Upbound Group, Inc.(Q1 2023 Earnings)

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Corporate Speakers:

- Brendan Metrano; Upbound Group, Inc.; VP, Investor Relatiosn & Capital Markets
- Mitch Fadel; Upbound Group, Inc.; CEO
- Fahmi Karam; Upbound Group, Inc.; CFO

Participants:

- Bobby Griffin; Raymond James; Analyst
- Jason Haas; Bank of America; Analyst
- Vincent Caintic; Stephens; Analyst
- Alex Fuhrman; Craig-Hallum Capital Group; Analyst
- Brad Thomas; KeyBanc Capital Market; Analyst

PRESENTATION

Operator^ Good day. Thank you for standing by. Welcome to the Upbound Group Q1 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand it over to the conference to your speaker today, Brendan Metrano, Vice President of Investor Relations. Please go ahead.

Brendan Metrano^ Good morning. Thank you all for joining us to discuss the company's performance for the first quarter of 2023. We issued our earnings release before the market opened today, and the release in all related materials, including a link to the live webcast are available on our website at investor.upbound.com.

On the call today from Upbound Group we have Mitch Fadel, our CEO; and Fahmi Karam, our CFO. As a reminder, some of the statements provided on this call are forward-looking and are subject to factors that could cause actual results to differ materially from our expectations. These factors are described in our earnings release as well as in the company’s SEC filings.

Upbound Group undertakes no obligation to publicly update or revise any forward-looking statements except as required by law. This call will also include references to non-GAAP financial measures, and our discussion of comparable year over year performance will generally refer to those non-GAAP results.

Please refer to our first 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 will turn the call over to Mitch.

Mitch Fadel^ Thank you, Brendan. Good morning everyone, and thank you for joining the call today. Our first quarter was a promising start to the year with revenue of just over a billion dollars, adjusted EBITDA of $112 million and adjusted EPS of $0.83. Top line trends were generally in line with our expectations. Gross margins improved due to fewer early payouts in the quarter, and coupled with lower expenses, we drove a 13% year over year growth in adjusted earnings per share.

Considering our performance so far this year, the health of our portfolio following a year of tighter underwriting standards and our assessment of the still uncertain external environment, we've raised our full year 2023 adjusted EPS guidance range to $2.70 to $3.20 compared to our initial guidance of $2.50 to $3. Reflecting on our performance through April and the risks in the opportunities we see for the year, we think the Company's well positioned to achieve our goals.

First, as discussed on previous calls, we've made substantial adjustments to our underwriting and risk management over the past year. Today, our approach is more agile, targeted and data-centric, which has enabled us to improve loss rates and yields, while better managing the impact on volumes. The positive effects of these initiatives were demonstrated in the first quarter with a consolidated loss rate of 7.1%, improving 150 basis points year over year, and 40 basis points sequentially.

In our updated guidance, we've assumed the macro environment remains consistent with today's environment. If it were to worsen, that could result in some headwinds or tailwinds for us, depending on factors like higher inflation, which could increase losses or trade down, which could increase volume and improve credit quality of the portfolio.

Second, our lease portfolios finished the first quarter higher than expected. The Rent-A-Center portfolio was down 3.2% year over year, which was an improvement from a 4.7% year over year decline for the fourth quarter of 2022. Acima's portfolio was also above our internal forecast. The primary factor that drove higher portfolio balances was a smaller percentage of customers electing early payout options in the first quarter.

Although, this led to lower merchandise sales revenue, it was more than offset by better margins. With more customers staying on rent longer, even when accounting for the impact of potential future delinquencies, we think the larger portfolio balances should be a net positive, especially for Acima.

Third, we are seeing some positive indications that consumers with stronger credit profiles than typical LTO customers are increasingly turning to our lease-own solutions. This potential trend has been developing over the past few months and has become more pronounced recently. Third party risk scores for applicants have increased both on average and within our top-rated customer bands.

Moreover, we are seeing improved aggregate risk profiles for our portfolios with a combination of tightening measures as well as improved risk scores at the top of the funnel, resulting in a mix shift toward less risky customer cohorts. Interestingly, these developments are occurring at the same time, broad consumer credit metrics are declining from the highs experience during the stimulus era.

Based on public comments from companies in the near prime and below prime market, we expect further tightening of consumer credit over the course of the year, which could result in even more customers turning to LTO solutions. Again, even though this is a possibility, we are not counting on trade down accelerating in our updated guidance.

This countercyclical benefit could help stabilize or even enhance our top line trends over the course of the year, especially if the economy enters a more typical recession and our core consumer maintains their recent performance. I think it's important to note that our core subprime consumers already experience their own recession in 2022, simultaneously dealing with the effects of stimulus winding down in high rates of inflation.

As a result, we believe many of them have already adjusted budgets to challenging economic conditions. On that note, macro uncertainty, notably inflation, that's the biggest factor that tempers our optimism for the year. Less affluent households continue to experience pressure on discretionary income with prices for essential items still high and cash balance is trending lower.

This pressure may partially explain the muted tax season we experienced, and it could be an indication that payment behavior may weaken in the future, if inflation increases from here that could lead to higher delinquencies in losses, reduced demand, or both. Also, demand for large ticket consumer durable goods remain soft, which is affected as seamless merchant partners. It's still unclear how long the pull-forward from the 2020 to 2021 stimulus will impact demand in key categories like furniture and appliances.

Now, with all that being said, it's important to keep in mind that our business has outperformed in previous economic downturns. So, moving to some segment highlights, Rent-A-Center demand continued to hold up relatively well with year-over-year portfolio trends improving sequentially from the fourth quarter of 2022. Although, lower payouts from a somewhat muted taxies in pressured new deliveries due to fewer releasing opportunities overall, the portfolio outperformed our expectations.

Growth initiatives continue to show good momentum with strong web traffic leading high-teens growth in web agreements. We've continued to improve the customer experience, which has helped us maintain conversion rates despite tighter underwriting. E-commerce accounted for approximately 25% of first quarter revenues that Rent-A-Center -- in the Rent-A-Center segment up from 23% in the first quarter of last year.

Same-store sales were down 6.6% year-over-year in the first quarter, which improved from an 8.1% decline in the fourth quarter of last year, even with less payout revenue than last year. The team continued to execute well on in-store operations, managing product inventory, logistics and of course customer accounts.

Underwriting has remained a key focus and continues to drive improved risk metrics, with past due rates and loss rates down sequentially in the quarter. Skip/stolen loss rate improved 100 basis points from the fourth quarter of last year to 4.8% which we believe puts us on-track to reach the mid to low 4% range by the end of the year.

Now shifting to Acima, the market remains challenging with merchants in our key categories still experiencing weak traffic and transaction volume for larger ticket durable goods, especially furniture. However, based on analysis and talking with our key merchant partners, we believe we are at least holding share, if not potentially gaining share.

GMV was down 12.6% year-over-year, outperforming the mid teens decline we projected on our last earnings call in February, and a good sequential improvement from a 23.4% decrease in the fourth quarter of last year. The digital marketplace is contributing meaningfully to GMV and we continue to add new merchants.

Lease application volume was essentially in line with our assumptions and the upside came from better conversion rates, which we think was driven in part by our commercial initiatives, to simplify the consumer and the merchant experience. Similar to Rent-A-Center, Acima also experienced a lower percentage of early payouts, which drove improved yield on the portfolio, and increased gross profit margin in the quarter by 514 basis points.

I'm also really pleased with the progress the enterprise sales team is made, and we are currently in discussions with several large potential retail partners. Importantly, there has been a notable increase in our pipeline over the past few quarters. As we have talked about before, large enterprise accounts have long sales cycles, but we believe we are making solid progress.

Now moving to the outlook for 2023, we remain focused on driving profitable growth and controlling costs to support margins and cash flow. Additionally, we are also making progress on opportunities to offer our customer additional financial solutions. Well, more to say on these and other strategic initiatives at our upcoming investor event on May 24th in New York City. I sure hope you'll be able to join us on the 24th.

Top priorities for the year have not changed. For Rent-A-Center business, it is to grow and retain the customer base. We will do this by expanding access to products and brands through our extended aisle offerings, and by improving customer experience and engagement along numerous fronts. We plan to continue to invest in technology to enhance the digital and omni-channel journey for customers and on top of these priorities reducing loss rates back towards 4% of course, remains a key focus.

Top priorities for Acima include optimizing performance with existing merchants, growing the merchant base, including small to medium sized business and enterprise accounts, continuing to optimize underwriting and continuing to enhance our technology capabilities. This includes recovery and account management improvements by leveraging the expertise and footprint of our Rent-A-Center business.

We'll also continue to assess ramping up our direct-to-consumer solutions as market conditions become more supportive. We also recently published our second Annual Sustainability Report, which highlights the solid steps we have taken in the past year and the robust plans for the coming year, so a lot going on. Really pleased that we got our second Annual Sustainability Report out recently.

And in my closing, I just want to thank the entire team for the continued effort and dedication is really was -- I've been impressed with the progress we have made over the last year and our opportunity going forward is tremendous, and I just see more great things coming. So with that, I'll turn the call over to Fahmi.

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

Beginning on Page 6 of the presentation. As Mitch noted, we're off to a good start relative to our initial outlook for the year. The first quarter results were highlighted by continued improvement in loss rates, expansion of our margins at Acima and strong overall execution despite a challenging macro backdrop. Consolidated revenue for the first quarter was down 12.4% year-over-year, driven by 19.3% decrease for Acima and a 6.5% decrease for the Rent-A-Center business.

Looking at revenue categories, the dollar value decreases almost evenly split between rentals and fees revenue and merchandise sales revenue. Rentals and fee revenues were down 8.6% reflecting lower portfolio values for both businesses during the first quarter of this year. Merchandise sales revenues decreased 30% due to fewer customers electing early purchase options and a smaller Acima portfolio that resulted from a 23% year-over-year decline in GMV for the second half of 2022.

Consolidated gross margin was 49.8% and increased 298 basis points year-over-year. The margin expansion was driven by a few factors including a higher mix of Rent-A-Center segment revenue, a higher mix of rentals and fee revenue in the current year period for both businesses, and a higher portfolio yield for the Acima business in the current year.

We continue to manage costs well in the first quarter with consolidated operating expenses, excluding skip/stolen losses down 6.1% year-over-year, on a 6.1% decrease in labor costs, 15.4% decrease in general and administrative costs and other operating costs down low-single-digits. Our disciplined approach to underwriting is working. As a consolidated skip/stolen loss rate decreased year-over-year led by 370 basis point improvement for Acima. Loss rates also improved 40 basis points sequentially led by 100 basis point improvement for the Rent-A-Center business.

First quarter consolidated adjusted EBITDA of 111.5 million increased 12.1% year-over-year with 136% growth for Acima and 16% lower corporate cost partially offset by 31% decline for Rent-A-Center. Adjusted EBITDA margin of 11% was up approximately 240 basis points compared to the prior year period, with approximately 930 basis points of margin expansion for Acima partially offset by approximately 550 basis points of contraction for the Rent-A-Center.

I will provide more detail on the segment results on the next few slides. Looking below the line, first quarter net interest expense was 27.7 million, compared to 18.9 million in the prior year, due to an approximately 400 basis points year-over-year increase in variable benchmark rates that affected our variable rate debt, which was across approximately 900 million at quarter end.

The effective tax rate on a non-GAAP basis was 27.4%, compared to 25.2% in the prior year. The non-GAAP diluted average share count was $56.4 million in the quarter, compared to 60.1 million in the prior year period. GAAP earnings per share was $0.84 in the first quarter compared to an $0.08 loss in the prior year period. After adjusting for special items that we believe do not reflect the underlying performance of our business. Non-GAAP diluted EPS was $0.83 in the first quarter of 2023, compared to $0.74 in the prior year period.

During the first quarter, we generated $95.9 million of free cash flow compared to $188.9 million in the prior year period. We distributed a quarterly dividend of $0.34 per share. Additionally, we paid down $42.6 million of our term loan and finished with a net leverage ratio of 2.6 times down from 2.8 times at the end of the fourth quarter.

Drilling down to segment results starting on Page 7, the Rent-A-Center business lease portfolio was down 3.2% year-over-year, which drove a 3.8% decrease in the first quarter rental and fees revenue and contributed to a 26.6% decrease in merchandise sales revenue. Merchandise sales were also impacted by fewer customers electing early payout options compared to the prior year.

Total segment revenues decreased 6.5% year-over-year with same-store sales down 6.6%. Skip/stolen losses increased 90 basis points year-over-year to 4.8% but decreased 100 basis points on a sequential basis consistent with our forecast assumptions. Past few rates continue to move lower in the first quarter, validating the underwriting changes initiated over the past few quarters and supporting our outlook for additional loss rate improvement over the course of the year.

Adjusted EBITDA margin for the first quarter decreased 550 basis points year-over-year to 15.2%, primarily due to the deleveraging effect of lower revenues on fixed costs as well as higher loss rates compared to the prior year period. This was reflected by 280 basis points year-over-year increase in the ratio of operating expenses excluding losses as a percent of revenue despite the expense dollars remaining flat.

Moving on to Acima, active merchant account was up modestly year-over-year for the first quarter and average ticket size was up low single digits. Open lease count was down low teens year-over-year as a result of a mid- to high-teens decrease in cumulative GMV for the trailing three quarters. This drove a 19.3% year-over-year decrease in revenues with rentals and fee revenue down 14.4% and merchandise sales revenue down 31.3%.

As Mitch noted earlier, there was a meaningful shift away from customers using early buyout option in the first quarter of this year, which drove 514 basis points of gross margin expansion for Acima compared to the prior year period.

As a reminder, the yield on early buyout transactions is relatively modest due to higher cost of goods in the Acima segment. Consequently, that does not require a large change in customer behavior to impact profitability. Importantly, to know it is too early to know if this shift is temporary or sustainable, or how this translates into future performance in this environment.

Considering the proximity to tax season and in the fact that tax refunds were reported to be down by an average of approximately 10%. This year, some customers may have lacked the funds exercise early options this tax season, which kept our portfolio values above our expectations. If this trend continues to consumers remain on rent longer than this could support continued upside to our margins. However, if this trend is either temporary or a sign of future higher charge offs, that could put pressure on margins and losses and lead to further underwriting actions.

Skip/stolen losses decreased 370 basis points year over year to 8.9%. Underwriting changes made in the first half of last year and our continuous monitoring of higher risk segments has continued to benefit losses since the high seen earlier in 2022. Looking at just the virtual channel, which is the majority of the Acima segment, loss rates were 7.7% and within the 6% to 8% range that we had originally expected for the business.

Adjusted EBITDA of $68.6 million was up 136% year-over-year. With lower losses, our portfolio yield and lower operating costs more than offsetting lower revenue. Adjusted EBITDA margin of 14.2% increased 932 basis points year-over-year. The results of our franchise segment were relatively unchanged compared to the prior year and our Mexico segment adjusted EBITDA was down approximately 1 million due to higher loss rates. Corporate costs were 16% lower compared to the prior year, reflecting lower general and administrative costs.

Shifting to the 2023 financial outlook. Note that references to growth or decreases generally refer to year over year changes unless otherwise stated. Most of my commentary will be focused on non-GAAP results. Our revised forecasting incorporates the strong starts of the year and our cautious approach in this uncertain environment. For the full year, we expect to generate revenue of $3.8 billion to $4 billion, unchanged from our previous guidance. Adjusted EBITDA is now expected to be $395 million to $435 million, excluding stock-based compensation of approximately $23 million.

We are projecting similar to slightly lower margins compared to the prior year and to the first quarter, as we expect gross margins to compress from high scene this quarter. We are increasing our target range for fully diluted adjusted earnings per share to $2.70 to $3.20, which assumes a fully diluted average share count of 56.7 million with no share repurchases built into the forecast throughout the year.

For the year, we expect $200 million to $235 million of free cash flow, net interest expense of $105 million to $110 million and an effective tax rate of approximately 26.5%. Our forecast assumes a macroeconomic backdrop consistent with existing conditions, continued disciplined and targeted underwriting, persistent inflation, and a slight increase in unemployment.

Our outlook does not assume that a shift away from early purchase options that we experienced in the first quarter will continue throughout the rest of the year. We're also not including a meaningful shift or increase in applicants from trade down.

For Acima, no change to our full year 2023 GMV expectations have down mid single digits year-over-year. We expect merchant partner volumes will remain under pressure from the prevailing macroeconomic conditions and the continued impact of the significant demand pull forward. We expect GMV to be down mid- to high-single digits in the second quarter. For the second half of the year, we expect GMV will be flat to up low single digits.

Although, we are not changing our GMV outlook as we previously commented, application volumes are down across our retail partners, especially in furniture, which is our biggest segment. Despite this headwind, we have demonstrated our ability to shift our mix to other product categories and believe we'll be able to substantially offset the softening and furniture demand with merchant growth, digital volume, and other sales initiatives.

Similar to GMV, we are not changing our SEMA revenue outlook for the year and continue to expect revenues will be down low double digits to low teens. Based on the first quarter gross margin expansion, we are increasing our full year as Acima adjusted EBITDA margin to be in the low double digits to low teens range, and be towards the bottom end of the range in the second half of the year.

We expect loss rates for the full year and the 8.5% to 9.5% range. The biggest variable we see is whether the shift from early payoffs was a one-time event related to lower tax refunds or a sustainable change in consumer behavior, and whether this dynamic in the first quarter will have an impact on delinquencies and losses going forward. Based on the unit economics of a lease transaction, this shift has a disproportionate impact on margin and profits.

For the Rent-A-Center segment, no major changes to our outlook except we do expect slightly better losses, especially in the second quarter as our underwriting changes continue to work through the portfolio. We now expect losses to be in the 4.5% area for the full year versus ending the year at 4.5%.

To reiterate our previous guidance, we expect 2023 revenues and same source sales to be down in the low to mid-single digit range and adjusted EBITDA margin to be in the mid-teens throughout the year. We expect the Mexico and franchising businesses will generate similar results to 2022. Corporate costs are still expected to increase mid-single digits.

For the second quarter, we expect some of the momentum from the first quarter to carry over and for the total consolidated revenue to be down into high single to low double digits year-over-year with adjusted EBITDA margin in the 10% to 11% range. Interest expense and share account should be similar to the first quarter of 2023, and the tax rate should be approximately 26%.

Regarding capital allocation, the top priorities continue to be reinvestment in the business, dividend payments and debt reduction. We are committed to paying down debt as demonstrated in the first quarter as we reduced gross debt by over 40 million and reduced leverage to 2.6x.

Over the long term, we continue to target a 1.5x debt to EBITDA ratio, but we will also appropriately weigh near term opportunities to allocate capital that generate favorable risk adjusted returns and create shareholder value, especially if consumer payment behavior remains strong, benefiting our margins and increasing our free cash flow.

In summary, we are encouraged by the progress the Company has made over the past year, success fully executing a range of initiatives that have contributed to a solid start. There are several tailwinds that position us to continue to outperform our initial outlook, including disciplined underwriting standards based on our data analytics and a resilient portfolio.

At the same time, we understand that there is still a high level of external uncertainty today, and demand may continue to be under pressure for durable goods. So as we look out over the rest of the year, we are cautiously optimistic, which is why we raised our full year 2023 adjusted EBITDA and adjusted EPS guidance.

Longer term, we believe we have a compelling opportunity to create value for shareholders. With a resilient cash flow generating business that also has significant opportunities for long-term growth. Thank you for your time this morning. We will now turn the call over for your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Bobby Griffin from Raymond James.

Bobby Griffin^ Congrats on some delivering some upside this quarter. I guess first, and it's more of a high-level question, I was just curious, what is the - what does the guidance assume the change in tax refund means?

Because on one side, you have people on lease longer, so the portfolio can be larger and that could generate better earnings, but on the other side, this can mean that these consumers now are facing more additional hardship because they didn't get the same level of refunds they typically depend on. So just curious kind of how you guys tracking that and what you've assumed that means within the guidance?

Fahmi Karam^ Hi, Bobby. Good morning. Thanks for the question. So I think you nailed it, as far as kind of the balance that we tried to strike between kind of the uncertainty that we're seeing from this tax season. So as far as our guidance and the outlook, what we're assuming is that our payment behavior from our consumers kind of reverts back. We don't expect this type of performance or behavior from an early payout standpoint to continue.

So, we're assuming that our gross margins compressed from the first quarter throughout the remainder of the year. We did note that, the second quarter will have some of this momentum carry into it. We have seen that in April so far. But throughout the rest of the year, the gross margin should come back down to what we initially thought coming into the year. As far as losses go, on the Acima side we mentioned, we reiterated 8.5% to 9.5%, so we did lower it a little bit from our initial guidance, but we kept the top end of the range, just given that level of uncertainty.

And for Rent-A-Center, we mentioned that we have seen a continued benefit from both delinquencies and losses. And so we continue to expect that to play itself through the portfolio, and really perform well for the rest of the year, and while we lowered the loss forecast to 4.5% for the full year. So, the guidance really is around things kind of normalizing and not continuing the way we saw in the first quarter.

Mitch Fadel^ Yes. I think I'd add to that, Bobby. Sorry, Bobby, this is Mitch. I just was going to add to that. Certainly, when Fahmi is talking about normalizing from a payout standpoint, certainly if they stay lower, that's upside. When it comes to payments, we certainly are forecasting everyone being able to pay us perfectly even though they weren't able to payout. Obviously, muted tax season is going to put some pressure on payments going forward.

So, we tried to walk that line in our guidance with a lot of uncertainty, whereas if you assumed everybody was just going to pay us fine now that they didn't pay out. Especially on the Acima side, you'd be quite a bit higher than what we guided to. But you can't assume that. I think you'd be wrong to assume that. Some are going to default on this and it doesn't mean we will necessarily lose money if people -- the margins are so low on the payout, and somebody gets a couple of months farther into it and then defaults.

We probably still made more than if they would have -- if they did the 90-day payout, especially on the Acima side where you don't get that difference between wholesale and retail. So, it's a fine line. It's certainly going to -- it's going to put some pressure on payments going forward and we factored that in. And with all the uncertainty, we think we factored it in appropriately.

Bobby Griffin^ Okay. Thank you. I appreciate that. That's helpful. And then I guess secondly for me, just on the GMV upside, I guess, versus our original expectations here in the Acima, I was curious about that. What do you think is driving that? Is that the potential trade down that you are starting to see?

Because I think for most of our checks, you would say, retail likely weakened during the quarter. And it looks like your GMV based on when we talked last actually got a little bit better as we move through 1Q. So just curious on what do you think drove kind of that directional change versus the corresponding, just retail trends that we saw from a top-line standpoint?

Mitch Fadel^ Yes. Good question. I think it was primarily in conversion rate, because the retail traffic wasn't great to your point. So a lot of it was conversion rate. There is probably some trade down and they were certainly seeing trade down, as we mentioned in the prepared comments, and that's even more so more recently than, if you go back to the beginning of the first quarter, there wasn't a whole lot you could see, but certainly as the quarter went on and you get into April, you see it more pronounced, like I said, as we mentioned.

But conversion rate was higher, I think we have done a good job on the flow and getting -- making the flow better from a technology standpoint, from a conversion rate standpoint. I think we got some help from the -- we did have merchant growth in the Acima segment. So we put on more, we're still having merchants. We haven't signed any real big ones yet, but we're still adding merchants hundreds of merchants in the first quarter, I think it was around 400 merchants added in the first quarter net add in the first quarter.

So, we're adding merchants, certainly the conversion rate as we continue to improve the technology in the marketplace. Our online marketplace had good growth in it. So I think when you put all that together, the merchant productivity was higher with a conversion rate, we added merchants in the marketplace. And again, we were, 2%, 3% better than we thought we'd be from a GMP standpoint.

And in quite an improvement from last quarter, when we're down 23% to be down just 12, which we're not happy being down 12, don't get me wrong. And then we think we can get back to flat by the third and fourth quarter flat to slightly positive second quarter, we better than the first. So it's trending in a real positive direction. And again, our online, direct-to-consumer marketplace is a part of that as well.

Operator^ Our next question comes from line of Jason Haas from Bank of America.

Jason Haas^ So maybe start, I was looking at the charts that show the past due rates in the slide deck. And it looks like the Rent-A-Center past here have come down nicely over the past few months whereas like Acima has been flat or even slightly up. Is there anything to read from those trends? I know, it's just a few months here, but I'm curious, because I think to know, between those two businesses?

Mitch Fadel^ I think, I would say Jason, that Acima started tightening sooner than then Rent-A-Center last year. And when you look at those, those pass through rates, or especially with the losses, the pass through rates, compared to last year in the first quarter are quite a bit lower even though they're pretty flat recently.

But the losses, you look on that same chart right above it, 18.9% losses for the combined the virtual and the staff acceptance numbers since the 18.9% combined. And that compares to an 8.6 in the first quarter of 2021, which had to be about as low as you can get the first quarter of 2021, when you're talking about stimulus standpoint.

So we're pretty happy with where it is we're also balancing it with GMV. We can always take more if we need to. And certainly we've looked for areas, where there's potential to drive more GMV.

So I think the difference so the short answer to your question is the Acima tightened sooner and brought their delinquency down sooner than Rent-A-Center, Rent-A-Center, when that popped up. If you look at their chart, when that popped up in the summer, and we started tightening pretty hard, you're really seeing the impact here in the first quarter. So I think it's really just a matter of timing of when one came down a lot versus the other one more level.

Jason Haas^ I know, you've mentioned on the in the prepared remarks that you're starting to see the benefit of credit tightening and trade down, which is Greg has been looking for that for some time. Are you seeing more of the benefit in the Acima segment or in the Rent-A-Center segment?

Mitch Fadel^ It's probably slightly more in the Acima segment, but it's in both. It's certainly in both when we look at third-party scores. It's a little more, I'd say, yes, even quite analyze exactly like I have a family. I think it's a little more than assume, but it's really in both.

Fahmi Karam^ Yes, it's on both sides. And then when you look at the Rent-A-Center business and you break it down between in-store and on the web, you see a really big difference in our third-party credit scores on the web, which is could be a sign of trade down, because new customers may not want to come into the store would rather kind of test it out online. And so, there's definitely signs over the last two or three months, and into April really on both sides of the business.

Mitch Fadel^ Yes, it's a good point on the web, we're really happy with that the e-com business continuing to grow on the rentacenter.com site.

Jason Haas^ And if I could squeeze one more in and I was curious you've talked about an expectation for acceleration and GMV through the year to get to I think it's been flat or slightly positive. Can you just talk about what the drivers are there? Is that largely a function of you'll be lapping the credit tightening that took place last year? Is there anything else that gives you confidence that you should see an acceleration through the GMV?

Mitch Fadel^ Yes, I think that your point, that's the biggest reason is that we kept the tightening, because it wasn't like, we only tighten the once last year, and it was one and done February 1st or something like that. Or when Aaron Allred came back and grabbed a hold of the underwriting in, you know, early March or something, it wasn't like a one and done.

So yes. I think later in the year, we're fully capping it. We've got merchant growth, and we continue to expect merchant growth over the course of the year that but again, the fully capping the tightening, the biggest reason, but when you think about merchant growth, it looks better conversion rate based on some of the enhancements we've made to our technological flows, and then the marketplace growing, all add to it to the number one point that you made.

Fahmi Karam^ Jason, maybe I'll add to that a little bit, just going back to Mitch mentioned earlier around our conversion rates and things like that, I really look at it also, as part of us optimizing our underwriting.

We've been now tightening for almost a year or a little over a year. And we continue to find ways to further penetrate our existing merchant network, which is better underwriting and trying to find those pockets where we think we can potentially expand and in pockets where we find some higher risk and we need to contract.

So, it's also just us optimizing our underwriting practices inside of our existing merchant base, as well. And then also the mix, the mix of products and our ability to shift if furniture is having a rough couple quarters, you shift into auto you shift into jewelry. And we've demonstrated our ability to do that. And so, those things coupled with the comps gives us confidence that by the end of the year we should start seeing some better year-over-year gains.

Operator^ The next question we have comes to a line of Vincent Caintic from Stephens.

Vincent Caintic^ First, on the Acima side, wanted to talk a bit more on that merchant engagement, I guess, on the existing partner side, when thinking about same-store sales, how would the discussion of going with merchants to drive more sales in this environment? And are you getting any more discussions perhaps to do from the merchants to promote more leasing or any other promotional activities. And then on the pipeline for new merchants how are those discussions? And what are the potential maybe frictions or concerns that merchants are having before signing? Thank you.

Mitch Fadel^ Yes, sure. Vincent. Good morning. Yes, it does seem to be picking up as far as the pipeline for new merchants. The SMB side, we continue to add, like I mentioned, like 400 in the quarter so net. So that continues on the SMB side and there is a lot more activity on the bigger accounts too. So, I think there's -- that's starting to happen as far as the scene tightening up at Prime and near Prime lenders, I think people are realizing that a lot of our current partners Vincent talked to us a lot about how if we can drive more traffic to them through our marketing, which we do.

Because we got millions of customers in our database with that are already approved for dollars. We got millions of customers over the years, even going back before as Acima that from a Rent-A-Center standpoint. So we've got a lot of customers to market to. And as retailers, especially in the furniture space where it's been slower as they ask for help and how we can drive more business, we certainly, try to spread our marketing around to those merchants.

And I think that's one of the reasons that our channel checks, they were gaining a little bit of share and not going backwards at all and actually gaining share compared to some of their other options. So, it's been especially tough for some of our furniture partners and again we're doing all we can to help from with the marketing side, but yes, there is more chatter around that as I think the prime and near prime lenders tightened.

Vincent Caintic^ And finally, switching over to the funding side, just with some of these broader macro concerns and some of these banks going under and maybe some pulling back on availability of credit, can you talk about your financing, your discussions with your financing partners and any needs you might have?

Fahmi Karam^ Yes, no, we're very happy with where we are from a liquidity position. We have about 560 million of liquidity, about 400 million available under our revolver and healthy amount of cash. So from a liquidity standpoint, we're in really good shape. We were able to pay down some debt this quarter and drop our net leverage down from 2.8 times to 2.6 times.

So, we're doing very well from liquidity standpoint, really have no concerns, and can really fund up if some of the enterprise accounts, as Mitch mentioned do pop up, we have plenty of liquidity to service those type of clients. So, some of those things from a macro standpoint, we view as could be positive for us, if it causes other lenders above us to tighten up that you can see that accelerate some of the trade downs we've been talking about.

Operator^ The next question comes to the line of Alex Fuhrman from Craig-Hallum Capital Group.

Alex Fuhrman^ Thanks very much for taking my question and congratulations on a really strong start to the year. Mitch, I wanted to ask this from a high level. I mean, it sounds like obviously a huge opportunity for both of your businesses to take a lot of market share as we're starting to see credit tighten across the board.

I mean, how do you kind of weigh the opportunity to continue to take market share against the pressures you might be feeling to further tighten your own credit standards just given the rise in interest rates and potential economic slowdown that everyone else is seeing, just from a high level, would love to hear about kind of your main puts and takes as you balance those two things?

Mitch Fadel^ Well, thanks Alex, and thanks for joining us this morning. The good part of that question or the best part is that the, when there's tightening above us and those customers come into the top of our funnel, those that actually help with the underwriting because there's the top of the funnel, right? So it actually would allow us to either carve off a little more on the bottom or take it all. And then it just depends how we're performing at the bottom of the funnel. You don't automatically cut off something at the bottom because the higher score is coming in at the top.

If they're performing at the bottom, you just take the ball. But it does allow you to even be even maybe even more critical of the bottom rung, the bottom 5%, if you had 5% more at the top.

So really what happens is one really helps the other and I guess that's one of the benefits of being quote unquote at the bottom of the funnel versus in the middle or at the top of the funnel. At the top of the funnel when you carve off something on the bottom, there's nothing helping at the top.

As this slowdown starts to get -- of course our subprime customers had the slow down last year and it -- they had their recession in 2022, and now there's been a lot of adjustment. But if you're at the top of the funnel and it starts to get in a middle income and upper middle income, it's tough to replace it. For us being at the bottom, they actually work very well together and they really can't be much of a better scenario for us.

Alex Fuhrman^ Great. That's really helpful, Mitch. Appreciate that. And then, just thinking about these customers that you're starting to get at the top of the funnel, are they buying the same types of items and opting for similar terms as the customers you've had for years? If you could just kind of share how these customers are kind of acting compared to the customers you've had for longer?

Mitch Fadel^ I'd say same product categories, but of course if you're at the top of the funnel, you tend to get approved for higher dollar a month than if you're at the bottom. So, the -- it kind automatically ends up where maybe their ticket is higher. The higher you are up in the funnel, the ticket's going to be higher just because you get approved for more when you're at the top of the funnel versus the bottom. So, it's another case of one feed to the other when you're at the top of the funnel kind of becomes automatic that you have more to spend.

Not surprisingly though, the better customers don't use all of the approval as compared to customers in any underwriting scenario. When you're more towards the bottom, they tend to use everything you approve them for.

Whereas people that are much more just have a higher propensity to worry about being able to make every payment on time and those kinds of things will be more cautious with their approval amounts. So, it kind of works its way out, that way out because the top -- the way the top of the funnel performs, that's why it's such a good scenario for us. And to see this trade down at least starting and hopefully continues. And even it accentuates.

Fahmi Karam^ That's another reason why we're adding so much emphasis to our digital capabilities and to that marketplace on the Acima side. So the more we can offer them different retailers and different products, once we get them in the door, the more they're likely to do another lease with us. So as we think through that, having better customers and then giving them a variety of products, especially on the digital front, we think that's upside especially later in the year.

Operator^ Our next question comes to the line of Brad Thomas from KeyBanc Capital Market.

Brad Thomas^ I just want to follow up with another question on sort of underwriting from a big picture context and was hoping you could zoom out a little bit and maybe give us a little more perspective about where you are from kind of a tight versus loose standpoint versus maybe some of the pre pandemic levels? And just, how that's set up in the two different segments? Thanks.

Mitch Fadel^ Well, from a pre-pandemic standpoint, there is no question we are a lot tighter than we were pre-pandemic. Even though you think obviously, we are a lot tighter than stimulus, but even when you go to pre-pandemic, I would say, we're a lot tighter than that. Certainly on Rent-A-Center side, now we didn't know Acima pre-pandemic.

But in talking to those to the folks that have been there in the underwriting team, I think they would still say, it's even tighter than pre-pandemic and Fahmi is sitting here and shaking head. So, I think to the best of our knowledge of the way they underwrote, before we acquired them, it's even tighter than pre-pandemic and certainly Rent-A-Center is.

Fahmi Karam^ I'll also say the way we look at it now, a lot different than it was even in the middle of the pandemic and then definitely pre-pandemic on how we take it more of a data-centric view of our portfolio and the customer. We look at things at the merchant level, the category level, the customer type, whether they are new, returning, whether on the Rent-A-Center side, whether it's online versus in the store. So it's just overall tighter. But then also the way we look at it is much different.

Mitch Fadel^ It's actually hard to compare actually. That's probably with the guys in Salt Lake on the underway team. So I don't know how to compare it to 2019 with the different tools we have now and the way we are so targeted in the data driven aspect of it. You are right, Fahmi. And even on the Rent-A-Center side, it's just it's really a whole different process of how much better we have gotten at it. But overall, I think you'd still say -- if you had to pick one, you'd say, it's tighter than even pre-pandemic, Brad.

Brad Thomas^ That's really helpful context. Thank you for that and then a follow-up on Acima side. Just as you assess the health of your network, as you mentioned you had growth in accounts. I guess we are in a landscape where we are seeing retailers have to close stores and go out of business to Bed Bath & Beyond, the Tuesday mornings of the world, but of course, more to your partners. But as you look at your retail partner network, how do you feel about the health of them? And can you talk about drivers that you might have to redirect business, if you end up with some stores that have to close?

Mitch Fadel^ Yes. I think for us, a big advantage we have is how diversified our portfolio of partners is. And we want to be getting in a whole lot more enterprise accounts. But right now, there is no one or two merchants that are going to -- that are even going to move our needle. So, that's the -- we don't worry about that a lot, Brad, because it's so diversified.

Certainly, on the furniture side, there is some very small retailers with a couple of stores that maybe not making it through the pandemic now that the cost of money is so much higher and business has slowed down a little bit, and maybe they didn't stash enough of the money during this stimulus here and all those kind of things. And so, there is certainly a little of that going on, but hardly noticeable to us just based on how diverse we are in our partner base.

Brad Thomas^ Really helpful, thanks so much.

Mitch Fadel^ Thanks Brad.

Operator^ Thank you for your questions. I would now like to turn it back to Mitch Fadel for closing remarks.

Mitch Fadel^ Thank you, [Hayley]. And thank you everyone for joining us this morning. We appreciate your time. Congratulate the entire up Upbound team on a great start to the year whether it's Acima, Rent-A-Center, or Mexico franchising, you name it. Congratulations, everybody for a great start.

We hope to see all of you on the 24th at our Investor Day up in New York, where we will talk more longer term strategic initiatives and longer term, I should say financial metrics and things like this. So look forward to seeing you on the '24 and thank you again for this morning.