

## Rent-A-Center(Q2 2022 Earnings)

August 4, 2022

### Corporate Speakers:

- Brendan Metrano; Rent-A-Center; VP of IR
- Mitch Fadel; Rent-A-Center; CEO & Director
- Maureen Short; Rent-A-Center; EVP & CFO

### Participants:

- Jason Haas; BofA Securities; Analyst
- Robert Griffin; Raymond James; Analyst
- Kyle Joseph; Jefferies; Analyst
- Brad Thomas; KeyBanc Capital; Analyst
- John Rowan; Janney Montgomery; Analyst

## PRESENTATION

Operator^ Good day, and thank you for standing by. Welcome to Rent-A-Center's Second Quarter 2022 Earnings Conference Call. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Mr. Brendan Metrano, Vice President of Investor Relations. Please go ahead.

Brendan Metrano^ Good morning, and thank you all for joining us to discuss Rent-A-Center's results for the second quarter of 2022. We issued our earnings release at the market close yesterday. The release and all related materials, including a link to the live webcast, are available on our website at [investor.rentacenter.com](http://investor.rentacenter.com). On the call today from Rent-A-Center we have: Mitch Fadel, our CEO; and Maureen Short, our CFO.

As a reminder, some of the statements provided on this call are forward-looking statements, which 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. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements, except as required by law.

This call will also include references to non-GAAP financial measures. Please refer to our second quarter earnings release, which can be found on our website, for a description of the non-GAAP financial measures and the reconciliations to the most comparable GAAP financial measures.

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

Mitch Fadel^ Thank you, Brendan, and good morning, everyone, and thank you for joining the call today to review our second quarter results. On today's call, I'll begin with an overview of second quarter performance, followed by our plans for the remainder of the year and some perspective on the external environment. And then Maureen will provide a more detailed review of our financial results. And of course, we'll finish up with Q&A.

While second quarter trends are down compared to stimulus enhanced 2021 results, we are encouraged by the performance of the business in the second quarter, given the very different and more challenging macro environment we're experiencing this year. Second quarter financial results were strong relative to the quarterly guidance we provided in early May, with revenues at the high end of the range and adjusted EBITDA and EPS above the high end of the respective ranges.

We also delivered on business objectives over the first half of the year, optimizing Acima's underwriting, maintaining year-over-year portfolio growth for the Rent-A-Center business segment, and managing costs to help offset the profitability headwinds from the challenging environment. Well, we executed well in the areas of the business that we could control. External factors like inflation and economic growth, and discretionary income, worsened during the first half of the year.

As the second quarter progressed, we began to see indications that macro weakness was causing lease volumes and payment behavior to trend below our assumptions for the second half of the year. These trends have continued, and it became clear that if the current weak environment continued for the rest of the year, we would not achieve the full year 2022 financial targets introduced back in February. As a result, we've lowered our full year 2022 financial targets, and now expect full year non-GAAP earnings per share of \$4 to \$4.50, with \$0.10 of that change related to the increase in variable interest rates on our outstanding debt above and beyond what was built in our original targets.

The full set of updated 2022 target is included in our press release, and Maureen will talk through them in more detail. As you can see, we still expect the progress we have made on our 2022 initiatives, will result in a sequential step-up in profits for the second half of the year. Moreover, we believe our business is well-positioned to generate value for shareholders during these evolving economic environments, as well as long-term growth in the business.

Moving on to financial highlights. Consolidated revenues of \$1.1 billion decreased 10.3% year-over-year with Acima down 16.5% and the Rent-A-Center business segment down 3.1%. The primary factors that drove that decrease in revenue were cycling over strong growth for both businesses in the prior year period, that have benefited from the effects of pandemic, stimulus programs, lower lease volume in the current year for Acima due to tighter underwriting, and the effects of lower discretionary income for consumers in the current year.

Consolidated adjusted EBITDA of \$129 million was above the high end of our guidance range, with a margin of 12%, up sequentially and a bit stronger than expected due to the favorable delinquency trends for Acima vintages originated in late 2021 and early 2022. Non-GAAP diluted earnings per share for the quarter were \$1.15, above the high end of the guidance range. We continue to generate solid cash flow with \$256 million of free cash flow year-to-date, highlighting the resiliency of our business.

Moving on to the segment performance. It was a productive quarter for Acima. Financial results were better than the assumptions behind our second quarter guidance. Our top Acima business priority for the second quarter and first half of the year was to optimize underwriting for the current environment in order to generate returns that were consistent with our double-digit to low-teen segment margin targets. After substantial progress in the first quarter, evidenced by a reduction of around 30% in first payment missed rates from the peak levels of December and January, we essentially maintained FPM rates near pre-pandemic levels during the second quarter.

As a reminder, we believe FPM rates are the best early indicator for delinquencies and loss rates. Speaking of loss rates, we also had favorable trends for loss rates with 11.6% in the second quarter, down from 12.6% in the first quarter. The improved underwriting should be even more visible in the second half of the year with loss rates expected to drop into the 8% to 9.5% range, and adjusted EBITDA margins expected to increase to the 11% to 13% range. GMV was down 24% in the quarter, which was at the lower end of our assumption range. However, 2-year stack growth was 19% -- positive 19% when you factor in the 43% GMV growth in the second quarter of last year. So a good 2-year comp number for sure.

Drilling down into GMV drivers. Active merchant locations were up approximately 15% year-over-year, while applications, approval rates and conversion rates were lower compared to last year. When you add that all together, we think the takeaway here is that over the 2-year period, favorable long-term underlying fundamentals seen in the continued merchant growth I just mentioned, more than offset near-term volume headwinds from a combination of challenging prior year comps, pressure on discretionary income, and tighter underwriting.

The Rent-A-Center business segment continued to show impressive stability in the second quarter, largely sustaining the levels of business that we generated in 2021 during the peak period of government stimulus benefits. Revenues were \$490 million in the quarter with same-store sales down 3.3% in the current year, and up 13.3% on a 2-year stack basis. Rental revenues were down less than 1% year-over-year, benefiting from a strong lease portfolio that finished the quarter up nearly 1% sequentially and up 2% compared to last year.

To put this performance in perspective, according to Census Bureau data, the 3 largest product categories we offer are: furniture, appliances and consumer electronics. We experienced retail sales year-over-year decreases of 1%, 3% and 4%, respectively, for the 3 months ending in May. So, our numbers certainly outdid those. And although it's not

clear in our data yet, we think part of the outperformance is customers trading down into lease-to-own, which we have historically benefited from during challenging economic periods.

E-commerce continues to benefit top line performance with web orders up 38% year-over-year and accounting for about 23% of revenue in the quarter. Commercial execution was strong again this quarter at Rent-A-Center. The team hosted a number of successful events that drove lease volumes, opened 6 new stores, including new concept stores featuring a smaller footprint and design intended to enhance the customer experience. We also advanced our extended aisle service, adding access to additional products, and contributing to the e-commerce growth.

Customer payment behavior started showing signs of pressure from the high rates of inflation and pressure on discretionary income, and payment collection rates worsened during the second quarter, negatively impacting rental revenues. Skip/stolen losses ticked up to 4.2% as a percentage of revenue, which is above our long-term target of 3.5% to 4%. So, we're implementing measures designed to improve that activity, including changes in the underwriting at Rent-A-Center, as well as some changes in account management processes.

So, looking forward to the second half of the year, our objectives will build off the plan we've been executing against this year for Acima. This evolves to more of an emphasis on optimizing GMV within acceptable levels of risk, and executing on the changes we have made within our sales function to continue to drive active and new merchant growth. We're also continuing to build out the enterprise sales function.

And I'm happy to announce we recently brought on a new Senior Vice President of Enterprise Business Development and Partnerships, Mike [Bagel], who starts later this month. And Mike spent over 8 years in a similar executive role with Synchrony, and we believe that will make an impact by accelerating the partnership initiatives that are within our pipeline.

For the Rent-A-Center business, some of the key areas of focus are further developing our extended aisle services, improving our retention engine to optimize returns, and enhancing our digital customer experience through more personalized offers, just to name a few. We also remain committed to our cost management efforts in all segments of the business.

Overall, looking at the back half of the year and into 2023, we believe the company is poised for commercial and financial performance that should highlight the appealing attributes of our business across economic cycles. Lease-to-owns are relatively large and underpenetrated market offering flexible and valuable solutions for more than 40 million U.S. households who have limited access to credit, and also may be experiencing financial pressure from inflation and slowing economic growth.

As the only LTO solution provider with both traditional and third-party host retailer LTO channels, we believe we are well-positioned for growth opportunities as consumers turn to LTO. Historically, LTOs demonstrated countercyclical attributes maintaining better top line and loss rate trends during economic downturns due to the essential nature of the products we lease, the momentum of our portfolio business, and the stabilizing effect of non-traditional LTO consumers trading down to LTO.

This was illustrated in the global financial crisis from approximately the first quarter of 2008 through the second quarter of 2009 when our quarterly same-store sales growth outperformed year-over-year growth in consumer durable expenditures by an average of 900 basis points. The inflection of this trade down appears to be on credit conditions (inaudible) tighten. External and internal data we monitor, indicates that trends seem to be moving in that direction, and we'll continue to monitor that data. And as I mentioned earlier, anecdotally, we saw signs in the strength of the Rent-A-Center business portfolio in the second quarter.

Importantly, we think we are well prepared to take advantage of market opportunities. With the Acima underwriting challenges that we experienced late last year, we had already started optimizing underwriting for a challenging macro environment early in the first quarter of 2022. Today, our virtual lease-to-own underwriting is performing in line with expectations, as we balance our objectives of generating both appropriate levels of GMV and attractive segment profits.

In closing, second quarter results mostly outperformed our guidance, and we met key objectives for the first half of the year. We believe we have the right plan in place to navigate a challenging environment, and remain optimistic about the longer-term growth opportunities we see in our business. And I want to thank the entire team for their continued dedication and their strong efforts throughout the quarter.

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

Maureen Short^ Thank you, Mitch. Second quarter revenues of \$1.07 billion decreased 10.3% year-over-year due to cycling over strong results from the prior year period that included a significant benefit from stimulus programs, lower lease volume in the current year for Acima due to tighter underwriting, and the effects of lower discretionary income for consumers in the current year. Compared to 2019, pro forma revenue, which is a more normal baseline, second quarter 2022 revenues were up approximately mid-teens. The year-over-year decrease was evenly split between merchandise sales and rental and fees revenue.

Merchandise sales revenues were down 27%, with fewer customers electing early payout options compared to the prior year when many customers had built up savings and had additional income from stimulus programs. With the wind down of stimulus in the second half of 2021 and the current high rates of inflation, savings in discretionary income are now likely below pre-pandemic levels for many of our customers. Rental revenues decreased 6.4% year-over-year, but were also up approximately mid-teens compared to

pro forma 2019 rental revenues. Most of the year-over-year decrease in rental revenues was driven by the Acima business, with the Rent-A-Center business segment down less than 1%.

Consolidated adjusted EBITDA of \$128.9 million was down 31.1% year-over-year in the second quarter, but was above the quarterly guidance range. The primary contributors to the decrease were lower revenues, higher provision for delinquencies for Acima, higher loss rates and higher operating costs, notably labor and fuel. These were partially offset by cost control measures and lower performance-based compensation.

Sequentially, second quarter adjusted EBITDA was up 29.5% compared to the first quarter, driven by a 515 basis point improvement in Acima margins that benefited from a reduction in the provision for delinquencies, lower loss rates and better-than-expected performance on lease vintages from late 2021 and early 2022.

Adjusted EBITDA margin was 12% for the second quarter compared to 8.6% in the first quarter of 2022, and 15.7% in the prior year period. The same factors that drove changes in EBITDA caused changes in margins. Regarding Acima's performance, we believe the 24.2% decline in GMV during the second quarter was generally driven by a confluence of unique factors impacting the business this year, rather than underlying fundamental trends.

The combination of comping over last year's 43% GMV growth in the second quarter due to stimulus programs and the current year inflation, has caused significant volatility in year-over-year trends across consumer businesses. On top of that, we made underwriting adjustments during the first half of the year that resulted in lower approval and conversion rates. We think a better indication of underlying fundamentals is that, despite all of the macro volatility, we continue to grow our active merchant count. As Mitch mentioned, we are up 15% year-over-year.

Acima segment revenues decreased 16.5% year-over-year. Rental revenues were down 12.6% primarily due to lower GMV in the first half of the year and a higher provision on delinquencies compared to the prior year. Merchandise sales revenue decreased 27.1% due to fewer customers electing to use early payouts, with pressure on discretionary income and savings. Skip/stolen losses in the Acima segment increased approximately 290 basis points year-over-year to 11.6%, but decreased 100 basis points sequentially and continue to normalize from the elevated rates that followed the wind down of stimulus programs in 2021.

We remain confident in our underwriting capabilities and expect the changes we implemented over the past few months will continue to drive loss rates down in the back half of the year, as older riskier vintages drop out of the portfolio. Adjusted EBITDA margin decreased 370 basis points year-over-year to 10%. The key factors that drove the margin contraction were higher loss rates. Our lease vintages originated in late 2021 when underwriting lagged behind the rapid changes in consumer payment behavior, as well as generally higher delinquency rates this year compared to 2021.

Moving on to the Rent-A-Center business segment. Revenue decreased 3.1% in the second quarter compared to the prior year period with same-store sales down 3.3%. The decrease in revenue was primarily driven by a decrease in merchandise sales, resulting from fewer customers electing early payout options. Even though the lease portfolio balance ended the quarter up 2%, revenue and fee revenue decreased from the prior year period, primarily due to a decrease in the percentage of lease payments collected.

Skip/stolen losses increased 190 basis points year-over-year to 4.2%, which is above our target range due to an increase in our loss provision. Adjusted EBITDA margin was 21.2% and decreased 470 basis points year-over-year. The margin contraction was due to higher loss rates compared to the prior year period, which benefited from stimulus programs, a 240 basis point decline from increased labor expense and a 100 basis point decline from higher delivery costs. These factors were partially offset by favorable gross margin mix stemming from lower merchandise sales.

Below the line, net interest expense was \$19 million compared to \$20.4 million in the prior year, reflecting the improvement in payment terms on our Term Loan B, partially offset by a higher debt balance. The effective tax rate on a non-GAAP basis was 26% compared to 25.2% in the prior year period. The diluted average share count was \$59.7 million in the quarter compared to \$67.8 million in the prior year period. GAAP diluted earnings per share was \$0.33 in the current quarter compared to a diluted earnings per share of \$0.90 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 \$1.15 in the second quarter of 2022 compared to \$1.63 in the prior year period. Year-to-date, we've generated \$287.1 million of cash flow from operations, and \$256.2 million of free cash flow.

During the second quarter, we returned \$18.4 million to shareholders through a \$0.34 per share quarterly dividend. At quarter end, the company had approximately \$360 million remaining on its current share repurchase authorization. In addition, we had a cash balance of \$112.2 million, gross debt of \$1.4 billion, after paying down \$30 million of the revolver, net leverage of 2.4x and available liquidity of \$500 million.

Shifting to the financial outlook. I will add some additional details to the revised 2022 financial targets that Mitch touched on, and provide an outlook for the third quarter. Note that references to growth or decreases generally refer to year-over-year changes, unless otherwise stated. Our financial targets assume the current external environment persists for the rest of the year, so we're not making a call on the macro environment getting better or worse.

Starting with the full year financial outlook, we now expect consolidated revenue of \$4.265 billion to \$4.385 billion, adjusted EBITDA of \$480 million to \$525 million, excluding stock-based compensation of approximately \$20 million, and non-GAAP diluted EPS of \$4.00 to \$4.50, and free cash flow of \$390 million to \$440 million. While

we believe there are substantial opportunities to drive incremental revenue and profit over the long-term, we are also cognizant of the near-term volatility and pressure on profits. So, we will continue to focus on aligning our cost structure with the business environment, while ensuring we continue to enhance our capabilities.

For Acima, we expect continued pressure on consumer discretionary income, coupled with the lapping of extraordinary growth during the stimulus-driven 2021 period, will result in lower sales volumes for merchant partners for the second half of the year and translate to a low 20% decline in GMV for the full year. We expect revenues to be down mid-teens and adjusted EBITDA margin to be in the low double-digit range. This assumes loss rates improved to a range of 8% to 9.5% for the second half of the year, as more recent lease vintages originated with lower risk profiles comprised more of the lease portfolio for the second half of the year.

For the Rent-A-Center business segment, we expect revenues and same-store sales to be down low single digits for the full year, reflecting a flat or slightly positive portfolio value at year-end, offset by lower merchandise sales and lower revenue collection rates. Adjusted EBITDA margin is expected to be in the low 20% range, in line with our long-term targets and assumed loss rates of approximately 4%. For Mexico and franchising businesses, we expect full year revenue growth and margins will be similar to the first half of 2022. Corporate costs are expected to be up mid-single digits for the year.

Below the line, we expect interest expense will be \$8 million to \$10 million higher in the second half of the year compared to the first half of 2022. The tax rate should be approximately 26% for the second half of the year. For the third quarter, we expect consolidated revenues of \$1 billion to \$1.055 billion, adjusted EBITDA of \$125 million to \$142 million, excluding stock-based compensation of approximately \$5 million and non-GAAP diluted EPS of \$1.05 to \$1.25.

Acima's third quarter GMV is expected to be down in the low 20% range, which reflects the continuation of current macroeconomic trends and sales volume trends for merchant partners. Trends should improve sequentially in the fourth quarter to a decrease of 10% to 15%. Third quarter revenues should be down high-teens as a result of the 23% pro forma decrease in GMV for the first half of 2022 and lower third quarter GMV. Adjusted EBITDA margin is expected to be in the low-teens range. For the Rent-A-Center Business segment, we expect Q3 revenues to be down mid-single digits with an adjusted EBITDA margin of approximately 20%.

Regarding capital allocation, dividend payments and making progress toward our 1.5x leverage target, are the top priorities. That said, we will continue to evaluate opportunistic share repurchases. We also want to provide an update on the resolution of our previously disclosed California Attorney General matter, which will be reflected in our second quarter 10-Q filing. As a reminder, this is a 2018 matter with respect to our Acceptance now [host] retailer business.



We reached a settlement in principle back in November of 2021. Earlier this week, we finalized the settlement, which includes a payment of \$15.5 million, and certain injunctive and compliance provisions. The full \$15.5 million was previously reserved at year-end 2021. We did not admit to any wrongdoing, and disagree with the AG's statutory interpretations regarding the cash price that entered into the agreement to avoid the expense risk and distractions associated with potential protracted litigation.

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

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And we'll take our first question from Jason Haas from Bank of America.

Jason Haas^ First is on -- I know you're not providing any guidance yet for 2023, but conceptually, if the economic environment remains the same, should we expect to see growth in revenue and EBITDA just from a continued reduction in loss rates?

Maureen Short^ Year-over-year, from an EBITDA perspective, yes, we should expect to see benefits next year because of the higher quality portfolio in the front half of this year, as we've talked about. It's -- there is a drag from lower performing leases that were written into the portfolio before we tightened up in late '21 and early '22. So definitely, there should be a profit step-up next year given the loss rates.

Jason Haas^ And then as a follow-up, I wanted to focus on the Rent-A-Center business EBITDA margin. So that's been up. I think it's almost doubled now over the past few years. I know it's -- that acceleration started before the pandemic. But just as we're in a tougher economic environment, I know you reiterated the long-term target for 20%-ish margins there. I think there's some concern that just in this environment, we could see it refer back to historical levels. So, can you just explain what gives you confidence that you'll be able to maintain those margin levels?

Mitch Fadel^ Sure, Jason. The biggest reason is the difference in the portfolio size, the way it's grown really over the last 4 years, including the pandemic. And in fact, as we mentioned, the portfolio actually ended the second quarter sequentially up and by about 1%, about 2% year-over-year. So the portfolio holding up is what drives those margins based on -- it's pretty much a fixed cost business. We have some labor fluctuation. Wages are up a little bit.

Actually, hours are down a little bit because of technology and auto pay and things like that. So that offsets some of the labor rate pressure. But it's really the size of the portfolio continues to perform well. It doesn't have to keep growing to maintain those margins, and we don't see it dropping with -- especially in this environment as people trade down, we think -- the Rent-A-Center business in the second quarter really so far this year is outperforming retail already, seeing a little bit of effects of trade down there, like I mentioned in my prepared comments, we believe we are at least.

And there is some slight indication of that in the numbers that -- the clarity scores, if you will, that come into our decision engine. So we're seeing at least a start of some trade down on the Rent-A-Center side. And -- but regardless of -- the short answer to your question is, it's a portfolio that has grown very well over the last 3 or 4 years, almost 5 years now, and that drives the higher margins just with the revenue because the costs don't go up much. Remember, we're starting with a lot of gross profit in the 70% range. So when you get top line -- consistent top line and against the portfolio, so it doesn't fluctuate a whole lot. When you get that portfolio up, you're going to get some good EBITDA margins when the gross profit is 70%.

Maureen Short^ And Jason, just to add to your question, I think you asked about this general trend for 2023, and I addressed the losses expectations for next year. There is some pressure on '23 revenue given the lower GMV that we're seeing this year in the Acima business, and lower collections as we stated in our lowering of expectations for this year. So there's still a lot of factors at play for 2023, and we won't give consolidated guidance for profit or revenue until really the beginning of next year. But from a loss rate perspective, should see more normalization as we work through lower performing leases through the portfolio.

Operator^ And we'll take our next question from Bobby Griffin from Raymond James.

Robert Griffin^ I wanted to -- first just kind of high level, but it really appears that the store business is holding up a lot more resilient in this kind of economic environment than the virtual business. And I understand the comparisons are different and some things. But the overall customer is fairly similar between the 2. So just curious why you think that's the case, why the core Rent-A-Center stores are holding up better? Is it just the legacy aspect of it that they've been around customers known? Or just anything there to help us kind of understand what we can think about, if things do improve, what might happen with the virtual side of the business?

Mitch Fadel^ Sure, Bobby. I'll start and then if Maureen may add, she can. I think the biggest difference in the 2 is, Rent-A-Center is a stand-alone business, whereas the retail partner business is Acima, relies on the retail traffic. And we get a certain percentage of that retail traffic, right? So, if all of us do -- all of our competitors as well -- we get a percentage of that retail traffic.

So in retail traffic, it's down -- you look at numbers that are down 15%, same-store sales kind of numbers and some of the larger retailers out there, 15%, 20%, but the traffic is down even more, right, because they've got some ticket, especially in household durable goods when you look at some of those companies. So, when traffic is down that much and you get a percentage of that traffic, like in Acima, let's say -- pick a retailer and say, we get -- we end up with 5% of their business or 3% of their business or something, if their traffic is down 30% or 40%.

Even if you have some trade down and you go up to -- from 3% to 4% of the business, you're still going down overall. Rent-A-Center conversely -- where is that 40% of the traffic that's down -- as I say, a large box furniture store, 30% of the traffic, where are they? Certainly, there was some pull forward. But where are they when they need something today if they're not going into retail store. And if you get just a few percentage of that traffic going into Rent-A -Center -- because there's so much more traffic in a retail store.

So if you think about a large box retail store, or just one of the big furniture stores, if they -- if you can get a couple of percent of what's not walking in there, that's going to drive an awful lot of business to Rent-A-Center, right? Because Rent-A-Center is so much smaller than all of that retail added together. So, I think the short answer is you got -- you're not relying on retail traffic to drive your business.

And when retail traffic is way down, some of it's obviously -- we believe is going over to Rent-A-Center. And it only takes a little bit for Rent-A-Center to grow because Rent-A-Center is so much smaller than -- of that whole retail price. So you get a little bit of echoing towards Rent-A-Center and you're going to have some difference in performance. Now, having said all that, the Acima business on a 2-year stack basis is up 19%. So, we don't see the -- today's headwinds is fundamental issues. The business is still there as retail traffic picks back up.

Robert Griffin^ And then, I don't know if you -- I know visibility in each of the retail merchant partners is tough. But when you look in -- or kind of get the commentary, are you seeing retailers emphasize the virtual product more? Are you seeing -- is there a way to see if you're mixing up, or hypothetically, you were 2% of the business and now you're 3% of the business. Do you get that type of visibility where you could see the product gaining more traction in this tougher kind of economic environment?

Mitch Fadel^ I think it depends on the retailer. Some do and -- not all of them, but some do. So we certainly see that from a pipeline standpoint. And I mentioned bringing in a top executive from Synchrony to run our enterprise business, as we continue to add that to team. We're really excited about him starting later this month.

But when you think about -- when we look at our pipeline, there's certainly more interest for the reasons you just spoke about, in lease-to-own than it was during the pandemic just because people couldn't fill all the orders they had in the first place during the pandemic, so why worry about another payment stream. So, there's more interest there. And as far as the ones we already have, yes, it depends on the retailer. Some emphasize it more, but not all of them.

Robert Griffin^ And then lastly from me. Maureen, I think you mentioned that you guys are forecasting a sequential improvement in the GMV performance in 4Q versus 3Q and kind of the first half trends. Just curious the underlying fundamental drivers of that improvement in the fourth quarter?

Maureen Short^ Sure. We tend to see increases in seasonality in the fourth quarter relative to the rest of the year. So we're basically using our portfolio at the end of the second quarter and forecasting some improvement in seasonality.

Mitch Fadel^ That in the third quarter, Bobby, really -- I mean, the comps -- we start comping over much different numbers, the 43%. We just had to comp over. And then the third quarter, I don't remember it off the top of my head, but the comps go down 19% in the third quarter, and then the fourth quarter was like 5% or something. So you start comping over -- these are your numbers as some of the simple math on it, as well as what Maureen was mentioning.

Operator^ And we'll take our next question from Kyle Joseph from Jefferies.

Kyle Joseph^ Staying on Acima for a second, just regarding the GMV contraction, obviously, there's a lot going on. But can you give us maybe even a ballpark of how much you think of that contraction is underwriting changes versus more macro? I'm just trying to get a sense for the lift you guys may get into first quarter '23 really, as we lap those underwriting changes.

Mitch Fadel^ Yes. I think I don't -- hard to break down the exact number, Kyle, but certainly, the retail traffic is a big part of it. It's not -- I would say that's the -- if you split - - if you were going to try to split them down the middle, the retail traffic versus the underwriting, I'd lean a little more towards the retail traffic. Even in the underwriting of - - you could just about split them down in the middle, but again, I think it's probably more the retail traffic than the underwriting.

It's not like our underwriting is tighter by 20 points or anything like that. So, it's -- certainly as we lap the underwriting stuff and the comps get easier, it will get us into that flattish range. But certainly, as the retail traffic -- the retail traffic needs to pick up for us to get back to what we talked about our long-term goals of double-digit growth at Acima.

Kyle Joseph^ And then, it sounds like you're still able to add a lot of partners at Acima. Can you give us a sense of kind of the channels and the verticals of the retail partners that you've been adding? And then also talk about conversation with retailers and whether there's improved demand for having the lease-to-own products for retailers that do not have it yet, given the challenging environment?

Mitch Fadel^ Yes, you're right. On the smaller business level -- small business level, regional level, that continues to be very strong, as we mentioned, 15% year-over-year growth. Continue to sign a lot of good accounts there, some larger Goodyear accounts and City Furniture recently down in Florida. We talked about [PC Richards] a couple of quarters ago. So we continue to sign some good accounts, and then a ton of accounts you would have never heard of, much smaller ones.

And that's going well. And as we see the pipeline increasing on the enterprise side, as we see more interest in people trying to figure out -- now that the supply chain pressures

have eased so much, and people actually have more supply in a lot of cases, that, they're looking for other avenues.

And so, the pipeline is strong. There is more interest. We're investing in the team, adding to the team. We already have by bringing in the executive I mentioned earlier. So, we're strong at the local regional level with our sales programs, and getting stronger on the enterprise side and by adding some to the team. Once we have enterprise [kicking] as well as we have the local sales going, it's going to be even bigger growth.

Operator^ And we'll take our next question from Brad Thomas from KeyBanc Capital Markets.

Brad Thomas^ I wanted to focus first on one of the bright spots here and the 15% growth in active door count, and hoping you could add a little bit more color on categories that you're seeing growth in, and perhaps also some perspective of the size of these incremental doors and if they're the kind of partners and doors that could be meaningful, or if they're smaller cell phone kiosks and malls kind of place?

Mitch Fadel^ Yes. It's a mix. It's primarily -- the 2 biggest categories of our growth are in Furniture and wheel and tyre. I mentioned Goodyear. A lot of Goodyear stores are around our program now. A lot continues to be local furniture stores signing up. As far as meaningful, I think it's not like one big national account that you would factor into the business, but everybody gives us a little more business every month. So we're happy to be up year-over-year at a pretty good number of 15%. But back to the category issue, it's, again -- primarily furniture, wheel and tyre, a little bit of jewelry addition, would be the third largest category we're adding.

Brad Thomas^ And then, just a housekeeping item on the Acima losses. I think you said in the second half of the year, you're taking that to come in, in the 8% to 9% range. Obviously, at least for 4Q, that would set you up for lower loss. But curious how you're thinking about it in the third quarter and if we're kind of getting through this, taking the Python dynamic in the third quarter, and if we're kind of getting through this -- taking the Python dynamic on the losses from your perspective?

Maureen Short^ Yes. We did say, Brad, 8% to 9.5% for the second half of the year. We are kind of working the lower-performing leases through the portfolio. We'll see a step down in losses in the third quarter and then fourth quarter -- similar rates may tick up a little bit in the fourth quarter relative to the third, just given the tougher credit environment, macro environment.

But yes, 8% to 9.5% for the back half of the year for the Acima segment. And a lot of that really is, as we talked about, working those lower-performing leases through the system. With the tighter underwriting, the leases that we've underwritten since the tightening, are much more in line with historical averages. Now that cost us some GMV, but the quality of the portfolio is much better than it was late last year.

Mitch Fadel^ And Brad, when we had the underwriting issues late last year, we said it would take 2 quarters for -- to use your term, picking the Python. We said it would take 2 quarters. And sure enough, we're seeing that. Now you'll see that we would -- I think one of your points is [range] is 11.6% to 8% to 9.5%. Is that really doable? Remember, we've been saying that it would be 2 quarters to get rid of those -- for those leases to play out. So it's consistent with what we've been seeing. And in fact, they performed a little bit better than we had forecasted, and that was the majority of the beat actually in the second quarter.

Brad Thomas^ And if I could squeeze one last one in. I was hoping you could talk a little bit about just leadership at Acima, and how the kind of overall integration of Acima is going. Obviously, Aaron has taken over more recently. Aaron, obviously [was] to run Acima when it was independent. Just hoping you could talk a little bit more about how that team and leadership and strategies have evolved here as Aron has taken back over?

Mitch Fadel^ Good question. And one of the things we focused on is building that team, right, rather than just be relying on the founder who has got a window that -- as far as how long he's going to be with us. So we got to build as a team, right? And building around like our Chief Operating Officer, Reed Farnsworth, our Chief Development Officer, Tyler Montrone, just bringing in Mike Bagel, who I just mentioned, as well as brought in -- brought back a top technology person Ryan for -- So a lot of -- building the team is really the focus here, not just to be focused on one person that -- we're certainly happy to have Aaron back and more involved.

The underwriting improvements we're talking about, are all due to him coming back, and he's got a great person, and Stewart, but -- and a great team with Stewart and everybody else on that team. So it's more about -- as we think about who the key 10 people are out there and so forth, so we're in much better shape on all that from an integration standpoint to answer your question, than we were 3 or 6 months ago.

Operator^ And we'll take our next question from John Rowan from Janney.

John Rowan^ Mitch, you talked a lot about the last recession and how it actually helped the Rent-A-Center business. You didn't have Acima event. I'm wondering as a leading indicator here with Acima, do you think kind of that trade down in credit that happens for the consumer, you see that faster as a participant in broader waterfalls at other retailers, meaning you'll see the FICO bands change, people applying for credit through Acima in this cycle relative to the last one?

Mitch Fadel^ I do believe that it will happen on the Acima side as well. I think it's a little slower. And to see on the Acima side, as we talked about earlier with the way the Rent-A-Center business has held up better, because the retail traffic is so far down. So it's hard to see if -- you can get a 5-point swing in trade down. And it'd be hard to see today based on the way retail traffic is in some of the -- especially on the furniture side of things.

But as the pull-forward wanes, let's say, going into 2023, as you have that pull forward kind of being less of an issue in the furniture business, then -- and you have trade down, I think that's where things will start to get -- you'll start to see it on the Acima side, just like we're already seeing it on the Rent-A-Center side. So yes, I do believe it's going to happen. We think there's already some of it happening on the Rent-A-Center side. But like I said, we're going to -- overall, I mean, the traffic in some of these retail stores have to bounce back for the Acima business to get back to positive GMV growth.

John Rowan^ And then just maybe two housekeeping questions for Maureen. What was the interest expense guidance that you provided? Can you repeat that?

Maureen Short^ What we said that interest expense was going to be about a \$0.10 impact, so higher by about \$0.10 in the back half of the year relative to the front half.

John Rowan^ In H2?

Maureen Short^ Yes. It's about \$8 million to \$10 million higher. So the interest expense we expect to be around \$22 million in the third quarter and \$25 million in the fourth quarter.

John Rowan^ And can you just remind me how much of your corporate overhead is allocated to Acima?

Maureen Short^ There are some expenses allocated to the different business segments if we can attribute them directly to the business. However, there is a good deal of corporate costs that are in the corporate segment. So things like -- for example, the call center is in the Acima segment, the sales team, but then some of the IT expenses are in the corporate segment. So, any kind of overhead from a headquarters perspective, is mainly in the corporate segment.

Operator^ (Operator Instructions) And our next question will come from Carla Casella from JPMorgan.

Unidentified Participant^ This is Mike on for Carla. One of the ones we wanted to ask was that skips and stolens for the Rent-A-Center core side, it was a little bit above your typical range. I think it was 4.2%, and you guys got some -- a little bit lower than that. Can you say how that trended into month-to-month within the quarter? And do you see that as kind of the peak?

Maureen Short^ Do you want me to take that?

Mitch Fadel^ Yes.

Maureen Short^ So for the Rent-A-Center segment, it did come in at 4.2%. What we've seen the last -- what a normal rate looks like is about 3.5% to 4%, so just slightly over -- We don't typically look at the numbers on a monthly basis. At the end of the quarter, we

do a -- basically a reserve adjustment based on the portfolio. And that reserve adjustment resulted in us going slightly above the 4%, which is the high end of the range. So because of the higher -- or the tougher collections that we've seen in the Rent-A-Center segment, we did expect it -- or it did end up being higher than we expected in the second quarter, and we factored those trends into our guidance.

Unidentified Participant^ And then another one was, you guys alluded to it earlier, but it feels like the foot traffic at your Acima partners is a little bit different than kind of the traffic you're seeing at your core Rent-A-Center stores. I mean, I don't know if you guys quantify the gap or -- how would you compare qualitatively or quantitatively? Whatever you can provide.

Mitch Fadel^ Yes. I'd just say when you think about Rent-A-Center having 38% more e-commerce business than a year ago -- we don't have any -- too many retail partners that are even up in traffic, let's call it, let alone up 38%. So I think the traffic -- and again, the numbers are much, much different, much, much smaller as far as the number of people nationwide that are going into Rent-A-Center versus all furniture retail. But -- so when you get retail traffic, you get some trade down.

You get 2% trade down out of a huge retail number going into a small number like Rent-A-Center, and it can make a difference. So I think the traffic is much better there, again, on a percentage basis with the e-com 30%, things like rental same-store sales, rental on fee, same-store sales being down 1% compared to all the other retail numbers you're looking at. So, the Rent-A-Center business, just like in 2008, 2009 in a tough economic environment, is holding up well. You mentioned -- you asked about the losses, I mean, 4.2% versus 4% be in the high end of our range is -- if we don't like it -- we want it to be within our range.

But catastrophe doesn't happen in that business -- in that -- such a resilient business. The retail partner business, we need the retail traffic to pick up. We'll continue to add -- thankfully, we're continuing to add locations or would be down more if we enter that 15% location growth year-over-year. So, we got to continue to add locations, continue to work on national accounts, and get that GMV back to at least flat.

Unidentified Participant^ And the last one from us was on the \$15.5 million settlement. Did that come in line with your expectations? And where -- if there's any update or any other pending investigations or any matters like that?

Mitch Fadel^ Yes. The -- I'm sorry, the first part of the question, did it come as a...?

Unidentified Participant^ In line with your expectation?

Mitch Fadel^ Yes. I mean we saw last November from a dollar month standpoint, it took this long to actually get the settlement agreed to all the details of some of the things you read to -- So yes, that was in line with our expectations. The -- I won't say the [queue] -- the -- has any other issues like that in it, but there is no issue, particularly like the one in



California, that the cash price law in the Carnet act in California is very uniquely written in no other states right at the way the way it's written in that law.

So we don't -- do not see that being any kind of issue elsewhere, that particular issue of the cash price in California. Again, we don't agree with the way the AG looked at it. We thought it was better to get it behind us. It doesn't -- it's not the kind of settlement that we worry about rolling into other states. Sometimes you fight a lot harder rather than settle if you thought it could roll in other states. But again, that loss is unique to itself in California. So we just want -- we want to get it behind us. And then as far as any other AG issues, the rest of that's in our queue.

Operator^ And that does conclude the question-and-answer session for today's conference. I'd now like to turn the call back over to Mitch Fadel for any closing remarks.

Mitch Fadel^ Thank you, operator, and thank you, everyone, for taking the time this morning on our call. We're happy with the second quarter. We were able to report -- not all that happy about having the lower guidance for the rest of the year, but we'll continue to work as hard as we can to continue to deliver results and address the (inaudible) very best we can to provide value to our shareholders. Thank you, everyone.

Operator^ Thank you. This concludes today's conference call. Thank you for your participation, and you may now disconnect. Everyone, have a wonderful day.