and disruptive business. I'd like to congratulate the entire team for the tremendous effort and execution in 2021, and I can't wait to see what we accomplished in 2022.

I'll turn the call over to Anthony now.

Anthony Blasquez: Thanks, Jay. 2021 was an exceptional year for the Rent-A-Center business that demonstrated the strong value proposition we provide to our core consumers. We grew revenue 10% with same-store sales growth of 15.4% and the lease portfolio finishing the year up 10.5%. This represents the 16th straight quarter of same-store sales growth and is a testament to the long-term stability of our business model. As Mitch noted earlier, our e-commerce business had another strong year and will be the primary growth driver as we continue to enhance our omnichannel capabilities. Additionally, we've identified new areas for store expansion and begun the process to complement our growing e-commerce offerings and grow our portfolio.

EBITDA margin was 23% and increased 280 basis points year-over-year, while we continued to invest in the business. Perhaps even more compelling than our financial results is the sound work of our operations team who have managed through continuous COVID obstacles since the first half of 2020. Execution was certainly a key factor in 2021's performance, but we also clearly benefited from a more favorable environment. As Mitch and Jay both noted earlier, those tailwinds started to moderate in the latter part

of the year, especially in the fourth quarter, with revenue on the lower side of our expectations and EBITDA below our expectations. But overall results were still impressive with revenue growth of 9%, including same-store sales growth of 10.4%.

E-commerce revenue grew 17.9% year-over-year and more than 70% on a two-year stacked basis and accounted for 23% of revenue within the quarter. Adjusted EBITDA margin was 19.3% and declined 290 basis points year-over-year due to higher labor costs, loss rates and other store expenses. Per store labor costs have been almost flat for the past two years, and we believe labor investments were needed to keep up with wage growth and staffing needs to manage a much larger portfolio within a more normalized collections environment.

Skip/stolen losses increased 140 basis points year-over-year to 4% due to the same factors affecting customer payment activity that Mitch and Jay discussed. And longer term, we expect it will average around the upper 3% range.

Moving on to 2022. Our top business priorities are focused around enhancing omnichannel capabilities. Our goal is to deliver a more seamless experience for our customers, however they choose to shop with us. We have several significant initiatives underway that are aimed directly at driving sales and customer retention. We are working to create a better shopping experience for customers and enhance our e-commerce growth through improvements to the online checkout process, expanded product offerings and increased personalization within our sales and marketing strategies. We are also working towards making payments easier, implementing better communication strategies and improving personalized retention strategies to enhance our customers? journeys.

We expect these efforts, along with other initiatives, will grow our portfolio beyond existing levels while also maintaining our key advantage of remaining embedded within our communities. I, too, would like to thank the Rent-A-Center team for the great work they have put in to deliver an exceptional 2021, and we look forward to another solid year in 2022.

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

Maureen Short: Thank you, Anthony. Fourth quarter revenues of $1.2 billion increased 63.5% year-over-year on a reported basis and 10.5% on a pro forma basis. Adjusted EBITDA of $124 million increased 28.2% on a reported basis and decreased 22.5% on a pro forma basis. Pro forma adjusted EBITDA margin was 10.6% in the fourth quarter compared to 15.1% for the prior year period. The year-over-year decline in adjusted EBITDA and margin was primarily attributable to the large swing in delinquency and loss rates between the two periods; predominantly in the Acima business.

As noted earlier, we believe this change in customer payment behavior is the result of the more challenging economic setting our customers experienced during the second half of 2021, which worsened throughout the fourth quarter. Other factors that contributed to margin contraction include higher labor and other store expenses in the Rent-A-Center

business. Below the line, net interest expense was $18.6 million compared to $3.1 million in the prior year, reflecting the debt financing from the Acima acquisition. The effective tax rate on a non-GAAP basis was 23.4% compared to 28.4% in the prior year period, and the diluted share count was $65 million.

GAAP EPS was $0.15 in the fourth quarter compared to $1.00 in the prior year period and included onetime costs related to the Acima transaction and integration. After adjusting for special items that we do not believe reflect the underlying performance of our business, non-GAAP EPS was $1.08 in the fourth quarter of 2021 compared to $1.03 in the prior year period. We generated $49.5 million of free cash flow in the fourth quarter and returned $388 million to shareholders through a $0.31 quarterly dividend and $370 million of share repurchases. At quarter end, the company had approximately $360 million remaining on its current share repurchase authorization. In addition, we had a cash balance of $108.3 million, gross debt of $1.6 billion, leverage of 2.3x and available liquidity of approximately $280 million.

Turning to our outlook for 2022. Mitch discussed the key consolidated metrics, so I'll focus my comments on some additional details and provide a view on the first quarter. First, note that for 2022 and moving forward, we will exclude stock-based compensation from the calculation of adjusted EBITDA, which we think better reflects the underlying performance of the business and is consistent with the approach of peers. For the Rent-A-Center business segment, we expect 2022 revenues and same-store sales will be down in the low to mid-single-digit range. Adjusted EBITDA margin should be in the low 20s with the key drivers being higher loss rates and higher labor costs resulting from mid-2021 wage increases.

For Acima, we expect to continue to add new merchant locations and grow e-commerce. However, macro headwinds and tighter underwriting are expected to negatively impact volume translating to a mid single-digit decline in GMV. After factoring in higher expected delinquency rates until the underwriting initiatives take full effect later in the year, we expect a mid- to high single-digit decline in revenues. Adjusted EBITDA margin is expected to be in the low double digits, reflecting modest margin contraction on volume deleverage, higher delinquencies and higher loss rates. We expect the Mexico and franchising businesses will generate similar results to 2021. Corporate costs are expected to increase mid single-digits with Acima integration synergies being offset by the investments we have been making in talent and technology to support our growth initiatives.

Shifting back to consolidated results. We expect net interest expense of approximately $75 million and an effective tax rate of 25% to 26%. 2022 non-GAAP EPS guidance assumes a fully diluted average share count of $60.9 million and does not assume any share repurchases. Free cash flow for 2022 is expected to be between $390 million and $440 million, which is up year-over-year due to lower working capital investments offsetting higher cash taxes. Regarding capital allocation, the top priority continues to be appropriately funding our business and investing in value-enhancing growth.

For 2022, we expect CapEx will run a little over 1% of revenues with our emphasis on executing initiatives to help drive profitable growth. After satisfying investment needs, we will use our cash flow to pay down debt and return capital to shareholders through a combination of dividends and opportunistic share repurchases. Given the level of uncertainty, our approach for share repurchases this year will be based on balancing capital allocation priorities, risk and long-term value creation.

We remain committed to a sound financial structure that supports our growth strategy and total shareholder return objectives. We also continue to have a longer-term net debt-to-EBITDA target of below 1.5x. The biggest variable for the year is the external environment and how the path back to a normalized post pandemic setting impacts our core consumers. The macro headwinds that negatively impacted the fourth quarter have so far continued through the first quarter, and we expect will persist through the second quarter. The environment may improve over the second half of the year, but given the current uncertainty, we are not assuming the business gets back to its normal run rate in 2022.

Given the ongoing headwinds in the first quarter, we have decided to provide some additional details. For the first quarter, we expect the following; revenues of $1.125 billion to $1.155 billion, adjusted EBITDA of $85 million to $100 million, excluding stock-based compensation of approximately $5 million and non-GAAP diluted EPS of $0.65 to $0.80. We will post detailed income statements by segment to our website.

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

QUESTIONS AND ANSWERS

Operator: (Operator Instructions). Your first question comes from Anthony Chukumba with Luke Capital Markets.

Anthony Chukumba: I guess I'm just -- well, the first question, obviously, this is a pretty significant miss to what your expectations were. And I guess my first question is, why didn't you preannounce? I mean, I can't imagine that you wouldn't have had pretty good visibility in terms of the level of the underperformance quite some time ago. I mean, the quarter ended almost two months ago.

Mitch Fadel: Yes, Anthony, I'm not going to speak to the -- to the legal question of why didn't we preannounce? We didn't have great visibility two months ago. Obviously, as January as P&Ls got printed and so forth, visibility got clear and clearer over the last six weeks. But obviously, we chose not to preannounce. As it got clearer, of course, we're coming out with 2022 guidance for the first time also. So I want to make sure we had a feel for the guidance before we start talking about it. So -- and then by the time we knew where our 2022 guidance is we're a week away or something like that. So that's why...

Anthony Chukumba: Got it. Fair enough. And then my second question, I just -- and I'm focusing more on the fourth quarter performance, it just some seems like a Tale of Two

Cities. I mean, right? I mean the Rent-A-Center business seems like it had a pretty good quarter, right? I mean, comp up 10% and I mean EBITDA margin down, but not significantly. I mean particularly given the tough year-over-year comparison. Acima just seemed like -- I don't know, it seems like the wheel kind of fell off. I'm just trying to understand like what -- why is it such a divergence, right? I mean these sort of macro headwinds that you pointed to affecting the Acima customer. I mean, it seems like it's a similar customer. I don't understand why that wouldn't have affected the Rent-A-Center business customers as well. So I'm just trying to reconcile the difference in the performance between the two because there seems to be a pretty significant delta particularly from a profitability perspective.

Mitch Fadel: Yes. Good question, Anthony. Rent-A-Center was still at the low end of our -- and I think Anthony mentioned it at the low end of our expectations. So we saw some stress there. But the biggest difference between two businesses, and Jason was talking about the underwriting at Acima where we didn't tighten fast enough and deep enough backend of the third quarter and into the fourth quarter. Rent-A-Center's collections is a lot different on the Street with 2,000 stores worth of local collections versus Acima doing primarily call center collections.

Rent-a-Center, one of our synergies is for Rent-A-Center to help them with collections, but that's something that I think we mentioned on our last call was in test and it's really just kicking off. So -- the difference really is when you underwrite without tightening the underwriting or let's just say it, underwrite poorly for a period of time, not taking into account the changing macro environment fast enough on the Acima side, it's going to rear its ugly head a lot more so from a payment standpoint because they don't have 2,000 stores worth of 4,000 or 5,000 collectors knocking on doors like Rent-A-Center does.

Anthony Chukumba: Okay. That's really helpful.

Operator: Our next question comes from Kyle Joseph with Jefferies.

Kyle Joseph: A follow-up on Acima and the recent underwriting changes. But can you give us a sense for what the portfolio duration at Acima is at this point? And kind of how long we would expect to take the -- for the pig to get through the python at this point'

Mitch Fadel: Go ahead, Maureen.

Maureen Short: Sure. So Kyle, this is Maureen. The average duration of the Acima leases is approximately six to eight months depending on how much same as cash activity takes place within the portfolio. So as we alluded on the call, we expect the front half of the year to be under more pressure given some of those lower-performing leases need the time to work through the life cycle. So we do expect the underwriting changes that we're making to have improvements in the back half with delinquencies and loss rates, but the front half is going to be under pressure because of that underwriting not being where it should have been, given the drastic changes that we saw in the macro environment.

Mitch Fadel: And more so, Kyle, in the first quarter than the second, but really, it is a first half issue but more so in the first half. And you can see in our guidance where the first quarter is, and that's why we wanted to point it out and give specific guidance to the first quarter because obviously, when you extrapolate the rest of the year, it improves as the year goes on, primarily because of underwriting, not because we're predicting when the macro environment is going to get better. We don't think that's necessarily our expertise to say, oh, the second half is going to be better. A lot of people are saying that and, okay, then that's certainly upside if it's better in the second half. But for us to predict that to improve as the year goes on, but it's primarily because of the underwriting, not because we're predicting the future as far as the macro environment.

Kyle Joseph: Yes. Yes. Understood. And then a follow-up for me on kind of the macro environment, as long as I've followed your company in the space, it's been a relatively defensive space and kind of when the economy has been more challenged and your customer have been more challenged, they typically had to rely on you more. I recognize this is -- I hate to [term] it, but unprecedented times to come out on the heels of record stimulus payments and have the consumer facing the highest inflation we've seen in decades.

But ultimately, over time, what would you expect kind of the demand for credit to improve from this -- from your consumer as a result of the macro changes? And then can you give us any sort of sense for the availability of credit you're seeing and whether you're seeing those above you tighten at this point as well'

Mitch Fadel: Sure, Kyle. Yes, I think you hit on it. Certainly, the flip from the household income level or the, what do you call, the spending level, that the consumer had went from -- with our customer, probably an all-time high to an all-time low, right? So it's a bigger swing than normal. But you're right, we -- we always see when past times, and I've seen plenty of recessionary times, not that we're calling this recession at least not yet. But the -- there's always an adjustment period there. The first thing that happens is we see a lot of stress in our customer, this more so more than ever before, but stressing our customer. And then I don't know how to predict it two months, three months, six months later, you start to see the credit tightening above you and people getting pushed into the lease-to-own transaction.

So, so far that's normal. The first thing you see is the stress on our customer. And I would expect that to help us somewhere down the road, the tightening of collections above us. We've not -- I'm sorry, the tightening of credit above us, credit availability. We have not seen it yet and -- but I would expect it as the economy gets tougher and tougher and tougher with this inflation. So we would expect that to be a tailwind at some point.

Operator: Your next question comes from Brad Thomas with KeyBank Capital Markets. Sir, may I move to the next? The next question comes from John Rowan with Janney.

John Rowan: Mitch, in the past, you've characterized inflation is good for your business. I'm curious what's changed. Is there a number where changes from a tailwind to a

headwind. I'm just trying to understand, frankly, whether or not inflation is good or bad for your -- for the rent-to-own business.

Mitch Fadel: I think it has been in the past and I think it has been in the past, and I think it will be in this case. I think we're in an adjustment period. I really think it's a matter of timing. I don't know when -- because what inflation will do is help push more business out of what you might call subprime financing as things get more expensive and credit tightens above us. It will push customers in the lease zone. I believe that will happen again. It's just not happening yet. And the first thing that happens, as I was just talking to Kyle about, the first thing that happens is the -- we see the stress in our core customer and you lose some of them out of one end of the -- on one side of the funnel. But the other side of the funnel, because of the inflation and tightening credit above us should be a tailwind somewhere down the road.

John Rowan: Okay. And then turning to Acima. Obviously, losses there are running high. You talked a lot about fraud prevention. I'm trying to parse out whether or not losses in Acima are -- are really just credit normalization or if there's fraud there given that you're seeing losses and delinquencies above pre-COVID levels.

Mitch Fadel: Yes, I'll start, and then I'll let Jay talk about it. But I think there's two different things going on there. It is the credit normalization effect the credit's been -- I wouldn't even call it normalization. It's dropped a little tougher than pre-pandemic levels. And then on the fraud side, as we do more and more e-commerce, you need more and more fraud tools. And that's really what we're speaking about on fraud tools is that is the more e-com you do, which we're growing the e-com business, you've got to have more fraud tools. So Jay, I don't know if there's anything to add to that.

Jason Hogg: No. I mean that's actually spot on. And I think what happens is we're continuing to tighten, as I mentioned in my comments to sort of get ahead of the macroeconomic trends that are taking place. We made those moves in January. And in addition to that, bringing in new technologies when Mitch was talking about shifting our technology and engineering focus further to underwriting. He was mostly speaking directly about the ability to integrate things that we use in the payment space that are very effective at minimizing any type of upfront fraud losses, both from malicious actors or what they call friendly fraud, right, so that we can sus out behavior before we let the people into the ecosystem.

John Rowan: Okay. And just last question for me, kind of housekeeping. Maureen, I think you said that for 2022, the assumption for the share count was $60.9 million. Is that correct? And with the assumption there that there's no share repurchases, does that also mean that the diluted share count going into 1Q is actually 60.9%? So it's a relatively big delta versus the average share count for December'

Maureen Short: Yes, that's correct. Yes, 60.6% in the first quarter, but 60.9% for the full year.

Mitch Fadel: Yes. The share repurchases, John, you end up averaging when you're in the fourth quarter and for the year of 2021, but then when you start the new year, you started the low number.

John Rowan: Correct. I just wanted to make sure that it's basically a flattish roughly 60.9% for the year without share repurchases throughout the year. Just want to make sure that we were starting an endpoint was correct. I'm good, thank you.

Operator: Your next question comes from Jason Haas with Bank of America.

Jason Haas: So I wanted to dig into the GMV outlook for the Acima segment. I'm curious, I think you said, if I caught it right, you're expecting mid single-digit declines through 2022. So I'm curious how much of that is self-inflicted due to your own tightening? Or are you starting to see maybe that customers, I guess, pull forward some demand during the pandemic and it's starting to ease up there'

Jason Hogg: Yes. I mean I would say the vast majority of it is because of our underwriting change in posture. And the key levers are you've got the application approval rates. And so to be clear, the applications are still coming in and at good volumes. And in addition to that, the new merchant doors are opening at good volumes and we're meeting targets. So it's more about us being more selective with regard to who we approved.

The other component of it is that when you look at the conversion rates, it is also a controlled mechanism that we have in underwriting because it stems from controlling the open to lease line capacity that we assigned to consumers, and that is something that could potentially also drive it. So these are two primary levers that we have. The good news is there's not any sort of precipitous drop off in application volume or new merchants.

Mitch Fadel: Which means when things improve, whenever that is, we -- it's up to us to -- we can drive more GMV when things improve, right? GMV when things improve.

Jason Hogg: Right. And I think the way I would describe this is that our outlook is that we now have the ability to proactively control how we want to grow the business and be opportunistic with regard to looking at the macroeconomic environment and then making decisions versus being in a completely reactive mode.

Jason Haas: Got it. That's helpful. And then as a follow-up question, I'm curious what your conversations are like with retailers now. I'm not sure to what extent some of the supply chain issues and Omicron maybe pushed out some of those conversions? Or I guess, conversely, now that I'm sure the retailers are starting to see weaker sales, if that's happening there at all, if they're looking to at [lease done] more as a driver of their customer needs, they're financing more'

Mitch Fadel: That's certainly -- I mean the conversations so far this year, certainly in January, we're about Omicron and not necessarily shutdowns, but they might as well have been shut down in a lot of cases with so many employees being out and it affected so many people in there -- there were so many people staying home for a week at a time, whether you're talking about customers or employees. So -- and certainly, the supply chain issues have gotten no better from the fourth quarter. In fact, they probably got worse in January because of how fast that variant spread.

So most of it was just about that. Of course, that's coming not gone, but certainly rescinded pretty fast as well. So now it's about supply chain when we talk to our current ones. But your point, Jason, about the need for LTO and a lot of retailers who don't already have it. It's certainly something we expect to accelerate as we build the pipeline and build the team working on larger strategic accounts, we anticipate, and Jason mentioned, he mentioned the ecosystem, the marketplace, people seeing some business there from their own websites and asking us about it.

But also as things get tougher for retailers, we'd expect the doors to open even faster than they have in the past. So I think that's going to be a tailwind for us, the tougher comps that retailers have in general. We are -- as Jason mentioned, I mean, we're adding -- still adding hundreds of doors a month on a net basis, but controlling that GMV ourselves with the underwriting. But I think the outlook as far as retailers being lease-to-own is going to be very good.

Jason Hogg: Yes, completely great. And the only thing I would add to that is that when you look at the larger retailers and sort of the strategic account pipeline, I want to draw a little bit more clarity with regard to my comments, which is the ecosystem. Because our Acima marketplace enables our consumers to make purchases at large national partners without formal integrations. What's happening is that actually illustrates the power of what the lease-to-own option can provide to those prospective partners. But most importantly, it also gives us metrics to center our conversations around. So instead of being a notional discussion, we're actually able to provide customer level metrics into those discussions. So we're seeing positive traction there.

Mitch Fadel: And I guess one -- I guess I'd sum it up this way, Jason, on the Acima business. Just to be real clear, it's not like we think it's broken. We think it was still a great acquisition for us last year for the reasons we've spoken about the capabilities it's given us. We still think there's better than double-digit growth rates coming -- we've talked about 20% and 25% in the past -- and I'd say certainly better than double digit in the future. I don't know if that's 15%, 20%, 25%, but it's still there. The business is there. We still love the business. It's not broken long-term. This macro environment has us having to underwrite so tight that we don't expect to see GMV growth in 2022, but it does not affect the long-term outlook.

Yes, it looks -- it does affect as we commented, where we would end up in 2023. Of course, it pushes things out as far as the revenue. But at $6 billion of revenue still in our

future, absolutely. Is it in our future in 2023 No, it's not. But it's still in our future because it's not broken long-term.

Operator: Your next question comes from Bobby Griffin with Raymond James.

Bobby Griffin: I guess -- and Jason, the first question I want to follow up on is more just the virtual lease-to-own business, the CMR industry. And just I understand there's a large TAM and there's -- we always talk about double-digit growth opportunities. But it seems every time we get aggressive and go after GMV, not just you guys, anybody in this industry loss ratios at some point, come back to bite us, right? So is the right strategy more like more just grow 5%, 10% and not get super aggressive on writing and then over time, grow into that GMV versus trying to get it so quickly? Because it just seems like every time somebody in this industry goes that way, we have an issue 6, 8, 9, 10 months down the road.

Jason Hogg: Yes, Bobby. That's a fair point, although I mean Acima has grown over eight years; well over 20% a year. In fact, the compound growth rate, of course, they're smaller. When we bought them, it was whatever it was more like 70% or whatever on a compounded basis. But I mean it's really never happened before on the Acima side this way. So I think these are -- and I -- somebody said earlier that they hate the term, I hate it too, but I'll use the unprecedented times from an inflationary standpoint and so forth. And having had so much extra money over the last 20 months versus now.

So I think we've been able to do it before without this. This is really the first time in Acima's history that this has happened. So I think we can get higher than the 5% to 10% numbers in the future and not have collections go sideways on us like it did at the end of last year. So -- on the other hand, I mean, you're right, there's nothing wrong if you grow 10% a year for the next 10 years either. So -- but I do think we can accelerate when the environment gets better, a little higher than the numbers you were talking about without the collections blown up.

Mitch Fadel: Yes. And then the only other thing I would add is that the traditional LTO market was sort of a singular product-based market within store. And now we have a diversified suite. You hear us talking about how e-com is now playing a greater percentage and how that is growing. You hear about the test phase that we're coming out of with the ecosystem. And so what that enables us to do is to start shifting our model to a more proactive kind of control approach where we have options to accelerate in areas that are performing well as we calibrate them in, and that's a little bit of a different approach than before.

Bobby Griffin: Okay. And I guess the second question for me is versus some of these tough laps that we knew that we're facing, we kind of knew it was coming. We all knew we had that last stimulus and different things like that. So while we didn't have formal 2022 guidance, we did have a pretty big revision here today versus kind of the building blocks we talked about 90 days ago or 180 days ago when we spoke about multiple times after 2Q and 3Q.

So what has changed so aggressively, is the first part of the question. And then the second part is, when we think about your 2022 guidance, are you assuming further degradation in the different performances from the customer as a conservative aspect? Or are you taking kind of the [end] rate here at the end of January and February and using that going forward'

Mitch Fadel: Yes. I think the -- Bobby, the -- in our forecasting, when we talked about 2023, because you're right, we never had 2022 guidance out before. But as we stair-stepped our way to 2023, we had -- we knew the business was going to normalize, excuse me. What we didn't know is that it was going to actually fall below normalized levels from a macro environment standpoint or from a collection standpoint that we actually would see numbers from -- that didn't just go back to normal, that are actually worse than normal, and especially on the Acima side from a collection standpoint or a loss standpoint.

So the correction was more than we anticipated for sure. We didn't have a soft landing. We had real -- like I said, we went below 2019 levels. And a lot of reasons for that. We didn't tighten the underwriting faster. We didn't call this level of inflation properly. It was pretty tough to do. But we didn't think it was going to get this bad from an inflationary standpoint. But we -- so we didn't land at normal. We got below normal. Now our underwriting is going to get us back to normal, but it sets that -- those kind of numbers, like when do you get the $6 billion or it set us back maybe as much as a year, if not a good part of the year.

Bobby Griffin: Okay. All right. I appreciate the details best of luck here in 2022.

Operator: Your next question comes from Brad Thomas with KeyBanc.

Brad Thomas: I'm sorry about that earlier. I don't -- I couldn't get myself off me. I apologize. Thanks for squeezing me in here. So a couple of questions, if I could. Just following up on the trends at Acima, where have the skip/stolens been trending as we've moved into 1Q? And how are you thinking about that metric trending through the year'

Maureen Short: So in the first quarter, well, really in the first few weeks of the first quarter, we've seen similar trends to what we saw in the fourth quarter, and we anticipate that, that level will continue through the second quarter. And then in Q3 and Q4 -- further in Q4, we'll expect to see the changes in the underwriting and some of the lower performing leases to have already cycled through the system so that in the back half of the year, the rates get more towards normalized levels.

Longer term, we still expect the virtual lease-to-own business to be in that 6% to 8%. But this year, given the environment and kind of the shock that our customers went through, there's going to be an adjustment period for both our customers and for us with the underwriting. And so it did dip below normalized levels. But again, long term, we still believe in the economics of the Acima business, including the loss rate.

Mitch Fadel: I'd add to that, Maureen, and I think Jay mentioned it in his prepared comments, the tightening of the underwriting recently. I mean, we're seeing some good trends to start with. The first payment missed numbers have been very encouraging here in the last few weeks. But we -- as Jay mentioned, we've got the -- we got the older leases still have to run through, and that's what Maureen is speaking about the losses will be higher in the first half of the year. Long-term, we still expect to meet in the 6% to 8% range. But the best news we're seeing is the first payment miss numbers, very encouraging numbers as we've tightened so far this year. So we've got some good trends there.

Maureen Short: Yes. It's a great early indicator of future performance on the leases that were written in the month of January. So yes, the rates that I spoke to were the blend of the entire business.

Brad Thomas: Great. And obviously, of course, not tremendously long duration portfolio. So it's something you can adjust quickly and see flow through quickly. As we think about the tightening, what is approval rates change to? How much lower are they right now? And how should we think about the revenue or GMV growth rate step down relative to the impact just from the tightening changes'

Mitch Fadel: Yes. I think that's what's in our guidance. We don't want to get too specific on what our approval rates are and so forth from a competitive standpoint. But -- but the -- it certainly is what's driving the GMV to be mid single-digit negative this year. Of course, they're tougher comps as well, right? So you put the tough comps in there, plus the tightening in the end up at minus 5% versus plus 15%.

But it's a combination of those two things; the tougher comps and the tightening. And then that's what's built into our guidance. And when you have mid single-digit GMV negative mid single-digits, I think Maureen commented mid to high single-digit revenue drop because of the way the payments have come in, especially at the front half of the year. So if you have a little payment pressure on some of the older accounts at the beginning of the year, revenue might be slightly worse than that mid single-digit GMV, get mid to high then on the revenue. Again, tough comps, but also the underwriting tightening.

So that gives you some sense. It's not just the approval rate either, Brad. I think Jay mentioned this, it's -- again, they're tougher accounts but the approval rate plus how much did you approve the person for? And what are the terms you offer that particular customer based on this environment. And if the term is a little tighter, which means the payment goes up or the approval rate wasn't as much, you get a little less conversion. So just to speak to how much we've dropped the approval rates wouldn't really -- even if we're going to do that, it really wouldn't give you the whole story because it's approval and then what did we approve them for? And then what are we comping over and so forth, but that's what's built in our guidance.

Brad Thomas: Yes -- that's helpful. Last one for me. Just thinking about the free cash flow guidance of $390 million to $440 million. Just can you help me think about how much of a benefit or headwind you have in that number from dynamics like working capital or the portfolio presumably will shrink this year with revenue declining? Just what kind of a normalized free cash flow would be just as we think about the underlying profitability and cash flow generation of the business here'

Maureen Short: Sure. There is a pretty sizable benefit from working capital, given the slowdown in GMV and the lower inventory purchases that we planned this year to support the business. So that is a key driver of a higher free cash flow growth year-over-year. We had seen negative working capital, of course, the last couple of years as we grew significantly. And so this will shift to a significant benefit. As far as other components of working capital, we expect our CapEx to be around $50 million to $60 million. The cash taxes will be, call it, $60 million to $75 million. And then the rest, besides interest, would be benefits to working capital as you flow through the EBITDA, excluding stock-based compensation.

Mitch Fadel: And the free cash flow in 2021, which was a growth year, though, was what? Roughly speaking? Do you have that in front of you'

Maureen Short: Free cash flow was $330-ish...

Mitch Fadel: Okay. So you got $330 million in a growth year and $390 million to $440 million in a year where working capital is a tailwind for us from a free cash flow standpoint, Brad. So that gives you kind of a long-term range, too, doesn't it'

Brad Thomas: Absolutely. That's very helpful. And one of the positive attributes of the business for sure.

Mitch Fadel: Absolutely. Yes.

Operator: Your next question comes from Vincent Caintic with Stephens.

Vincent Caintic: Most of my questions have been asked and answered. But wanting to step back and go back to the 30,000-foot view of the business. The last time when you gave your three-year outlook on the business, early 2020, we still weren't in the pandemic yet, and we hadn't gone through all these issues. So -- and now we're seeming to sort of normalize from that point.

So maybe if you could talk about a reiteration of what you think might be different from the three-year outlook you had previously versus when you think about the business looking over the next two to three years. I can understand the 2023 revenues of $6 billion it would be tough to achieve because you're tightening underwriting in 2022, so that affects your 2022 portfolio size. But when you think about 2024, hopefully, we're in a normalized environment then. But is that a time when we can see those kinds of revenues? And then the EBITDA margins that you laid out back in 2020 with that three-

year outlook, are those still achievable? So yes, if you could just maybe talk about the near term, or the medium-term, vision of the business.

Mitch Fadel: Absolutely, Vincent, good question. And you're right, the portfolio size coming out of 2022 is going to make $6 billion not the right number for 2023. But we do think we can achieve that level of revenue. Timing is a little difficult to predict. Does that mean it's 2024? Well, I don't know if it's exactly moved one year, but it's certainly still achievable. Whether it's 2024 or 2025, I don't want to predict that right now. Let us get a couple of quarters into 2022 and then maybe we'll be able to predict that a little more when we see what happens. But it's certainly still achievable, whether it's moved one year or 18 months or whatever it's moved that, like I said, I don't want to predict that, but certainly still achievable. We believe in the long-term aspects of the business.

On the Rent-A-Center side, even in a tough environment like this, it's pretty stable. It doesn't swing a lot. It's going to come off 25% growth over the last two years to be maybe slightly under flat in 2022, which is a heck of a business, low 20s EBITDA margin with some really, really tough comps from a revenue standpoint, especially on the sales income side because of all the payouts with stimulus last year and still to have just probably a slight revenue drop is pretty darn good. So that's a real stable business.

And the Acima business is still there. I mean we're adding retail partners, like we said, monthly. The pipeline for the larger strategic accounts, we think will improve this year as they look for other avenues. It's already -- we've built it over the last year since we bought Acima and built that team, but we think that will get even better as we go into 2022 or through 2022 from a retailer -- a larger retailer perspective.

So our long-term outlook hasn't changed a bit. It's just -- it has slid -- like I said, I don't know if that's a year it's 18 months or it's 24 months, but it slid. But that number is still there, we'll still be able to achieve the $6 million, it will be a mid-teen EBITDA margins.

Vincent Caintic: Okay. Perfect. And kind of also referencing the prior three-year guidance back then versus where we are today. Is there anything else that you think needs to normalize from this point? I guess we're talking about the consumers getting back to normal. But what might be different this time is, I guess, we do have higher inflation. And then maybe some of the concerns of some of the other kinds of competitors, not just lease [billing], but some of these buy now, pay later guys are still competing and not focused on profitability. Is there anything else that you kind of think might be different or maybe still needs to normalize from here'

Mitch Fadel: No, other than the inflation you mentioned, Vincent. I would say that's a big one. The buy now pay later, with where they are and the credit spectrum doesn't impact us probably will help us. I still think that will help us as retailers see so many more turndowns as their credit starts to blow up on them as we've read with a few of them recently, as their collections gets tougher and they tighten their underwriting that's only going to help us because retailers are like, hey, what happened to this -- you were approving 70%, now you're approving 50% to buy now pay later or whatever their

numbers are. We're not getting as much business out of the buy now pay later, which didn't affect us anyhow based on our credit score. But I think that will help retailers think about other avenues. So I think that's more of a tailwind than a headwind. But you mentioned, really it's the inflation and the impact on the customer.

Operator: Thank you. Ladies and gentlemen, this concludes our Q&A session and will pass it back to Mitch Fadel for his final remarks.

Mitch Fadel: Thank you, operator, and thank you, everyone, for joining us this morning. We understand some of the numbers were disappointing. We're disappointed at our outlook for 2022, but we're extremely excited about our long-term potential. It's still there. We just got to get back to work, work hard and make sure that the things we can control, that we do a good job controlling them, like the underwriting and the collections and some of those things and keep adding on new retail partners every month, keep working on larger strategic accounts. And the long-term view of this business hasn't changed. It's not broken even though the 2022 numbers are disappointing. We've got great cash flow. So when the environment turns, we're ready to write a lot more leases based on the risk profile of the consumer. So a lot of good things embedded here, and we'll just keep working and deliver the best results we possibly can.

Thank you, everyone.

Operator: And with that, ladies and gentlemen, we conclude today's program. Thank you for your participation, and you may now disconnect.