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CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Hi, everyone, and thank you for joining today. I'm Jason [ph] Hasp and I cover retail hard line and the lease-to-own industry here at Bank of America. I'm very fortunate to be joined today by the management team from Rent-A-Center. We have Mitch Fadel, CEO; Maureen Short, CFO; and Jason Hogg, EVP of Acima.

So thank you all for being here with us today.

Unverified Participant

[indiscernible]

Unverified Participant

Thanks. So, to get started with questions you recently announced the closure of your acquisition of Acima. Can you talk a little bit more about the rationale for making that acquisition and how the integration is progressing so far?

Unverified Participant

Sure, Jason. I'll start with that one. Thank you everyone for joining us. The reason for the rationale for it is was relatively simple from our standpoint. The whitespace available in the retail partner business but for a lease-to-own is so vast, such a big opportunity that we wanted to get into that business, we were getting into the virtual business, we've had our legacy brick and mortar business. We've had our eCom business over there, we had a staff kiosk version of lease-to-own for a retail partner. We want to get deeper into the virtual businesses and we're developing our own programs for that, bought a small company back in 2019 to give us some platform. It's just that when we look at Acima it bought us up a couple of years to beat the market, bottom line. So big whitespace and when this can get a say a couple years faster because they have so much of what we're going to try to develop and best-in-class and the things we look at and we could – and then we bought it at the right multiple. So, it was a – for us to at the right multiple. So it was for us to wipe the company was a no brainer. And then when we could buy it at the right multiple, the right mix of cash and equity, it just all came together. As far as the integration, it's going very, very well to answer your question. Jason Hogg is handling it and he can speak to it in a second. But what I would say about it is it's because we were just barely in the virtual space, it's a very complimentary acquisition for us. So it's not like it's not a heavy integration. It's mostly a little bit of us migrating to [indiscernible] (00:02:38). We were already working on putting it into their system and more of a migration into their system than the heavy integration. So it's a complimentary acquisition and again pretty light integration. So not one of those where there's a heavy, heavy integration risk.

Q

Thanks. Can you talk more about your plan to leverage a seamless decision and capabilities after your latest call, it sounds like that will be a big part of the integration process or a big benefit of acquiring Acima. So any more color on really what their secret sauces would be helpful?

A

Sure. I'll take that one. I haven't done and been in the payment space for decades now. Acima truly does have a best-in-class decision engine. And when you look at a lot of different technologies like I have over the course of especially just even the past five/seven years with machine learning, AI coming on board, there's a few kind of very unique characteristics. First and foremost, they have an incredibly sophisticated two part decisioning engine that utilizes about 25 independent data sources. On one side, one part is the fraud prevention tools which are fantastic. And on the other side is the underwriting. And they've been able to pull together over the course of call the past seven plus years and a phenomenal dataset with regard to what the performance is on leases what's good, where risks are, and they've been able to calibrate that across a multitude of verticals and so that's been incredible. The fun part for us and what are the combination really takes off is in the fact that one we're now able to share our learnings and datasets and so kind of teaching up the model even more and providing the broader array for the model to get taught. And then the second thing is, as we start pushing into more e-commerce based businesses and other form factors because we're trying to curate an ecosystem where our consumers are very consumer centric versus a transaction centric ecosystem. Our consumers will be able to move fluidly in between mobile origination quartile based in store. We have a browser extension that's currently in testing and we've also talked about a marketplace in the decision engines, ability to work across those form factors and also from an eCom perspective. It's going to really give us a fantastic advantage.

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Thanks. So you just touched on it. I did want to ask for more color on those investments. So I think you mentioned this to me that I want to ask about the mobile application platform, 00:05:45 and Technologies and also the marketplace that you've talked about. So either for Jason or Mitchell or yeah and just any more color on sort of like the next – where the next pace of growth is where those investment dollars are going?

A

Yeah. I'll jump in on that. So our – the way we look at is if you have to pull back first of all and we've spoken about this. We've spoken about this a number of times over the past couple of quarters. We've curated a list of over 50 million consumers and we look at their being between $50 billion and $100 billion of open to lease capacity across that consumer base right. And it's tied up because the current lease to own kind of ecosystem is very much kind of focused on either pure ecom and or store and it's very difficult to move fluidly in between. So our mobile application that has been in test since the fourth quarter does a few things. Number one it enables us to radically reduce our origination times. You only need to fill out three fields to get going. One is your last for your social and then you just set up an account with your e-mail on a password and you're then – we're able to render a decision and then the consumers are able to go. But the second thing is it also then creates this portable real estate and this ongoing relationship with the customer where we're able to continue to cross market and to create capabilities for the consumer to continue spend. So we're trying to provide ubiquity of access to this under observes consumer segment.

On the browser extension side one of the other things that we found is that and this is something that's another proprietary approach is that if you look at a lot of the competition that's out there it's heavy in the integration that either having to integrate into waterfalls or integrate directly into the e-commerce site and the proprietary nature of our browser e-commerce side and the proprietary nature of our browser extension and also ultimately, our marketplace is that it doesn't require any integration and we've filed a very robust patent suite dating back over a year now on how to do that, right. And so there's kind of you hear the different things, but what we want to do is we want to be able to curate this huge universe of retailers where our customers can go and again have access to be able to buy the goods and services that they want and so the browser extension is now live and also in test and will be coming out within the next few months with more on that with some results.

The marketplace, the final one is currently in the prototype and beta testing phase as well and I think about it like in Affirm or a [indiscernible] for at least to own and so setting up and providing access to this very important consumer segment that's traditionally been unaddressed and underserved. And so, all of this is essentially enabling our consumers to just move fluidly between online and offline transactions and provide them a greater choice of merchants in which to shop.

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And Jay and I would only add to that with the Acima acquisition [ph] molting which you just talked about that we've been developing now for a year putting it on top of their foundation, their infrastructure, their backend whatever you want to call it just – we're obviously very excited about that. That's just still complementary. We couldn't have written a script this way a year ago that you'd have that good of a back-end for both the [ph] sound too.

A

Yeah. Absolutely. If we try to draw it up, we wouldn't have drawn it up – we've drawn it up this successfully. I mean because everything I'm talking about is front-end, providing access, consumer facing and then now Acima has a beautifully consumer facing. And then now Acima has a beautifully integrated from origination multi-form factor, portals online, mobile text reply to their world-class decision engine I just talked about. And then from there, it's got a fantastic servicing platform as well. And so we're just literally now in the process of plugging in all the technologies, i.e. the proprietary technologies I described into that platform, which by the way is highly scalable cloud-based architecture.

Q

Thanks. That's really helpful color. So sticking with the Acima business, how do you feel about your current pipeline of potential new retail partners? How is it impacted by the pandemic and what are you expecting to see in terms of potential conversion this year?

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Mitch, you want me to take that one or?

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

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Sure. Go ahead, [ph] Jason.

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Yeah. So we are in discussions. We've mentioned we have innovation partners that we've been working with, with a number of national retailers. And we're in later stage discussions with a number of national retailers as well. I think so we have now because we have the technologies that we're describing and the ability to kind of easily either integrate or provide access to those retailers, you're going to see an acceleration during this year because we've got that foundation now almost complete to be able to begin plugging in. So that's the first thing. Second thing is we've curated a robust pipeline and you'll see other strategic partnerships that we are on the verge of announcing one of which was recently signed that will provide a large ecosystem of access to big merchants in in the states. The pandemic which was interesting when you look at and Mitch can comment on even better on this the knee. But when you look at it, one of the nice things about the Acima business is it's so diversified that we were able to bounce back kind of went through and whether the storm so to speak of the pandemic incredibly well. And, our retailers that we had on the preferred lease side prior to the merger also bounced back and came back incredibly strong during the second half of the year.

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Yeah, I would – to answer that, Jason, I think as far as the pipeline you can keep in mind that we were working on big accounts and the Acima was, so a simple way to think about it as two pipelines coming together into one. So obviously that makes a pretty robust meaning two teams come together as one and put their notes together so to speak. So that makes it pretty robust in the first place. So then, just back to the pandemic that they was talking about. You think about the buy-now pay-later growing so fast where the affirms and those kind of companies in the after-pay and all that. Of course, you have to have good credit for them. But they are bringing buy now pay later in the small payments into the mainstream and as lease-to-own is for people that don't qualify for that higher look with a higher level of credit for a firm and so forth. In the pandemic and coming out of the pandemic the cash and credit constrained customers strictly still going to be there for us, so just as buy now pay later becomes more mainstream please don't just follow the coattails of that becomes more mainstream for those that don't have 700 credits or whatever.

Q

Thanks. And as we think about the 20% to 25% long-term revenue growth outlook that you've given for Acima to what extent is that based on or does it require new partnership wins versus seeing your existing customer base just expand penetration within those existing retailers.

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Yeah, I'll start and then J you may add, it's going to be a combination. They've grown much faster than that if we keep growing at the pace they've been growing you've seen the numbers [indiscernible] I mean they're – they've grown much higher than that. We're trying to be conservative in our forecast. So it's still a combination. We probably wouldn't get all the way to 25% just with our current partners [indiscernible] you'd have to [indiscernible] but they've been adding on thousands a year. It really doesn't involve a large national retailer. If large national retailers will improve upon that 20% to 25%, so it's a combination really current growing with our current partners, some new partners regional partners some of the products that J was talking about with the mobile app browser extension in marketplace and then national – and national accounts only will add on to that and make the number even bigger.

Q

Thank you. And then similarly your long-term EBITDA margin guidance for Acima is mid-teens. I did notice that the standalone business I believe was running at higher [indiscernible] 18%. I mean there should be some synergies. So I'm curious if I have those numbers right that would imply either some conservatism or maybe just some offsetting costs not baking in. So just any more color you could provide on long-term framework to that EBITA outlook?

A

Yeah. I can speak to that. So in 2020 Asima as a standalone business did have 18% EBITDA margin business did have 18% EBITDA margins. And part of that was some of the benefits of the pandemic. They did have higher collections activity than what they had had in the past just given some of the higher credit quality customers that came into the portfolio. And there were some cost savings initiatives that were onetime in nature that they took in 2020. And so it was a little bit higher than the run rate the previous year and the expected run rate going forward. We do expect synergies of about $25 million in 2021 and a run rate of much higher than that. We are – we feel there is some conservatism in the synergy estimates and so could we get back up to 18%? We're not building that into our model. But I think there's some potential upside there from the mid-teens guidance and longer-term guidance that we provided.

Q

Thanks. Switching over to the Rent-A-Center business now, could you provide some more color on the investments you're making to grow the Rent-A-Center's e-commerce business, there's been a lot of focus there from investors lately?

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Yeah. Good question. On the Rent-A-Center side, our legacy business, they've had as everyone probably knows really, really strong growth that triggered off [indiscernible] (00:17:19) like 15% per year same-store sales that we reported last quarter and with a robust portfolio. And most of that growth spent coming from e-comm. And over 50% last quarter on the e-comm side – in the e-comm side that goes into that legacy business. And what we're investing there is really answered your question more specifically. This is really on the user experience. Speed, less friction, it could be the automated decision – put an automated decision and so that it's much faster to get approved within seconds versus manual kind of decision, soon we'll switch over the Rent-A-Center business to the Acima decision engine projects that Jay was talking about which will improve it even more. So speed, it's a very unique situation we have in that eCom filter Shaw Store. When I talk about user experience it taught us the final mile number. We're talking about user experience, we were developing, it's something we have developed. It's very unique in retail. In that you go on around and 00:18:32 send that comment and you order a product and pay for it online. Your local store will do the final mile. But it's also when I talk about user experience how much you as the consumer interact with that store is up to you, you can, you can. This was just started recently. You can do the whole transaction, never top concern just bringing out and delivering. You can then make all your payments online and virtually again never talk to the store or you can talk to the store as much as you want, you put in your order you the local stores handling it. It's not the retail situation like most retailers like Nordstrom's. If you were to set my mind to sort of I mean you do it right. They have a whole separate infrastructure. We only have one infrastructure, you order online, it goes at the local store and they fulfill it. They will set up the delivery with you and everything and you'll decide how much you interact with them. You want to call the employee in the store and say, hey, I picked out this living room online but I really you know I can't really tell if that table is dark brown or light brown from the picture and the person standing right next to that table in the store or in their store room. So you've got that local interaction mixed with a best in class website user experience and the customer decides how much they do on their own versus using the story of the stores [indiscernible] that you're not talking to an 800 number and somebody – you're talking to somebody a mile away or two miles away. So very unique user experience and it's just been going great, it's a big part of the growth over there.

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Thanks. That's helpful color and Segway as well. My next question which is just on how you're thinking about store base going forward and specifically was going to ask about any potential for further refranchising?

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Yeah. When I say that about the stores with the final mile, our franchise stores do this – do the same thing off of our national websites about in the US we got about a 100 stores in Mexico. But in the US it's about 1,850 stores and then about 400 franchise stores up around 2,300 in the US and another 100 in Mexico like I said. But the 2,300 in the US again you talked about 80% of company owned in – but the franchisees get the benefit of the website as well the same way I just described it. And the – specifically the question is there an opportunity to franchise more stores is we're really in a great position and the opportunity is there. Our stores are doing better than ever. Like I said growing it 15% to your comps 13% last quarter. That's just fantastic growth [ph] lease sales is becoming more mainstream. So the demand is there for people to buy our stores. We could sell a lot of stores of franchisees. On the other hand we're 20% [ph] for a while EBITDA numbers over 20% for a while EBITDA numbers in those stores so that we're not willing to sell many more and trade off the heavy profit we're making now versus what you make in royalties. We've sold some stores, some markets, not every market was making a great profit. So we sold some where we thought the franchisee could do better with California last fall where we helped it locally and owned and operated would be better for the customer. And we weren't giving up. We weren't giving up anything trading off our current EBITDA for the royalty EBITDA. So I guess the short answer, Jason, is we could sell a lot more, the demand is there, but the numbers don't make sense, if they ever do make sense in a particular market. And we've got that – we've got that we could we get – we've got that everyone in our quiver we could go to anytime and sell more stores if we needed to. Just right now the math doesn't make sense on most of them. But if we ever need to, it really provides you might call it downside risk if we ever need to sell stores there's a big demand for our stores right now, we could sell hundreds. We just – the numbers are better keeping them later performance.

Q

Got it. That makes a lot of sense. So it's ticking again with the Rent-A-Center business. I'm curious if you could speak to the competitive environment there and if you anticipate any sort of pressure from the growth of virtual lease-to-own, and then just additionally what you're seeing with regards to other I guess more traditional lease-to-own stores out there?

A

Yeah. I mean the traditional lease-to-own stores our competition has been pretty much the same for a few years. There's not a lot of growth. And actually our competitors don't have a lot of same-store sales growth either we've got a lot of same-store sales growth and have leveled off in our store count as well. So we're really happy with our growth there I said earlier e-comm is driving it. We're not seeing much change with our competitors not growing a whole lot. In fact, they've been intriguing. So we feel like we're in a great spot on the brick-and-mortar and the e-comm business. As far as the comp – where the growth is, is the virtual lease-to-own. And we talked about that and why we bought this team and so forth. But that's actually helping so far. That's nothing, but help our legacy business in that as we still becomes more mainstream, people hear about leasing in a retail store. The more they hear about leasing, the more they hear about smaller payment, the better it is for the industry in general.

And it actually is we believe driving traffic in the Rent-A-Center business as well because when we are in a retail store or like the browser extension something that [indiscernible] (00:24:33) right now and any of our current partnership. It sounds like you calls 100% of people you present a lease to, people might get turned down for traditional credit. They hear about leasing, their presented leasing maybe for the first time in their life because this has not been a real mainstream product. Now it's a mainstream product. They hear about it for the first time. Only 40% to 50% do it. Whether you're talking about our product or any of the competitors' product in a retail partner space. So the other 50%/60% are still leaving the store without getting their order fulfilled.

Now we think we can improve on that. But you got a lot of people hearing about leasing, not pulling the trigger that day. But is that driving more traffic to Rent-A-Center as well. That people get in their car and say, well heck if we're going to – if leasings are best option then let's look at rentacenter.com and put an order in there and so forth. So just as we're growing the whole space and we talk about omni-channel all the time, as we grow lease-to-own with retail partners that's helping lease-to-own brick-and-mortar, helping lease to own eCom center or Rent-A-Center side and we're really putting this together to be complementary in book business. And so we don't see it as competition as much is just growing the overall pie and it's really helping Rent-A-Center at the same time.

Q

Thanks. So turning you to over to the numbers a little bit. Could you provide some more color on how you're thinking about the cadence of comps through 2021? So your lease portfolio was up 10% at year end. I know there's other factors involved in that calculation of comps, and I do know the compares get more challenging through the year, so just any color there on the cadence would be helpful.

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Well, you're right, Jason, 10 – the portfolio ending 2020 at around 10%, a little over 10% ahead of the year before is a great leading indicator of same-store sales because it's a portfolio of business. And even though the comps do get tougher later in the year and I don't think we'll keep running 13% comps. We believe we can continue in the mid-single digit range because I think a lot of momentum in that portfolio. And it's not a retail business where we start a quarter 10% ahead and we say, hey, last year they had 12% comps. Well, that doesn't mean that you started the quarter with your portfolio with 10% a year work, it doesn't even matter that you had 12% last year. You're heading towards 10% again. So I think the portfolio – you don't start over any particular quarter. So you could be – you're never up against that one quarter tough comp that you can't comp over because you've got a trailing portfolio, a trailing credit if you will of how you're going to collect and our average lease runs about six months on average, so you got a lot of visibility. And even though they do get tougher later in the year it's not like we're going to drop off a cliff and go from 13 to negative one. I mean we may see – we've talked about seeing more mid-single-digit in the long-term but we don't drop off a cliff like a lot of business because of that, because of the revenue nature of the business.

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Yeah. Just to add on to that a little bit as 00:27:46 mentioned we do have high expectations early in the year given our portfolio balance. And then in the back half of the year we're expecting flat, so we don't expect to go negative, but even though we're comping over significantly positive results of 2020 in the back half of the year we still expect to be around flat or slightly positive.

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Later in the year and for the full year, we'll be in that mid-single-digit range and even going forward, we've said for many years we believe low to mid-single-digits, it's doable and on an ongoing basis. So even if – even if we get closer to flat later in the year we're still going to be a good mid-single-digit for the year and then even going into 2022. So there's no huge drop off.

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That's right. We expect e-commerce to continue to grow significantly. We were – we ended the year around 22% of revenue in the eCom business and expect that to get to 30% over the next year or two. So still continued low-to-mid-single-digit same-store sales expectation for the Rent-A-Center business going forward.

Q

Thanks. If I could ask a follow up on that, that's a long and more longer term outlook. It sounds like e-commerce will be a big portion of that, in terms of there's any other factors to think about in terms of maybe like store traffic versus ticket or maybe in terms of industry growth versus how much you're taking share just at any other color and kind of how you built up to think that comp rating is a good long-term target?

A

Yeah. Good question. Besides e-comm growth, I think we've been our largest competitor talked about – we've heard them talked about reducing the short count by about 25% over the next couple of years. So that's a win for us, a benefit for us. We've seen – we see Acima in some verticals that we're not in in the brick-and-mortar space. We've just added. We're adding some of those verticals that we see do very well on lease-to-own. We've just had tires as a new vertical in all our store. So between new verticals less brick-and-mortar competition out there and the enhancements we're making to the website I think those are that. And then if you think about whereas the consumer after the pandemic, the cash and credit constrained consumer if you look at our history over 30 years has always been there. It could shift.

Some people be better off after the pandemic. Some will – some won't be any better off. Some have worse credit. But what we've always had that swing where some customers come up, there's other customers might move out of the lease-to-own transaction down the road in a more thriving economy like what we saw in 2019. But that also brings customers up in the transaction. We have the swing. We bring people up from the – from one side or down from the other side and this has just been a tremendously resilient business model. And really no matter what the economy's doing, the model has been very resilient because of what I just said, it could swing different to a different side in the tough economy. You get people pushed down in the lease-to-own and in a better economy get people pulled up and do it from maybe even below it now. And it's been very resilient.

and – so when we think about all of that basically we think the mid-single digit confidence is something we can do for quite a while.

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Thank you. And...

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Yeah.

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... Oh, sorry. Go ahead.

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I was just going to add in the only other thing is on the business side, right, it's just I know we're talking about core Rent-A-Center but also on the Acima side you look at all the factors that Mitch just talked about from a macro economic standpoint and the resilience of it. And now more than ever small businesses need solutions and they need to be able to be connected to large consumer bases and help to generate revenue. And that's what the platform and lease-to-own also provide. So it's really a dual platform with all the consumer aspects that Mitch just talked about as well as a business platform, right, so.

Q

Got it, that's really helpful. And then I wanted to switch over and ask about margins. Maybe I don't know, Maureen, maybe you're best to answer this. But just how should we think about puts and takes for the Rent-A-Center business as we look at 2021 on the EBITDA margin side?

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

A

Sure. So we expect to be in that around 20% EBITDA margin range for the Rent-A-Center business. And the way that we're able to have consistent margins with 2020 with some of the really strong margins we had is there's some offsets there. So we did some furloughs and cost savings initiatives in 2020 when the pandemic first hit. So those were onetime items that we won't have in 2021. But with the strong revenue growth in the same-store sales growth that we've talked about will further leverage the business. And so, we expect to have fairly flat, very strong EBITDA margins in that 20% range.

Q

Thanks. So we're nearing the end of the session. So

Q

Thanks. So, we're nearing the end of the session. So, I just wanted to remind the audience if anyone would like you can add a question and I'll be happy to answer it. But I still have a few more here. We have time. So the next one is on more recent trends. So I'm curious if you could talk about what you saw in terms of impact to your business from this last round of stimulus as compared to the first round and as it seems very likely now that we'll get another round shortly curious how you're thinking about the potential challenge from that?

A

Yeah. Certainly, certainly that brings things real current and talk about stability. When we think about we think about the way the two stimulus checks of 2020 reacted on the Rent-A-Center business that's been dealt with very positive and people that know our business we got people on lease to own contracts. They can return anytime. They can also buy it out anytime. So, when you get extra money like that, it does create a few more payout. Some people will take the discount and buy out their products and get a few more payouts which is positive for cash flow and profit that particular month, but also it increases – it increased demand both times in 2020 and we would expect the same thing. So it increases demand which re – which more than make up for any of those early purchase options and to refills their portfolio and that's why the portfolio ended the year so strong and then once you refill that portfolio you've got a tailwind. This isn't a – we won't only do well the month the stimulus hits like other businesses might want and [indiscernible] money is gone in two months or wherever it is after two months we'll have the portfolio growth in those portfolio of growth in those few months to then build on going forward. So it's like I said referring back to what we've seen in with the last two, you get a few more payouts, but more important than that you get a buildup portfolio when people have extra money and then you get a tail of that a lot longer than the traditional retail it would be recurring revenue nature of the business, but very positive and not just positive in a one and done frame positive really for the whole, it really sets us up for a really great year.

Q

That's great. So we're nearing the end of time here. But maybe a last question here how you're thinking about consumer spending habits as the country reopens. Do you have any concern that households may start to allocate more dollars towards travel and other services at the expense of some of the household goods category that you play in?

A

No, that's a good question. And I could see whether there would be a strong question before maybe a more of a primary Taylor versus a subprime retailer. It's not like our customer is going to jump on American Airlines and head to Europe since the pandemics over either. So with the subprime, the lease on customer which is probably one step from a credit worthiness standpoint one step below subprime that doesn't – not a big issue for us to worry about.

Q

Great. That's really helpful. So we're waiting a lot of time now, so I just want to say thank you again so much for joining us. It was really a pleasure to learn more. So again thanks for joining us.

A

Thank you.

A

Thanks, Jason. Really good questions. We enjoyed being with you today.

Q

Thank you.